# INDAS – 103
# BUSINESS COMBINATION

(TOTAL NO. OF QUESTIONS – 34)

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## RTPs QUESTIONS

### Q1. (May 18)

On 1 April 20X1, Alpha Ltd. acquired 80 percent of the equity interest of Beta Pvt. Ltd. in exchange for cash of Rs 300. Due to legal compulsion, Beta Pvt. Ltd. had to dispose of their investments by a specified date. Therefore, they did not have sufficient time to market Beta Pvt. Ltd. to multiple potential buyers. The management of Alpha Ltd. initially measures the separately recognizable identifiable assets acquired and the liabilities assumed as of the acquisition date in accordance with the requirement of Ind AS 103. The identifiable assets are measured at Rs 500 and the liabilities assumed are measured at Rs 100. Alpha Ltd. engaged an independent consultant, who determined that the fair value of 20 per cent non-controlling interest in Beta Pvt. Ltd. is Rs 84.

Alpha Ltd. reviewed the procedures it used to identify and measure the assets acquired and liabilities assumed and to measure the fair value of both the non-controlling interest in Beta Pvt. Ltd. and the consideration transferred. After the review, it decided that the procedures and resulting measures were appropriate.

Calculate the gain or loss on acquisition of Beta Pvt. Ltd. and also show the journal entries for accounting of its acquisition. Also calculate the value of the non-controlling interest in Beta Pvt. Ltd. on the basis of proportionate interest method, if alternatively applied?

### SOLUTION:

#### (i) Under Fair Value Method:

Value of Net identified assets = Rs. 500 - Rs. 100 = Rs. 400

Amount of consideration transferred = Rs. 300

Fair Value of 20% NCI holding = Rs. 84

Hence, there will be a gain on bargain purchase because the net identified assets that the company will receive is more than the consideration paid in exchange (including the NCI value).

Therefore, Gain on bargain purchase = 400 - 300 - 84 = Rs. 16

**Journal Entry**

| | Rs in lakhs | Rs in lakhs |
|---|---|---|
| Identifiable assets acquired Dr. | 500 | |
| To Cash consideration | | 300 |
| To Liabilities assumed | | 100 |
| To OCI/Equity-Gain on the bargain purchase | | 16 |
| To Equity-non controlling interest in Beta Pvt Ltd. | | 84 |

## (ii) Under proportionate value method:

Value of Net identified assets = Rs. 500 - Rs. 100 = Rs. 400

Amount of consideration transferred = Rs. 300

Proportionate Value of 20% NCI holding = Rs. 20% x 400 = Rs.80

Therefore, Gain on bargain purchase = 400 - 300 - 80 = Rs. 20

## Q2. (Nov. 18)

ABC Ltd. prepares consolidated financial statements upto 31st March each year. On 1st July 2017, ABC Ltd. acquired 75% of the equity shares of JKL Ltd. And gained control of JKL Ltd. the issued shares of JKL Ltd. is 1,20,00,000 equity shares. Details of the purchase consideration are as follows:

- On 1st July, 2017, ABC Ltd. issued two shares for every three shares acquired in JKL Ltd. On 1st July, 2017, the market value of an equity share in ABC Ltd. was Rs 6.50 and the market value of an equity share in JKL Ltd. was Rs 6.
- On 30th June, 2018, ABC Ltd. will make a cash payment of Rs. 71,50,000 to the former shareholders of JKL Ltd. who sold their shares to ABC Ltd. on 1st July, 2017. On 1st July, 2017, ABC Ltd. would have to pay interest at an annual rate of 10% on borrowings.
- On 30th June, 2019, ABC Ltd. may make a cash payment of Rs. 3,00,00,000 to the former shareholders of JKL Ltd. who sold their shares to ABC Ltd. on 1st July, 2017. This payment is contingent upon the revenues of ABC Ltd. growing by 15% over the two-year period from 1st July, 2017 to 30th June, 2019. On 1st July, 2017, the fair value of this contingent consideration was Rs. 2,50,00,000. On 31st March, 2018, the fair value of the contingent consideration was Rs 2,20,00,000.
- On 1st July, 2017, the carrying values of the identifiable net assets of JKL Ltd. in the books of that company was Rs. 6,00,00,000. On 1st July, 2017, the fair value of these net assets was Rs. 7,00,00,000. The rate of tax to apply to temporary differences is 20%.
- During the nine months ended on 31st March, 2018, JKL Ltd. had a poorer than expected operating performance. Therefore, on 31st March, 2018 it was necessary for ABC Ltd. to recognise an impairment of the goodwill arising on acquisition of JKL Ltd., amounting to 10% of its total computed value.

Compute the impairment of goodwill in the consolidated financial statements of ABC Ltd. under both the methods permitted by Ind AS 103 for the initial computation of the non- controlling interest in JKL Ltd. at the acquisition date.

## SOLUTION

**Computation of goodwill impairment**

| | NCI at fair value | NCI at of net assets |
|---|---|---|
| | Rs in '000 | Rs in '000 |
| **Cost of investment** | | |
| Share exchange (12,000 x 75% x 2/3 x Rs 6.50) | 39,000 | 39,000 |
| Deferred consideration (7,150 / 1.10) - note 2 | 6,500 | 6,500 |
| Contingent consideration - note 3 | 25,000 | 25,000 |
| Non-controlling interest at date of acquisition: | | |
| Fair value – 3000 x Rs 6 | 18,000 | |
| % of net assets – 68,000 (Refer W.N. 1) x 25% | | 17,000 |
| Net assets on the acquisition date (Refer W.N. 1) | (68,000) | (68,000) |
| Goodwill on acquisition | 20,500 | 19,500 |
| **Impairment of goodwill @ 10%** | **2,050** | **1,950** |

**Working Notes:**

1.

| Net assets on the acquisition date | Rs '000 |
|---|---|
| Fair value at acquisition date | 70,000 |
| Deferred tax on fair value adjustments [20% x (70,000 – 60,000)] | (2,000) |
| | **68,000** |

**2.** The consideration of Rs. 71,50,000 is payable after 1 year. Hence, it will be included in the purchase consideration at its present value.

**3.** Contingent considerations are to be included at their **Fair Value as on the Date of Acquisition**, and not at the actual amount payable. Hence, FV as on 1st July will be included.

**4.** Deferred Tax is calculated when there is a difference between the Carrying Amount and the Tax Base.

In the given question, it is assumed that the Tax base = carrying value in the books. Hence, the differences between the Tax Base and the Fair Value (which will be the carrying amount for acquirer company) will give rise to Deferred tax adjustments.

NCI shares = 1,20,00,000 x 25% = 30,00,000

## Q3. (Nov. 18)

Smart Technologies Inc. is a Company incorporated in India in 1998 having business in the field of development and installation of software, trading of computer peripherals and other IT related equipment and provision of cloud computing services along with other services incidental thereto. It is one of the leading brands in India.

After witnessing immense popularity and support in its niche market, Smart Technologies further grew by bringing its subsidiaries namely:

| Company Name | Principle Activity |
|---|---|
| Cloud Industries India Private Limited | Provision of cloud computing services. |
| Micro Fly India Private Limited | Trading of computer peripherals like mouse, keyboard, printer etc. |

Smart Technologies started preparing its financial statements based on Ind AS from 1st April, 2015 on a voluntary basis. The Micro Fly India Pvt. Ltd. is planning to merge the business of Cloud Industries India Pvt. Ltd. with its own for which it presented before the members in the meeting the below extract of latest audited Balance Sheet of Cloud Industries (prepared on the basis of Ind AS) for the year ended 31st March, 2017:

**Balance Sheet as at March 31,2017 (Rs. in Crores)**

| **Assets** | |
|---|---|
| Non-current assets | |
| Property, plant and Equipment | 15.00 |
| | 15.00 |
| Current Assets | |
| (a) Financial assets | |
| Trade Receivables | 10.00 |
| Cash and cash equivalents | 10.00 |
| Other current assets | 8.00 |
| | 28.00 |
| **Total** | **43.00** |

| **Equity and Liabilities** | |
|---|---|
| Equity | |
| Equity Share Capital | 45.00 |
| Other Equity: | |
| -Reserves & Surplus (Accumulated Losses)* | (24.80) |
| | 20.20 |
| Liabilities | |
| Non-current Liabilities | |
| Financial liabilities | |
| -Borrowings | 2.80 |
| Current Liabilities | 20.00 |
| | 22.80 |
| **Total** | **43.00** |

*The Tax Loss carried forward of the company is Rs. 27.20 crores.

On September 5, 2017, the merger got approved by the Directors. The purchase consideration payable by Micro Fly to Cloud Industries was fixed at Rs. 18.00 crores payable in cash and that MicroFly took over all the assets and liabilities of Cloud Industries.

Present the statement showing the calculation of assets/liabilities taken over as per Ind AS. Also mention the accounting of differences between consideration and assets/liabilities taken over.

## SOLUTION

1. Before the merger, Cloud Industries and Micro Fly were the subsidiaries of Smart Technologies Inc. As he control is not transitory, the proposed merger will fall under the category of Business combination of **entities under common control** and it will be accounted as per Pooling of Interest Method under Ind AS 103.

Statement showing the calculation of assets/liabilities taken over and treatment of difference between consideration and assets/liabilities taken over:

**(a) Net asset taken over:** **(Rs in crore)**

| **Assets taken over:** | |
|---|---|
| Property, Plant and Equipment | 15.00 |
| Cash and cash equivalents | 10.00 |
| Other current assets | 8.00 |
| Trade Receivables | 10.00 |
| **Total – A** | **43.00** |
| **Less: Liabilities taken over:** | |
| Borrowings | 2.80 |
| Current Liabilities | 20.00 |
| **Total – B** | **22.80** |
| **Net Asset taken over (A-B)** | **20.20** |

**(b) Treatment of difference between consideration and assets/liabilities taken over:** **(Rs. in crore)**

| Net Asset taken over – A | 20.20 |
|---|---|
| Less: Purchase Consideration - B | 18.00 |
| **Difference (A – B)** | **2.20** |

Since the net assets taken over are more than the value of consideration being paid, it will be a Gain on Bargain Purchase and will be recorded as part of Other Equity.

## Q4. (May 19 & Oct. 19 – 12 Marks)

How should contingent consideration payable in relation to a business combination be accounted for on initial recognition and at the subsequent measurement as per Ind AS in the following cases:

**(i)** On 1 April 2016, A Ltd. acquired 100% interest in B Ltd. As per the terms of agreement the purchase consideration is payable in the following 2 tranches:

**a)** an immediate issuance of 10 lakhs shares of A Ltd. having face value of INR 10 per share;

**b)** further issuance of 2 lakhs shares after one year if the profit before interest and tax of B Ltd. for the first year following acquisition exceeds INR 1 crore.

**i.** The fair value of the shares of A Ltd. on the date of acquisition is INR 20 per share. Further, the management has estimated that on the date of acquisition, the fair value of contingent consideration is Rs25 lakhs.

**ii.** During the year ended 31 March 2017, the profit before interest and tax of B Ltd. exceeded Rs1 crore. As on 31 March 2017, the fair value of shares of A Ltd. is Rs25 per share.

**(ii)** Continuing with the fact pattern in (a) above except for:

- The number of shares to be issued after one year is not fixed.
- Rather, A Ltd. agreed to issue a variable number of shares having a fair value equal to Rs. 40 lakhs after one year, if the profit before interest and tax for the first year following acquisition exceeds Rs. 1 crore. A Ltd. issued shares with Rs. 40 lakhs after a year.

## SOLUTION

*Ind AS 103, inter alia, provides that the consideration transferred in a business combination should be measured at fair value, which should be calculated as the sum of (a) the acquisition-date fair values of the assets transferred by the acquirer, (b) the liabilities incurred by the acquirer to former owners of the acquiree and (c) the equity interests issued by the acquirer.*

*Further, Ind AS 103 provides that the consideration the acquirer transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration arrangement. The acquirer shall recognize the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquiree.*

*With respect to contingent consideration, obligations of an acquirer under contingent consideration arrangements are classified as equity or a liability in accordance with Ind AS 32 or other applicable Ind AS, i.e., for the rare case of non-financial contingent consideration. The Ind AS provides that the acquirer shall classify an obligation to pay contingent consideration that meets the definition of a financial instrument as a financial liability or as equity on the basis of the definitions of an equity instrument and a financial liability in Ind AS 32, Financial Instruments: Presentation. The acquirer shall classify as an asset a right to the return of previously transferred consideration if specified conditions are met. Ind AS 103 provides guidance on the subsequent accounting for contingent consideration.*

**(i)** *In the given case the amount of purchase consideration to be recognized* ***on initial recognition*** *shall be as follows:*

*In case of equity classification-*

| | |
|---|---|
| Fair value of shares issued (10,00,000 x Rs. 20) | Rs. 2,00,00,000 |
| Fair value of contingent consideration | Rs. 25,00,000 |
| **Total purchase consideration** | **Rs. 2,25,00,000** |

*Subsequent measurement of contingent consideration payable for business combination*

*In general, an equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Ind AS 32 describes an equity instrument as one that meets both of the following conditions:*

**(a)** *There is no contractual obligation to deliver cash or another financial asset to another party, or to exchange financial assets or financial liabilities with another party under potentially unfavourable conditions (for the issuer of the instrument).*

**(b)** *If the instrument will or may be settled in the issuer's own equity instruments, then it is:*

- **(i)** *a non-derivative that comprises an obligation for the issuer to deliver a fixed number of its own equity instruments; or*
- **(ii)** *a derivative that will be settled only by the issuer exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.*

*In the given case, given that the acquirer has an obligation to issue a fixed number of shares on fulfilment of the contingency, the contingent consideration will be classified as equity as per the requirements of Ind AS 32.*

*As per Ind AS 103, contingent consideration classified as equity should not be re-measured and its subsequent settlement should be accounted for within equity.*

Here, the obligation to pay contingent consideration amounting to Rs. 25,00,000 is recognized as a part of equity and therefore not re-measured subsequently or on issuance of shares.

**(ii)** The amount of purchase consideration to be recognized on initial recognition is shall be as follows:

| | |
|---|---|
| Fair value shares issued (10,00,000 x Rs. 20) | Rs. 2,00,00,000 |
| Fair value of contingent consideration | Rs. 25,00,000 |
| **Total purchase consideration** | **Rs. 2,25,00,000** |

**Subsequent measurement of contingent consideration payable for business combination**

The contingent consideration will be classified as liability as per Ind AS 32.

As per Ind AS 103, contingent consideration not classified as equity should be measured at fair value at each reporting date and changes in fair value should be recognized in profit or loss.

As at 31 March 2017, (being the date of settlement of contingent consideration), the liability would be measured at its fair value and the resulting loss of Rs. 15,00,000 (Rs. 40,00,000 – Rs. 25,00,000) should be recognized in the profit or loss for the period. A Ltd. would recognize issuance of 160,000 (Rs. 40,00,000/25) shares at a premium of Rs. 15 per share.

## Q5. (May 19 & Similar in Exam July 21) (IndAS 38 & IndAS 103)

As part of its business expansion strategy, KK Ltd. is in process of setting up a pharma intermediates business which is at a very initial stage. For this purpose, KK Ltd. has acquired on 1st April, 2018, 100% shares of ABR Ltd. that manufactures pharma intermediates. The purchase consideration for the same was by way of a share exchange valued at Rs. 35 crores. The fair value of ABR Ltd.' s net assets was Rs. 15 crores, but does not include:

**(i)** A patent owned by ABR Ltd. for an established successful intermediate drug that has a remaining life of 8 years. A consultant has estimated the value of this patent to be Rs 10 crores. However, the outcome of clinical trials for the same are awaited. If the trials are successful, the value of the drug would fetch the estimated Rs. 15 crores.

**(ii)** ABR Ltd. has developed and patented a new drug which has been approved for clinical use. The cost of developing the drug was Rs. 12 crores. Based on early assessment of its sales success, the valuer has estimated its market value at Rs. 20 crores.

**(iii)** ABR Ltd.'s manufacturing facilities have received a favourable inspection by a government department. As a result of this, the Company has been granted an exclusive five-year licence to manufacture and distribute a new vaccine. Although the licence has no direct cost to the Company, its directors believe that obtaining the licence is a valuable asset which assures guaranteed sales and the value for the same is estimated at Rs 10 crores.

KK Ltd. has requested you to suggest the accounting treatment of the above transaction under applicable Ind AS.

## SOLUTION

As per Ind AS 103 'Business Combination', the acquirer's application of the recognition principle and conditions may result in recognising some assets and liabilities that the acquiree had not previously recognised as assets and liabilities in its financial statements. This may be the case when the asset is developed by the entity internally and charged the related costs to expense. Based on the above, the company can recognise following

Intangible assets while determining Good-will / Bargain Purchase for the transaction:

**(i) Patent owned by ABR Ltd.:** The patent owned will be recognised at fair value by KK Ltd. even though it was not recognised by ABR Ltd. in its financial statements. The patent will be amortised over the remaining useful life of the asset i.e. 8 years. Since the company is awaiting the outcome of the trials, the value of the patent can-not be estimated at Rs. 15 crore and the extra Rs. 5 crore should only be disclosed as a Contingent Asset and not recognised.

**(ii) Patent internally developed by ABR Ltd.:** Further as per Ind AS 38 'Intangible Assets', after initial recognition, an intangible asset shall be carried at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. For the purpose of revaluations under this Standard, fair value shall be determined by reference to an active market.

From the information given in the question, it appears that there is no active market for patents since the fair value is based on early assessment of its sale success. Hence it is suggested to use the cost model and recognise the patent at the actual development cost of Rs. 12 crore.

**(iii) Grant of Licence to ABR Ltd. by the Government:** As regards to the five-year licence, Ind AS 38 requires to recognize grant assets at fair value. KK Ltd. can recognize both the asset (licence) and the grant at Rs10 crore to be amortised over 5 years.

Hence the revised working would be as follows:.

| | |
|---|---|
| Fair value of net assets of ABR Ltd. | Rs 15 crore |
| Add: Patent (10 + 12) | Rs 22 crore |
| Add: Licence | Rs 10 crore |
| Less: Grant for Licence | (Rs10 crore) |
| | Rs 37 crores |
| Purchase Consideration | Rs 35 crores |
| **Bargain purchase** | **Rs 2 crore** |

## Q6. (RTP Nov. 19 & MTP March 19)

H Ltd. acquired equity shares of S Ltd., a listed company, in two tranches as mentioned in the below table:

| Date | Equity stake purchased | Remarks |
|---|---|---|
| 1stNovember, 20X6 | 15% | The shares were purchased based on the quoted price on the stock exchange on the relevant dates. |
| 1stJanuary, 20X7 | 45% | |

Both the above-mentioned companies have Rupees as their functional currency. Consequently, H Ltd. acquired control over S Ltd. on 1st January, 20X7. Following is the Balance Sheet of S Ltd. as on that date:

| Particulars | Carrying value (Rs. in crore) | Fair value (Rs. in crore) |
|---|---|---|
| **ASSETS:** | | |
| Non-current assets | | |
| (a) Property, plant and equipment | 40.0 | 90.0 |
| (b) Intangible assets | 20.0 | 30.0 |
| (c) Financial assets | | |
| - Investments | 100.0 | 350.0 |
| Current assets | | |

| | | |
|---|---|---|
| (a) Inventories<br>(b) Financial assets<br>- Trade receivables<br>- Cash held in functional<br>Currency<br>(c) Other current assets<br>Non-current asset held for sale | <br>20.0<br><br>20.0<br>4.0<br><br>4.0 | <br>20.0<br><br>20.0<br>4.5<br><br>4.5 |
| **TOTAL ASSETS** | **208** | |
| **EQUITY AND LIABILITIES:** | | |
| Equity<br>(a) Share capital (face value Rs.100)<br>(b) Other equity<br>Non-current liabilities<br>(a) Financial liabilities<br>- Borrowings<br>Current liabilities<br>(a) Financial liabilities<br>- Trade payables<br>(b) Provision for warranties | <br>12.0<br>141.0<br><br><br>20.0<br><br><br>28.0<br>3.0 | <br>50.4<br>Not applicable<br><br><br>20.0<br><br><br>28.0<br>3.0 |
| (c) Current tax liabilities | 4.0 | 4.0 |
| **TOTAL EQUITY AND LIABILITIES** | **208.0** | |

**Following is the statement of contingent liabilities of S Ltd. as on IstJanuary, 20X7:**

| Particulars | Fair value (Rs. in crore) | Remarks |
|---|---|---|
| Lawsuit filed by a customer for a claim of Rs. 2 crore | 0.5 | It is not probable that an outflow of resources embodying economic benefits will be required to settle the claim.<br>Any amount which would be paid in respect of lawsuit will be tax deductible. |
| Income tax demand of Rs. 7 crore raised by tax authorities; S Ltd. has challenged the demand in the court. | 2.0 | It is not probable that an outflow of resources embodying economic benefits will be required to settle the claim. |

In relation to the above-mentioned contingent liabilities, S Ltd. has given an indemnification undertaking to H Ltd. up to a maximum of Rs. Icrore.

Rs. I crore represents the acquisition date fair value of the indemnification undertaking.

Any amount which would be received in respect of the above undertaking shall not be taxable.

The tax bases of the assets and liabilities of S Ltd. is equal to their respective carrying values being recognised in its Balance Sheet.

Carrying value of non-current asset held for sale of Rs. 4 crore represents its fair value less cost to sell in accordance with the relevant Ind AS.

In consideration of the additional stake purchased by H Ltd. on IstJanuary, 20X7, it has issued to the selling shareholders of S Ltd. I equity share of H Ltd. for every 2 shares held in S Ltd. Fair value of equity shares of H Ltd. as on Ist January, 20X7 is Rs. 10,000 per share.

On Ist January, 20X7, H Ltd. had paid Rs. 50 crore in cash to the selling shareholders of S Ltd. Additionally, on 31stMarch, 20X9, H Ltd. will pay Rs. 30 crore to the selling shareholders of S Ltd. if return on equity of S Ltd. for the year ended 31stMarch, 20X9 is more than 25% per annum. H Ltd. has estimated the fair value of this obligation as on IstJanuary, 20X7 and 31stMarch, 20X7 as Rs. 22 crore and Rs. 23 crore respectively. The change in fair value of the obligation is attributable to the change in facts and circumstances after the acquisition date.

Quoted price of equity shares of S Ltd.as on various dates is as follows:

As on November 20X6 Rs. 350 per share

As on Ist January, 20X7 Rs. 395 per share

As on 31st March, 20X7 Rs. 420 per share

On 31st May, 20X7, H Ltd. learned that certain customer relationships existing as on Ist January, 20X7, which met the recognition criteria of an intangible asset as on that date, were not considered during the accounting of business combination for the year ended 31st March, 20X7. The fair value of such customer relationships as on Ist January, 20X7 was Rs. 3.5 crore (assume that there are no temporary differences associated with customer relations; consequently, there is no impact of income taxes on customer relations).

On 31st May, 20X7 itself, H Ltd. further learned that due to additional customer relationships being developed during the period Ist January, 20X7 to 31st March, 20X7, the fair value of such customer relationships has increased to Rs. 4 crore as on 31st March, 20X7.

On 31st December, 20X7, H Ltd. has established that it has obtained all the information necessary for the accounting of the business combination and that more information is not obtainable.

H Ltd. and S Ltd. are not related parties and follow Ind AS for financial reporting. Income tax rate applicable is 30%.

You are required to provide your detailed responses to the following, along with reasoning and computation notes:

**(a)** What should be the goodwill or bargain purchase gain to be recognised by H Ltd. in its financial statements for the year ended 31st March, 20X7. For this purpose, measure non-controlling interest using proportionate share of the fair value of the identifiable net assets of S Ltd.

**(b)** Will the amount of non-controlling interest, goodwill, or bargain purchase gain so recognised in (a) above change subsequent to 31st March, 20X7? If yes, provide relevant journal entries.

**(c)** What should be the accounting treatment of the contingent consideration as on 31st March,20X7?

## SOLUTION

**i)** An only exception to the principle of classification or designation of assets as they exist at the acquisition date is that for lease contract and insurance contracts classification which will be based on the basis of the conditions existing at inception and not on acquisition date. Therefore, H Ltd. would be required to retain the original lease classification of the lease arrangements and thereby recognise the lease arrangements as finance lease.

**ii)** The requirements in Ind AS 37 'Provisions, Contingent Liabilities and Contingent Assets', do not apply in determining which contingent liabilities to recognise as of the acquisition date as per Ind AS 103 'Business Combination'. Instead, the acquirer shall recognise as of the acquisition date a contingent liability assumed in a business combination if it is a present obligation that arises from past events and its fair value can be measured reliably. Therefore, contrary to Ind AS 37, the acquirer recognises a contingent liability assumed in a business combination at the acquisition date even if it is not probable

that an outflow of resources embodying economic benefits will be required to settle the obligation. Hence H Ltd. will recognize contingent liability of Rs. 2.5cr.

Since S Ltd. has indemnified for Rs. 1 cr., H Ltd. shall recognise an indemnification asset at the same time for Rs. 1cr.

As per the information given in the question, this indemnified asset is not taxable. Hence, its tax base will be equal to its carrying amount. No deferred tax will arise on it.

**iii)** As per Ind AS 103, non-current assets held for sale should be measured at fair value less cost to sell in accordance with Ind AS 105 'Non-current Assets Held for Sale and Discontinued Operations'. Therefore, its carrying value as per balance sheet has been considered in the calculation of net assets.

**iv)** Any equity interest in S Ltd. held by H Ltd. immediately before obtaining control over S Ltd. is adjusted to acquisition-date fair value. Any resulting gain or loss is recognised in the profit or loss of H Ltd.

**Calculation of purchase consideration as per Ind AS 103**

| **Investment in S Ltd.** | | | |
|---|---|---|---|
| **Particulars** | **%** | **Calculation** | **Rs. In lakh** |
| On 1stNov. 20X6 | 15% | [(12/100) x 395 x 15%] | 7.11 |
| On 1stJan. 20X7 | 45% | | |
| Own equity given | | 10,000 x 12% x 45% x 1/2 | 270 |
| Cash | | | 50 |
| Contingent consideration | | | 22 |
| | | | **349.11** |

**v) Calculation of deferred tax on assets and liabilities acquired as part of the business combination, including current tax and goodwill.**

| **Item** | **Rs. in crore** | | | | |
|---|---|---|---|---|---|
| | **Book value** | **Fair value** | **Tax base** | **Taxable(deductible) temporary difference** | **Deferred tax assets (liability) @30%** |
| Property, plant and equipment | 40 | 90 | 40 | 50 | (15) |
| Intangible assets | 20 | 30 | 20 | 10 | (3) |
| Investments | 100 | 350 | 100 | 250 | (75) |
| Inventories | 20 | 20 | 20 | - | - |
| Trade receivables | 20 | 20 | 20 | - | - |
| Cash held in functional currency | 4 | 4 | 4 | - | - |
| Non-current asset held for sale | 4 | 4 | 4 | - | - |
| Indemnified asset | - | 1 | 1 | - | - |
| Borrowings | 20 | 20 | 20 | - | - |
| Trade payables | 28 | 28 | 28 | - | - |
| Provision for warranties | 3 | 3 | 3 | - | - |
| Current tax liabilities | 4 | 4 | 4 | - | - |
| Contingent liability | | 0.5 | - | (0.5) | 0.15 |
| **Deferred tax Liability** | | | | | **(92.85)** |

**vi) Calculation of identifiable net assets acquired**

| | Rs. in crore | Rs. in crore |
|---|---|---|
| Property, plant and equipment | 90 | |
| Intangible assets | 30 | |
| Investments | 350 | |
| Inventories | 20 | |
| Trade receivables | 20 | |
| Cash held in functional currency | 4 | |
| Non-current asset held for sale | 4 | |
| Indemnified asset | 1 | |
| Total asset | | 519 |
| Less: Borrowings | 20 | |
| Trade payables | 28 | |
| Provision for warranties | 3 | |
| Current tax liabilities | 4 | |
| Contingent liability (2 + 0.5) | 2.50 | |
| Deferred tax liability (W.N.2) | 92.85 | (150.35) |
| **Net identifiable assets** | | **368.65** |

**(a) Calculation of NCI by proportionate share of net assets**

Net identifiable assets of S Ltd. on 1.1.20X7 (Refer W.N.3) = 372.85 crore (incl. 3.5 not identified earlier)

NCI on 1.1.20X7 = 368.65 crore x 40% = 147.46 crore

**Calculation of Goodwill as per Ind AS 103**

Goodwill on 1.1.20X7 = Purchase consideration + NCI – Net assets

= 349.11 + 147.46 – 368.65

= 127.92 crore

**(b)** As per Ind AS 103 'Business Combination', if the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete.

During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as of that date.

During the measurement period, the acquirer shall also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as of that date.

The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

Further, as per para 46 of Ind AS 103, the measurement period is the period after the acquisition date during which the acquirer may adjust the provisional amounts recognised for a business combination. The

*measurement period provides the acquirer with a reasonable time to obtain the information necessary to identify and measure the following as of the acquisition date in accordance with the requirements of this Ind AS:*

- *the identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquiree; and*
- *the resulting goodwill or gain on a bargain purchase.*

*The Ind AS states that the acquirer recognises an increase (decrease) in the provisional amount recognised for an identifiable asset (liability) by means of a decrease (increase) in goodwill.*
*It also states that during the measurement period, the acquirer shall recognise adjustments to the provisional amounts as if the accounting for the business combination had been completed at the acquisition date.*
*It further states that after the measurement period ends, the acquirer shall revise the accounting for a business combination only to correct an error in accordance with Ind AS 8 'Accounting Policies, Changes in Accounting Estimates and Errors'.*
*On 31st December, 20X7, H Ltd. has established that it has obtained all the information necessary for the accounting of the business combination and the more information is not obtainable. Therefore, the measurement period for acquisition of S Ltd. ends on 31st December, 20X7.*
*On 31st May, 20X7 (ie within the measurement period), H Ltd. learned that certain customer relationships existing as on 1st January, 20X7 which met the recognition criteria of an intangible asset as on that date were not considered during the accounting of business combination for the year ended 31st March, 20X7. Therefore, H Ltd. shall account for the acquisition date fair value of customer relations existing on 1st January, 20X7 as an identifiable intangible asset. The corresponding adjustment shall be made in the amount of goodwill.*
*Accordingly, the amount of goodwill will be changed due to identification of new assets from retrospective date for changes in fair value of assets and liabilities earlier recognised on provisional amount (subject to meeting the condition above for measurement period). NCI changes would impact the consolidated retained earnings (parent's share). Also NCI will be increased order eased based on the profit during the post-acquisition period.*

***Journal entry***

| | | |
|---|---|---|
| *Customer relationship Dr.* | *3.5crore* | |
| *To NCI* | | *1.4crore* |
| *To Goodwill* | | *2.1crore* |

*However, the increase in the value of customer relations after the acquisition date shall not be accounted for by H Ltd., as the customer relations developed after 1st January, 20X7 represents internally generated intangible assets which are not eligible for recognition on the balance sheet.*

**(c)** *Since the contingent considerations payable by H Ltd is not classified as equity and is within the scope of Ind AS 109 'Financial Instruments', the changes in the fair value shall be recognised in profit or loss. Change in Fair value of contingent consideration (23-22) Rs. 1 crore will be recognized in the Statement of Profit and Loss.*

## Q7. (Nov. 20)

Veera Limited and Zeera Limited are both in the business of manufacturing and selling lubricant. Veera Limited and Zeera Limited shareholders agree to join forces to benefit from lower delivery and distribution costs. The business combination is carried out by setting up a new entity called Meera Limited that issues 100 shares to Veera Limited's shareholders and 50 shares to Zeera Limited's shareholders in exchange for the transfer of the shares in those entities. The number of shares reflects the relative fair values of the entities before the combination. Also, respective company's shareholders get the voting rights in Meera Limited based on their respective shareholding. Determine the acquirer by applying the principles of Ind AS 103 'Business Combinations'.

## SOLUTION

As per Ind AS 103, in a business combination effected primarily by exchanging equity interests, the acquirer is usually the entity that issues its equity interests. However, in some business combinations, commonly called 'reverse acquisitions', the issuing entity is the acquiree.

Other pertinent facts and circumstances shall also be considered in identifying the acquirer in a business combination effected by exchanging equity interests, including:

**The relative voting rights in the combined entity after the business combination** – The acquirer is usually the combining entity whose owners as a group retain or receive the largest portion of the voting rights in the combined entity.

Based on above mentioned para, acquirer shall be either of the combining entities (i.e. Veera Limited or Zeera Limited), whose owners as a Group retain or receive the largest portion of the voting rights in the combined entity.

Hence, in the above scenario Veera Limited's shareholder gets 66.67% share (100 / 150 x 100) and Zeera Limited's shareholder gets 33.33% share in Meera Limited. Hence, Veera Limited is acquirer as per the principles of Ind AS 103.

## Q8. (RTP May. 21 & MTP May 20 – 8 Marks)

Bima Ltd. acquired 65% of shares on 1 June, 20X1 in Nafa Ltd. Which is engaged in production of components of machinery. Nafa Ltd. has 1,00,000 equity shares of Rs.10 each. The quoted market price of shares of Nafa Ltd. was Rs.12 on the date of acquisition. The fair value of Nafa Ltd.'s identifiable net assets as on 1 June, 20X1 was Rs. 80,00,000.

Bima Ltd. wired Rs. 50,00,000 in cash and issued 50,000 equity shares as purchase consideration on the date of acquisition. The quoted market price of shares of Bima Ltd. on the date of issue was Rs. 25 per share.

Bima Ltd. also agrees to pay additional consideration of Rs.15,00,000, if the cumulative profit earned by Nafa Ltd. exceeds Rs. 1 crore over the next three years. On the date of acquisition, Nafa Ltd. assessed and determined that it is considered probable that the extra consideration will be paid. The fair value of this consideration on the date of acquisition is Rs.9,80,000. Nafa Ltd. incurred Rs.1,50,000 in relation to the acquisition. It measures non-controlling interest at fair value.

How will the acquisition of Nafa Ltd. be accounted for by Bima Ltd., under Ind AS 103? Prepare detailed workings and pass the necessary journal entry.

## SOLUTION

**Computation of Goodwill / Capital reserve on consolidation as per Ind AS 103**

| Particular | Rs. |
|---|---|
| Cost of investment: | |
| Share exchange (50,000 x 25) | 12,50,000 |
| Cash consideration | 50,00,000 |
| Contingent consideration | 9,80,000 |
| Consideration transferred at date of acquisition [A] | 72,30,000 |
| Fair value of non-controlling interest at date of acquisition [B] (1,00,000 x 35% x 12) | 4,20,000 |
| Total [C]= [A] +[B] | 76,50,000 |
| Net asset acquired at date of acquisition [D] | (80,00,000) |
| **Capital Reserve [D] –[C]** | **3,50,000** |

In a business combination, acquisition-related costs (including stamp duty) are expensed in the period in which such costs are incurred and are not included as part of the consideration transferred. Therefore, Rs.1,50,000 incurred by Nafa Ltd. in relation to acquisition, will be ignored by Bima Ltd. & transfer to P&L.

**Journal entry at the date of acquisition by Bima Limited as per Ind AS 103:**

| | Rs. | Rs. |
|---|---|---|
| Identifiable net assets | 80,00,000 | |
| To Equity share capital (50,000x 10) | | 5,00,000 |
| To Securities Premium (50,000 x 15 ) | | 7,50,000 |
| To Cash | | 50,00,000 |
| To Provision for contingent consideration to Nafa Ltd. | | 9,80,000 |
| To Non – controlling Interest | | 4,20,000 |
| To Capital Reserve | | 3,50,000 |

## Q9. (May. 21)

Monsoon Limited acquired, on 30 September, 20X2, 70% of the share capital of Mark Limited, an entity registered as a company in Germany. The functional currency of Monsoon Limited is Indian Rupee and its financial year ends on 31 March, 20X3.

The fair value of the net assets of Mark Limited was 23 million EURO and the purchase consideration paid was 17.5 million EURO on 30 September, 20X2.

The exchange rates as on 30 September, 20X2 was Rs. 82 per EURO and on 31st March, 20X3 was Rs. 84 per EURO.

On acquisition of Mark limited, what is the value at which the goodwill / capital reserve has to be recognized in the financial statements of Monsoon Limited as on 31 March 20X3?

## SOLUTION

Ind AS 21 requires that goodwill arising on business combination shall be expressed in the functional currency of the foreign operation and shall be **translated at the closing rate**.

**In this case, the amount of goodwill will be as follows:**

| | | | |
|---|---|---|---|
| Net identifiable asset | Dr. | Rs. 23 million | |
| Goodwill (bal. fig.) | Dr. | Rs. 1.9 million | |
| To Bank (Purchase consideration) | | | Rs. 17.5 million |

To NCI (23 x 30%) Rs.6.9 million

Thus, goodwill on the reporting date in the books of Monsoon Limited would be = 1.4 million EURO x Rs. 84 = Rs. 117.6 million.

## Q10. (Nov. 21) (Also added in New ICAI Module)

Company X is engaged in the business of exploration & development of Oil & Gas Blocks.

Company X currently holds participating interest (PI) in below mentioned producing Block as follows:

| Block Name | Company X | Company Y | Company Z | Total |
|---|---|---|---|---|
| AWM/01 | 30% | 60% | 10% | 100% |

For the above Block, Company X, Y & Z has entered into unincorporated Joint Venture.

Company Y is the Operator of the Block AWM/01. Company X & Company Z are the Joint Operators. Company Y incurs all the expenditure on behalf of Joint Venture and raises a cash call to Company X & Company Z at each month end in respect of their share of expenditure incurred in Joint Venture. All the manpower and requisite facilities / machineries owned by the Joint venture and thereby owned by all the Joint Operators.

For the past few months, due to liquidity issues, Company Z defaulted in payment of cash calls to operators. Therefore, company Y (Operator) has issued notice to company Z for withdrawal of their participating right from 01.04.20X1. However, company Z has filed the appeal with the arbitrator on 30.04.20X1.

Financial performance of company Z has not improved in subsequent months and therefore company Z has decided to withdraw participating interest rights from Block AWM/01 and entered into a sale agreement with Company X & Company Y. As per the terms of the agreement, dated 31.5.20X1, Company X will receive 33.33% share & Company Y will receive 66.67% share of PI rights owned by Company Z.

Company X is required to pay Rs.1 Lacs against 33.33% share of PI rights owned by Company Z.

After signing the sale agreement, Operator (company Y) approached the government of India for modification in PSC (Production Sharing Contract) i.e. removal of Company Z from PSC of AWM/01 and the government has approved this transaction on 30.6.20X1. Government approval for the modification in PSC is essential given the industry in which the joint-operators operate

**Balance sheet of Company X & Company Z are as follows:**

| Particulars | Company X | | Company Z | |
|---|---|---|---|---|
| | 31.5.20X1 | 30.6.20X1 | 31.5.20X1 | 30.6.20X1 |
| | Rs. | Rs. | Rs. | Rs. |
| **Assets** | | | | |
| Non-Current Assets | | | | |
| Property, Plant & Equipment | 5,00,000 | 10,00,000 | 1,50,000 | 3,00,000 |
| Right of Use Asset | 1,00,000 | 2,00,000 | 10,000 | 20,000 |
| Development CWIP | 50,000 | 1,00,000 | 50,000 | 1,00,000 |
| Financial Assets | | | | |
| Loan receivable | 25,000 | 50,000 | 25,000 | 50,000 |
| Total Non-Current Assets | 6,75,000 | 13,50,000 | 2,35,000 | 4,70,000 |
| Current assets | | | | |
| Inventories | 1,00,000 | 2,00,000 | 15,000 | 30,000 |
| Financial Assets | | | | |
| Trade receivables | 1,50,000 | 3,00,000 | 50,000 | 1,00,000 |

| | | | | |
|---|---|---|---|---|
| Cash and cash equivalents | 2,00,000 | 4,00,000 | 1,00,000 | 2,00,000 |
| Other Current Assets | 2,25,000 | 50,000 | 25,000 | 50,000 |
| Total Current Assets | 6,75,000 | 9,50,000 | 1,90,000 | 3,80,000 |
| **Total Assets** | **13,50,000** | **23,00,000** | **4,25,000** | **8,50,000** |
| **Equity and Liabilities** | | | | |
| **Equity** | | | | |
| Equity share capital | 3,00,000 | 3,00,000 | 1,00,000 | 1,00,000 |
| Other equity | 2,00,000 | 3,00,000 | 75,000 | 2,50,000 |
| **Total Equity** | **5,00,000** | **6,00,000** | **1,75,000** | **3,50,000** |
| **Liabilities** | | | | |
| Non-Current Liabilities | | | | |
| Provisions | 4,00,000 | 8,00,000 | 1,00,000 | 2,00,000 |
| Other Liabilities | 1,50,000 | 3,00,000 | 50,000 | 1,00,000 |
| Total Non-Current Liabilities | 5,50,000 | 11,00,000 | 1,50,000 | 3,00,000 |
| Current Liabilities | | | | |
| Financial Liabilities | | | | |
| Trade Payables | 3,00,000 | 6,00,000 | 1,00,000 | 2,00,000 |
| Total Current Liabilities | 3,00,000 | 6,00,000 | 1,00,000 | 2,00,000 |
| **Total Liabilities** | **13,50,000** | **23,00,000** | **4,25,000** | **8,50,000** |

**Additional Information:**

1. Fair Value of PPE & Development CWIP owned by Company Z as per Market participant approach is Rs. 5,00,000 & Rs. 2,00,000 respectively.
2. Fair Value of all the other assets and liabilities acquired are assumed to be at their carrying values (except cash & cash equivalents). Cash and cash equivalents of Company Z are not to be acquired by Company X as per the terms of agreement.
3. Tax rate is assumed to be 30%.
4. As per Ind AS 28, all the joint operators are joint ventures whereby each parties that have joint control of the arrangement have rights to the Assets and obligation to Liabilities of the arrangement and therefore every operator records their share of assets and liabilities in their books.

**You need to determine the following:**

1. Whether the above acquisition falls under business or asset acquisition as defined under business combination standard Ind AS 103?
2. Determine the acquisition date in the above transaction.
3. Prepare Journal entries for the above-mentioned transaction.

Draft the Balance Sheet for Company X based on your analysis in Part I above as at acquisition date.

## SOLUTION

(I) Ind AS 103 defines business as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities.

For a transaction to meet the definition of a business combination (and for the acquisition method of accounting to apply), the entity must gain control of an integrated set of assets and activities that is more than a collection of assets or a combination of assets and liabilities.

To be capable of being conducted and managed for the purpose identified in the definition of a business, an integrated set of activities and assets requires two essential elements—inputs and processes applied to those inputs.

Therefore, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output.

In the aforesaid transaction, Company X acquired share of participating rights owned by Company Z for the producing Block (AWM/01). The output in this transaction (Considering AWM/01) is a producing block. Also all the manpower and requisite facilities / machineries are owned by Joint venture and thereby all the Joint Operators. Hence, acquiring participating rights amounts to acquiring inputs (Expertise Manpower & Machinery) and it is critical to the ability to continue producing outputs. Thus, the said acquisition will fall under the Business Acquisition and hence standard Ind AS 103 is to be applied for the same.

**(2)** As per Ind AS 103, acquisition date is the date on which the acquirer obtains control of the acquiree. Further, Ind AS 103 clarifies that the date on which the acquirer obtains control of the acquiree is generally the date on which the acquirer legally transfers the consideration, acquires the assets and assumes the liabilities of the acquiree at the closing date. However, the acquirer might obtain control on a date that is either earlier or later than the closing date.

An acquirer shall consider all pertinent facts and circumstances in identifying the acquisition date. Since government of India (GOI) approval is a substantive approval for Company X to acquire control of Company Z's operations, the date of acquisition cannot be earlier than the date on which approval is obtained from GOI. This is pertinent given that the approval from GOI is considered to be a substantive process and accordingly, the acquisition is considered to be completed only on receipt of such approval. Hence acquisition date in the above scenario is 30 6.20X1.

**(3)** **Journal entry for acquisition - in books of Co. X**

| Particulars | | Amount (Rs.) | Amount (Rs.) |
|---|---|---|---|
| Property Plant & Equipment | Dr. | 1,66,650 | |
| Right-of-use Asset | Dr. | 6,666 | |
| Development CWIP | Dr. | 66,660 | |
| Financial Assets - Loan Receivables | Dr. | 16,665 | |
| Inventories | Dr. | 9,999 | |
| Trade Receivables | Dr. | 33,330 | |
| Other Current Assets | Dr. | 16,665 | |
| To Provisions | | | 66,660 |
| To Other Liabilities | | | 33,330 |
| To Trade Payables | | | 66,660 |
| To Deferred Tax Liability | | | 29,997 |
| To Cash & Cash Equivalent (Purchase consideration) | | | 1,00,000 |
| To Gain on bargain purchase (Other Comprehensive Income) | | | 19,988 |
| (Being assets acquired and liabilities assumed from Company Z recorded at fair value along gain on bargain purchase) | | | |

(4) **Balance Sheet of Company X as at 30.6.20X1**

**(Pre & Post Acquisition of PI rights pertaining to Company Z)**

| Particulars | Pre-Acquisition | Adjustments | Post-Acquisition |
|---|---|---|---|
| | 30.6.20X1 | 30.6.20X1 | |
| **Assets** | | | |
| Non - Current Assets | | | |
| Property Plant & Equipment | 10,00,000 | 1,66,650 | 11,66,650 |
| Right of Use Asset | 2,00,000 | 6,666 | 2,06,666 |
| Development CWIP | 1,00,000 | 66,660 | 1,66,660 |
| Financial Assets | | | |
| Loan receivable | 50,000 | 16,665 | 66,665 |
| Total Non-Current Assets | 13,50,000 | | 16,06,641 |
| Current assets | | | |
| Inventories | 2,00,000 | 9,999 | 2,09,999 |
| Financial Assets | | | |
| Trade receivables | 3,00,000 | 33,330 | 3,33,330 |
| Cash and cash equivalents | 4,00,000 | (1,00,000) | 3,00,000 |
| Other Current Assets | 50,000 | 16,665 | 66,665 |
| Total Current Assets | 9,50,000 | | 9,09,994 |
| **Total Assets** | **23,00,000** | | **25,16,635** |
| **Equity and Liabilities** | | | |
| **Equity** | | | |
| Equity share capital | 3,00,000 | - | 3,00,000 |
| Other equity | 3,00,000 | - | 3,00,000 |
| Capital Reserve (OCI) | - | 19,988 | 19,988 |
| Total Equity | 6,00,000 | | 6,19,988 |
| Liabilities | | | |
| Non-Current Liabilities | | | |
| Provisions | 8,00,000 | 66,660 | 8,66,660 |
| Other Liabilities | 3,00,000 | 33,330 | 3,33,330 |
| Deferred Tax Liability | - | 29,997 | 29,997 |
| Total Non-Current Liabilities | 11,00,000 | | 12,29,987 |
| Current Liabilities | | | |
| Financial liabilities | | | |
| Trade Payables | 6,00,000 | 66,660 | 6,66,660 |
| Total Current Liabilities | 6,00,000 | | 6,66,660 |
| **Total Equity and Liabilities** | **23,00,000** | | **25,16,635** |

**Working Notes**

**1) Determination of Company Z's balance acquired by Company X on 30.6.20X1 (Acquisition Date)**

| Particulars | As per Company Z Books 30.6.20X1 | Carrying Value 33.33% Share | Acquisition Date Value | Remarks |
|---|---|---|---|---|
| | Rs. | Rs. | Rs. | |
| **Assets** | | | | |
| Non-Current Assets | | | | |
| Property Plant & Equipment | 3,00,000 | 99,990 | 1,66,650 | Note 1 |
| Right of Use Asset | 20,000 | 6,666 | 6,666 | |
| Development CWIP | 1,00,000 | 33,330 | 66,660 | Note 2 |
| Financial Assets | | | | |
| Loan receivable | 50,000 | 16,665 | 16,665 | |
| Total Non-Current Assets | 4,70,000 | 1,56,651 | 2,56,641 | |
| Current assets | | | | |
| Inventories | 30,000 | 9,999 | 9,999 | |
| Financial Assets | | | | |
| Trade receivables | 1,00,000 | 33,330 | 33,330 | |
| Cash and cash equivalents | 2,00,000 | 66,660 | 66,660 | |
| Other Current Assets | 50,000 | 16,665 | 16,665 | |
| Total Current Assets | 3,80,000 | 1,26,654 | 1,26,654 | |
| **Liabilities** | | | | |
| Non-Current Liabilities | | | | |
| Provisions | 2,00,000 | 66,660 | 66,660 | |
| Other Liabilities | 1,00,000 | 33,330 | 33,330 | |
| Total Non-Current Liabilities | 3,00,000 | 99,990 | 99,990 | |
| Current Liabilities | | | | |
| Financial liabilities | | | | |
| Trade Payables | 2,00,000 | 66,660 | 66,660 | |
| **Total Current Liabilities** | **2,00,000** | **66,660** | **66,660** | |

**Note 1: Fair Value of PPE:**

| Fair Value of PPE in Company Z Books | Rs. 5,00,000 |
|---|---|
| 33.33% Share acquired by Company X | Rs. 1,66,650 |

**Note 2: Fair Value of Development CWIP:**

| Fair Value of PPE in Company Z Books | Rs. 2,00,000 |
|---|---|
| 33.33% Share acquired by Company X | Rs. 66,660 |

**2) Computation Goodwill/Bargain Purchase Gain**

| Particulars | As at 30.6.20X1 (Rs.) |
|---|---|
| Total Non - Current Assets | 2,56,641 |
| Total Current Assets (Except Cash & Cash Equivalent of Rs. 66,660) (1,26,654 – 66,660) | 59,994 |
| Total Non-Current Liabilities | (99,990) |
| Total Current Liabilities | (66,660) |
| Total Deferred Tax Liability (Refer Working note 3) | (29,997) |
| Net Assets Acquired | 1,19,988 |
| Less: Consideration Paid | (1,00,000) |
| **Gain on Bargain Purchase (To be transferred to OCI)** | **19,988** |

*In extremely rare circumstances, an acquirer will make a bargain purchase in a business combination in which the value of net assets acquired in a business combination exceeds the purchase consideration. The acquirer shall recognise the resulting gain in other comprehensive income on the acquisition date and accumulate the same in equity as capital reserve, if the reason for bargain purchase gain is clear and evidence exists. If there does not exist clear evidence of the underlying reasons for classifying the business combination as a bargain purchase, then the gain shall be recognised directly in equity as capital reserve. Since in the above scenario it is clearly evident that due to liquidity issues, Company Z has to withdraw their participating right from AWM/01. The said bargain purchase gain should be transferred to other comprehensive income on the acquisition date.

**3) Computation of Deferred Tax Liability arising on Business Combination**

| Particulars | Acquisition Date Value (Rs.) |
|---|---|
| Total Non - Current Assets | 2,56,641 |
| Total Current Assets (Except Cash & Cash Equivalent of Rs. 66,660) | 59,994 |
| Total Non-Current Liabilities | (99,990) |
| Total Current Liabilities | (66,660) |
| Net Assets Acquired at Fair Value | 1,49,985 |
| Book value of Net Assets Acquired | 49,995 |
| Temporary Difference | 99,990 |
| **DTL @ 30% on Temporary Difference** | **29,997** |

**Note:** As per Ind AS 103, in case an entity acquires another entity step by step through series of purchase then the acquisition date will be the date on which the acquirer obtains control. Till the time the control is obtained the investment will be accounted as per the requirements of other Ind AS 109, if the investments are covered under that standard or as per Ind AS 28, if the investments are in Associates or Joint Ventures.

If a business combination is achieved in stages, the acquirer shall remeasure its previously held equity interest in the acquire at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate.

Since in the above transaction, company X does not hold any prior interest in Company Z & company holds only 30% PI rights in Block AWM/01 through unincorporated joint venture, this is not a case of step acquisition.

## MTPs QUESTIONS

### Q11. (August 18)

Preet Pvt. Ltd. has a number of wholly-owned subsidiaries including Stuti Pvt. Ltd. as of 31st March, 2018. Preet Pvt. Ltd.'s consolidated balance sheet and the carrying amount of assets and liabilities of Stuti Pvt. Ltd., included in the respective amount of respective grouped assets and liabilities of the consolidated balance sheet as at 31st March, 2018 are as follows:

| Particulars | Consolidated balance sheet (Rs. in million) | Carrying amount of asset and liabilities of Stuti Pvt. Ltd. included in the CFS (Rs. in million) |
|---|---|---|
| Assets | | |
| Non-current Assets | | |
| Goodwill | 380 | 180 |
| Buildings | 3,240 | 1,340 |
| Current Assets | | |
| Inventories | 140 | 40 |
| Trade Receivables | 1,700 | 900 |
| Cash and cash equivalents | 3,100 | 1000 |
| **Total Assets** | **8,560** | **3,460** |
| Equities & Liabilities | | |
| Equity | 1600 | |
| Share Capital | | |
| Other Equity | | |
| Retained Earnings | 4,260 | |
| Current liabilities | | |
| Trade Payables | 2,700 | 900 |
| **Total Equity & Liabilities** | **8,560** | **900** |

Prepare Consolidated Balance Sheet after disposal as on 31st March, 2018 when Preet Pvt. Ltd. group sold 100% shares of Stuti Pvt. Ltd. to an independent party for Rs. 3,000 million.

### SOLUTION

**When 100% shares sold to independent party Consolidated Balance Sheet of Preet Pvt. Ltd. and its remaining subsidiaries as on 31st March, 2018**

| Particular | Note No. | (Rs. in million) |
|---|---|---|
| **I. Assets** | | |
| **(1)** Non-Current Assets | | |
| **(i)** Property Plant & Equipment | 1 | 1900 |
| **(ii)** Goodwill | 2 | 200 |
| **(2)** Current Assets | | |
| (i) Inventories | 3 | 100 |
| (ii) Financial Assets | | |
| **(a)** Trade Receivable | 4 | 800 |
| **(b)** Cash & Cash equivalents | 5 | 5,100 |
| **Total Assets** | | |
| **II. Equity and Liabilities** | | **8,100** |
| **(1) Equity** | | |

| | | |
|---|---|---|
| (i) Equity Share Capital | 6 | |
| (ii) Other Equity | 7 | 1,600 |
| (2) Current Liabilities | | 4,700 |
| (i) Financial Liabilities | 8 | |
| (ii) Trade payable | | 1,800 |
| **Total Equity & Liabilities** | | **8,100** |

**Notes to Financial Statements:**

| | | | **(Rs. in million)** |
|---|---|---|---|
| 1. | **Property Plant & Equipment** | | |
| | Land & Building | | |
| | Group | 3,240 | |
| | Less: Stuti Pvt. Ltd. | (1,340) | 1,900 |
| 2. | Intangible Assets | | |
| | Goodwill | | |
| | Group | 380 | |
| | Less: Stuti Pvt. Ltd. | (180) | 200 |
| 3. | **Inventories** | | |
| | Group | 140 | |
| | Less: Stuti Pvt. Ltd. | (40) | 100 |
| 4. | **Trade Receivables** | | |
| | Group | 1,700 | |
| | Less: Stuti Pvt. Ltd. | (900) | 800 |
| 5. | **Cash & cash equivalents** | | |
| | Group (WN 2) | 5,100 | 5,100 |
| 6. | **Trade Payables** | | |
| | Group | 2,700 | |
| | Less: Stuti Pvt. Ltd. | 900 | 1,800 |

**Statement of Changes in Equity:**

**1. Equity Share Capital**

| **Balance at the beginning of the reporting period** | **Changes in Equity share capital during the year** | **Balance at the end of the reporting period** |
|---|---|---|
| 1600 | 0 | 1600 |

**2. Other Equity**

| | **Share application money** | **Equity component** | **Reserves & Surplus** | | | **Total** |
|---|---|---|---|---|---|---|
| | | | **Capital reserve** | **Retained Earnings** | **Securities Premium** | |
| Balance at the beginning | | | | 4,260 | | 4,260 |
| Total comprehensive income for the year | | | 0 | | | |
| Dividend | | | 0 | | | |
| Total comprehensive income attributable to the parent | | | 0 | | | |

| Gain on disposal of Stuti Pvt. Ltd. | | | | 440 | | 440 |
|---|---|---|---|---|---|---|
| **Balance at the end of the reporting period** | | | **0** | **4,700** | | **4,700** |

**Working Notes:**

1. When sold, the carrying amount of all assets and liabilities attributable to Stuti Pvt. Ltd. were eliminated from the consolidated statement of financial position.
2. Cash in hand

| | |
|---|---|
| Cash before disposal of Stuti Pvt. Ltd. | 3,100 |
| Less: Stuti Pvt. Ltd. Cash | (1,000) |
| Add: Cash realized from disposal | 3,000 |
| **Cash in hand** | **5,100** |

3. Gain / Loss on disposal of entity (in million)

| | |
|---|---|
| Proceeds from disposal | 3,000 |
| Less: Net assets of Stuti Pvt. Ltd. | (2,560) |
| **Gain on disposal** | **440** |

4. Retained Earnings (in million)

| | |
|---|---|
| Retained earnings before disposal | 4,260 |
| Add: Gain on disposal | 440 |
| **Retained earnings after disposal** | **4,700** |

## Q12. (August 18)

In March 2018, Pharma Ltd. acquired Dorman Ltd. in a business combination for a total cost of Rs. 12,000 lakhs. At that time Dorman Ltd.'s assets and liabilities are as follows:

| Item | Rs. in lakhs |
|---|---|
| **Assets** | |
| Cash | 780 |
| Receivables (net) | 5,200 |
| Plant and equipment | 7,000 |
| **Deferred tax asset** | **360** |
| **Liabilities** | |
| Payables | 1,050 |
| Borrowings | 4,900 |
| Employee entitlement liabilities | 900 |
| **Deferred tax liability** | **300** |

The plant and equipment has a fair value of Rs. 8,000 lakhs and a tax written down value of Rs. 6,000 lakhs. The receivables are short-term trade receivables net of a doubtful debts allowance of Rs. 300 lakhs.

Bad debts are deductible for tax purposes when written off against the allowance account by Dorman Ltd. Employee benefit liabilities are deductible for tax when paid.

Dorman Ltd. owns a popular brand name that meets the recognition criteria for intangible assets under Ind AS 103 'Business Combinations'. Independent valuers have attributed a fair value of Rs. 4.300 lakhs for the brand. However, the brand does not have any cost for tax purposes and no tax deductions are available for the same.

The tax rate of 30% can be considered for all items. Assume that unless otherwise stated, all items have a fair value and tax base equal to their carrying amounts at the acquisition date.

**You are required to:**

**(i)** Calculate deferred tax assets and liabilities arising from the business combination (do not offset deferred tax assets and liabilities)

**(ii)** Calculate the goodwill that should be accounted for in consolidation.

## SOLUTION

**(i) Breakdown of assets and liabilities acquired as part of the business combination, including deferred taxes and goodwill**

| Item | Rs. In lakhs | | | | |
|---|---|---|---|---|---|
| **Book value** | **Fair value** | | **Tax base** | **Taxable (deductible) temporary difference** | **Deferred tax asset (liability) @ 30%** |
| Cash | 780 | 780[1] | 780[1] | - | - |
| Receivables | 5,200 | 5,200[2] | 5,500[3] | (300) | 90 |
| Plant and equipment | 7,000 | 8,000[2] | 6,000[4] | 2,000 | (600) |
| Brands | | 4,300[2] | –[5]) | 4,300 | (1,290) |
| Goodwill (Balancing figure) | | 2,100[9] | | | |
| Deferred tax asset | 360 | | | 3,60[7] | |
| **Total assets** | | **20,740** | | | |
| Payables | (1,050) | (1,050)[1] | (1,050)[1] | | |
| Borrowings | (4,900) | (4,900)[1]) | (4,900)[1] | | |
| Employee Entitlement liabilities | (900) | (900)[1] | –[6]) | (900) | 270 |
| Deferred tax liability | | (300) | | (1,890)[8] | |
| **Total liabilities** | | **(8,740)** | | | |
| **Consideration paid** | | **12,000** | | | |

**Notes**

**(1)** This amount has been derived from Dorman Ltd.'s Balance Sheet as it is stated that 'unless otherwise stated, all items have a fair value and tax base equal to their carrying amounts in Dorman Ltd.'s Balance Sheet at the acquisition date'.

**(2)** Stated fair value in the fact pattern (different to the carrying amount in Dorman Ltd.'s Balance Sheet at the acquisition date).

**(3)** Because bad debts are only deductible when written off against the allowance account by Dorman Ltd. the tax base of the receivables is their gross value, i.e., (Rs. 5,200 + Rs. 300) lakhs allowance account.

**(4)** Tax written down value of the plant and equipment as stated in the fact pattern.

**(5)** As the brand name does not have a cost for tax purposes and no tax deduction is available in relation to it, its tax base is nil.

**(6)** As the employee entitlement liabilities are only deductible for tax purposes when paid, their tax base is nil.

**(7)** The aggregate deferred tax asset is Rs. 360 lakhs, comprising Rs.90 lakhs in relation to the receivables and Rs.270 lakhs in relation to the employee entitlement liabilities.

**(8)** The aggregate deferred tax liability is Rs. 1,890 lakhs calculated as follows:

| Rs. In lakhs | DTL amount in Dorman Ltd.'s Balance Sheet | Deferred tax impact of fair value adjustments | Total DTL in Pharma Ltd's consolidated financial statements |
|---|---|---|---|
| Plant and equipment | 300 ([7,000-6,000] × 30%) | 300 ([1,000 × 30%) | 600 |
| Brand names | 0 | 1,290 (4,300 × 30%) | 1,290 |
| **TOTAL** | **300** | **1,590** | **1,890** |

**(ii)** Goodwill is effectively the 'balancing item' in the equation, applying the requirements of Ind AS 103, para 32. The consideration transferred is Rs. 12,000 lakhs and the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed measured in accordance with Ind AS 103, including the deferred tax assets and liabilities arising, is Rs. 9,900 lakhs.

Therefore, Goodwill = 12,000 - 9,900 = 2,100 lakhs

**Author's Note:** DTL on Branch should not be created since it is clearly mentioned in the question that "No tax deductions are available for the same"
Hence instead of 9900 lacs of Net Assets, it should be 11250 lacs

## Q13. (October 18 – 20 marks)

X Ltd. and Y Ltd. amalgamated on and from 1st April, 2017. A new company XY Ltd. with shares of Rs. 10 each was formed to take over the businesses of the existing companies.

**Summarised Balance Sheet as on 31st March, 2018**

**INR in '000**

| **ASSETS** | **Note No.** | **X Ltd** | **Y Ltd** |
|---|---|---|---|
| Non-current assets | | | |
| Property, Plant& Equipment | | 8,500 | 7,500 |
| Financial assets | | | |
| Investment | | 1,050 | 550 |
| Current assets | | | |
| Inventories | | 1,250 | 2,750 |
| Trade receivables | | 1,800 | 4,000 |
| Cash and Cash equivalents | | 450 | 400 |
| | | **13,050** | **15,200** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity** | | | |
| Equity share capital (of face value of INR 10 each) | | 6,000 | 7,000 |
| Other equity | 1 | 3,050 | 2,700 |
| Liabilities | | | |
| Non-current liabilities | | | |
| Financial liabilities | | | |
| Borrowings (12% Debentures) | | 3,000 | 4,000 |
| Current liabilities | | | |
| Trade payables | | 1,000 | 1,500 |
| | | **13,050** | **15,200** |

**Notes to Accounts:**

| 1. | Other equity | X Ltd | Y Ltd |
|---|---|---|---|
| General Reserve | | 1,500 | 2,000 |
| Profit & Loss | | 1,000 | 500 |
| Investment Allowance Reserve | | 500 | 100 |

XY Ltd. issued a requisite number of shares to discharge the claims of the equity shareholders of the transferor companies. Also the new debentures were issued in exchange of the old series of both the companies.

Prepare a note showing purchase consideration and discharge thereof and draft the Balance Sheet of XY Ltd:

**(i)** Assuming that both the entities are under common control

**(ii)** Assuming Y Ltd is a larger entity and their management will take the control of the entity XY Ltd.

The fair value of net assets of X and Y limited are as follows:

| Assets | X Ltd. ('000) | Y Ltd. ('000) |
|---|---|---|
| Property, Plant and Equipment | 9,500 | 1,000 |
| Inventories | 1,300 | 2,900 |
| **Fair value of the business** | **11,000** | **14,000** |

## SOLUTION

**(i)** **(Assumption: Common control transaction)**

### 1. Calculation of Purchase Consideration

| | X Ltd. | | Y Ltd. | |
|---|---|---|---|---|
| | Rs. '000 | | Rs. '000 | |
| **Assets taken over:** | | | | |
| Property, Plant and Equipment | | 85,00 | | 75,00 |
| Investment | | 10,50 | | 5,50 |
| Inventory | | 12,50 | | 27,50 |
| Trade receivables | | 18,00 | | 40,00 |
| Cash & Cash equivalent | | 4,50 | | 4,00 |
| Gross Assets | | 130,50 | | 152,00 |
| Less: Liabilities | | | | |
| 12% Debentures | 30,00 | | 40,00 | |
| Trade payables | 10,00 | (40,00) | 15,00 | (55,00) |
| Net Assets taken over | | 90,50 | | 97,00 |
| Less: Reserves and Surplus: | | | | |
| General Reserve | 15,00 | | 20,00 | |
| P & L A/c | 10,00 | | 5,00 | |
| Investment Allowance Reserve | 5,00 | | 1,00 | |
| Export Profit Reserve | 50 | (30,50) | 1,00 | (27,00) |
| **Purchase Consideration** | | **60,00** | | **70,00** |

Total Purchase Consideration = 130,00 (60,00 of X Ltd. & 70,00 of Y Ltd.)

### 2. Discharge of Purchase Consideration

No. of shares to be issued to X Ltd =

Net Assets taken over of X Ltd. (x) Purchase Consideration / Net Assets taken over of X Ltd. and Y Ltd.

No. of shares to be issued to Y Ltd =

Net Assets taken over of Y Ltd. (x) Purchase Consideration / Net Assets taken over of X Ltd. and Y Ltd.

| | X Ltd. | Y Ltd. |
|---|---|---|
| | Rs. '000 | Rs. '000 |
| 13,000 × 9,050 / 18,750 = 6,27,500 Equity shares of Rs. 10 each | 62,75 | |
| 13,000 × 9,700 /18,750 = 6,72,5000 Equity shares of Rs. 10 each | | 62,75 |

**(3) Balance Sheet of XY Ltd. as on 1st April, 2018**

**INR in '000**

| ASSETS | Note No. | Amount |
|---|---|---|
| **Non-current assets** | | |
| Property, Plant and Equipment | | 16,000 |
| Financial assets | | |
| Investment | | 1,600 |
| **Current assets** | | |
| Inventories | | 4,000 |
| Trade receivables | | 5,800 |
| Cash and Cash equivalents | | 850 |
| | | **28,250** |
| **EQUITY AND LIABILITIES** | | |
| **Equity** | | |
| Equity share capital (of face value of INR 10 each) | 1 | 13,000 |
| Other equity | 2 | 5,750 |
| **Liabilities** | | |
| **Non-current liabilities** | | |
| Financial liabilities | | |
| Borrowings | 3 | 7,000 |
| **Current liabilities** | | |
| Trade payables | | 2,500 |
| | | **28,250** |

**Notes to Accounts**

| | | (Rs. 000) | (Rs. 000) |
|---|---|---|---|
| **1.** | **Share Capital** | | |
| 13,00,000 Equity Shares of Rs. 10 each | | | 130,00 |
| **2.** | **Reserves and surplus** | | |
| General Reserve (15,00 + 20,00) | | 35,00 | |
| Profit & Loss (10,00 + 5,00) | | 15,00 | |
| Investment Allowance Reserve (5,00 + 1,00) | | 6,00 | |
| Export Profit Reserve (50 + 1,00) | | 1,50 | 57,50 |
| **3.** | **Long Term Borrowings** | | |
| 12% Debentures | | | 70,00 |

- The total purchase consideration is to be discharged by XY Ltd. in such a way that the rights of the shareholders of X Ltd. and Y Ltd. remain unaltered in the future profits of XY Ltd.

**(ii) Assuming Y Ltd is a larger entity and their management will take the control of the entity XY Ltd.**

In this case Y Ltd. and X Ltd. are not under common control and hence accounting prescribed under Ind AS 103 for business combination will be applied. A question arises here is who is the accounting acquirer XY Ltd which is issuing the shares or X Ltd. or Y Ltd. As per the accounting guidance provided in Ind AS 103, sometimes the legal acquirer may not be the accounting acquirer. In the given scenario, although XY Ltd. is issuing the shares but Y Ltd. post-merger will have control and is bigger in size which is a clear indicator that Y Ltd. will be an accounting acquirer. This can be justified by the following table:

**(In '000s)**

| | X Ltd. | Y Ltd. |
|---|---|---|
| Fair Value | 11,000 | 14,000 |
| Value per share | 10 | 10 |
| No. of shares | 1,100 | 1,400 |
| i.e. Total No. of shares in XY Ltd. = 2,500 thousand shares | | |
| Thus, % Held by each Company in Combined Entity | 44% | 56% |

**Note:** It is a case of Reverse Acquisition.

Accordingly, Y Ltd.'s assets will be recorded at historical cost in the merged financial statements.

**(1) Calculation and discharge of Purchase Consideration (All figures are in thousands)**

We need to calculate the number of shares to be issued by Y Ltd. to X Ltd. to maintain the same percentage i.e. 56%:

Thus, 700 thousand shares of Y Ltd. (given in the balance sheet) represents 56%. This means that total no. of shares would be 1,250 thousand shares i.e. 700 thousand shares / 56%.

This implies Y Ltd. would need to issue 550 thousand shares (1,250 - 700) to X Ltd.

Purchase Consideration = 550 thousand shares x Rs. 20 per share (ie. 14,000 thousand / 700 thousand shares) = Rs. 11,000 thousand.

**(2) Balance Sheet of XY Ltd. as on 1st April, 2018**

**INR in '000**

| ASSETS | Note No. | Amount |
|---|---|---|
| **Non-current assets** | | |
| Property, Plant and Equipment (9500+7500) | | 17,000 |
| Goodwill (Refer Working Note) | | 900 |
| Financial assets | | |
| Investment (1050+550) | | 1,600 |
| **Current assets** | | |
| Inventories (1300+2750) | | 4,050 |
| Trade receivables (1800+4000) | | 5,800 |
| Cash and Cash equivalents (450+400) | | 850 |
| | | **30,200** |

| EQUITY AND LIABILITIES | | |
|---|---|---|
| **Equity** | | |
| Equity share capital (of face value of INR 10 each) | 1 | 12,500 |
| Other equity | 2 | 8,200 |
| **Liabilities** | | |
| **Non-current liabilities** | | |
| Financial liabilities | | |
| Borrowings (12% Debentures) | 3 | 7,000 |
| **Current liabilities** | | |
| Trade payables | | 2,500 |
| | | **30,200** |

**Notes to Accounts**

| | | (Rs. 000) | (Rs. 000) |
|---|---|---|---|
| 1. | **Share Capital** | | |
| 1,250,000 Equity Shares of Rs. 10 each (700,000 to BX Ltd and 550,000 as computed above to AX LTD) | | | 1,25,00 |
| 2. | **Reserves and Surplus** | | |
| General reserve of BX Ltd | | 20,00 | |
| P&L of BX Ltd | | 5,00 | |
| Export Profit Reserve of BX Ltd | | 1,00 | |
| Investment Allowance Reserve of BX Ltd<br>Security Premium (550 shares x Rs. 10) | | 1,00<br>5,500 | 8,200 |
| 3. | **Long Term Borrowings** | | |
| 12% Debentures (Assumed that new debentures were issued in exchange of the old series) | | | 70,00 |

**Working Note:**

**Computation of Goodwill:**

| **Assets:** | **Rs. in 000s** |
|---|---|
| Property, Plant and Equipment | 9,500 |
| Investment | 1,050 |
| Inventories | 1,300 |
| Trade Receivables | 1,800 |
| Cash & Cash Equivalents | 450 |
| Total Assets | 14,100 |
| Less : Liabilities: | |
| Borrowings | 3,000 |
| Trade Payables | 1,000 |
| Net Assets | 10,100 |
| **Purchase Consideration** | **11,000** |
| **Goodwill** | **900** |

## Q14. (October 18 – 6 marks) (INDAS 36 & INDAS 103)

Sun Ltd. is an entity with various subsidiaries. The entity closes its books of account every year ending on 31st March. On 1st July 2015 Sun ltd acquired an 80% interest in Pluto ltd. Details of the acquisition were as follows:

- Sun Ltd. acquired 800,000 shares in Pluto Ltd. by issuing two equity shares for every five acquired. The fair value of Sun Ltd.'s share on 1st July 2015 was Rs. 4 per share and the fair value of Pluto's share was Rs. 1.40 per share. The cost of the issue was 5% per share.
- Sun ltd incurred further legal and professional costs of Rs. 100,000 that was directly related to the acquisition.
- The fair values of the identifiable net assets of Pluto Ltd at 1st July 2015 were measured at Rs. 1.3 million. Sun Ltd. initially measured the non-controlling interest in Pluto Ltd. at fair value. They used the market value of a Pluto Ltd. share for this purpose. No impairment of goodwill arising on the acquisition of Pluto Ltd. was required at 31st March 2016 or 2017.
- Pluto ltd comprises three cash generating units A, B and C. When Pluto Ltd. was acquired the directors of Sun Ltd. estimated that the goodwill arising on acquisition could reasonably be allocated to units A:B:C on a 2:2:1 basis. The carrying values of the assets in these cash generating units and their recoverable amounts are as follows:

| Unit | Carrying value (before goodwill allocation) | Recoverable amount |
|---|---|---|
| | Rs. '000 | Rs. '000 |
| A | 600 | 740 |
| B | 550 | 650 |
| C | 450 | 400 |

- Compute the carrying value of the goodwill arising on acquisition of Pluto Ltd. in the consolidated Balance Sheet of Sun Ltd. at 31st March 2018 following the impairment review.
- Compute the total impairment loss arising as a result of the impairment review, identifying how much of this loss would be allocated to the non-controlling interests in Pluto Ltd.

## SOLUTION

### 1. Computation of goodwill on acquisition

| Particular | Amount (Rs. '000) |
|---|---|
| Cost of investment (8,00,000 x 2/5 x Rs. 4) | 1,280 |
| Fair value of non-controlling interest (2,00,000 x Rs. 1·4) | 280 |
| Fair value of identifiable net assets at date of acquisition | (1,300) |
| **So goodwill equals** | **260** |

Acquisition costs are not included as part of the fair value of the consideration given under Ind AS 103, Business Combination.

### 2. Calculation of impairment loss

| Unit | Carrying value | | | Recoverable Amount | Impairment Loss |
|---|---|---|---|---|---|
| | Before Allocation | Allocation of goodwill (2:2:1) | After Allocation | | |
| A | 600 | 104 | 704 | 740 | Nil |
| B | 550 | 104 | 654 | 650 | 4 |

| C | 400* | 52 | 452 | 400 | 52 |
|---|---|---|---|---|---|

* **After writing down assets in the individual CGU to a recoverable amount.**

**3. Calculation of closing goodwill**

| Goodwill arising on acquisition (W1) | 260 |
|---|---|
| Impairment loss (W2) | (56) |
| So closing goodwill equals | 204 |

**4. Calculation of overall impairment loss**

| On goodwill (W3) | 56 |
|---|---|
| On assets in unit C (450 – 400) | 50 |
| So total loss equals | 106 |

Rs. 21.2 (20%) of the above is allocated to the NCI with the balance allocated to the shareholders of Sun ltd.

## Q15. (October 18 – Similar to Q11)

Trust Ltd. has a number of wholly-owned subsidiaries including Trust Infocomm Ltd. as of 31st March 2018. Trust Ltd. consolidated statement of financial position and the group carrying amount of Trust Infocomm Ltd. assets and liabilities (i.e. the amount included in that consolidated statement of financial position in respect of Trust Infocomm Ltd. assets and liabilities) at 31st March 2018 are as follows:

| **Particulars** | **Consolidated (Rs. In '000)** | **Carrying amount of Trust Infocomm Ltd. assets and liabilities Ltd. in the Group (Rs. In '000)** |
|---|---|---|
| Assets | | |
| Non-current Assets | | |
| Goodwill | 190 | 90 |
| Buildings | 1,620 | 670 |
| Current Assets | | |
| Inventories | 70 | 20 |
| Trade Receivables | 850 | 450 |
| Cash | 1,550 | 500 |
| **Total Assets** | **4,280** | **1,730** |
| Equity & Liabilities | 800 | |
| Equity | | |
| Share Capital | | |
| Other Equity | 2,130 | |
| Retained Earnings | 2,930 | |
| Current liabilities | | |
| Trade Payables | 1,350 | 450 |
| **Total Equity & Liabilities** | **4,280** | **450** |

Prepare Consolidated Balance Sheet after disposal as on 31st March, 2018 when Trust Ltd. group sold 90% shares of Trust Infocomm Ltd. to an independent party for Rs. 1000 ('000).

## SOLUTION

**(a) When 90% shares sold to independent party**

**Consolidated Balance Sheet of Trust Ltd. and its remaining subsidiaries as on 31st March, 2018**

| Particulars | Note No. | (Rs. In '000) |
|---|---|---|
| **I. Assets** | | |
| (1) Non-current assets | | |
| (i) Property Plant & Equipment | 1 | 950 |
| (ii) Goodwill | 2 | 100 |
| (iii) Financial Assets | | |
| (a) Investments | 3 | 128 |
| (2) Current Assets | | |
| (i) Inventories | 4 | 50 |
| (ii) Financial Assets | | |
| (b) Trade Receivables | 5 | 400 |
| (c) Cash & Cash equivalents | 6 | 2,050 |
| **Total Assets** | | **3,678** |
| II. Equity and Liabilities | | |
| (1) Equity | | |
| (i) Equity Share Capital | 7 | 3,678 |
| (ii) Other Equity | 8 | 800 |
| (2) Current Liabilities | | |
| (i) Financial Liabilities | | 1,978 |
| (a) Trade Payables | 9 | 900 |
| **Total Equity & Liabilities** | | **3,678** |

**Notes to accounts:**

| | | (Rs. In '000) | |
|---|---|---|---|
| 1. | **Property Plwant & Equipment** | | |
| | Land & Building | 1620 | |
| | Less: Trust Infocomm Ltd. | (670) | 950 |
| 2. | Goodwill | 190 | |
| | Less: Trust Infocomm Ltd. | (90) | 100 |
| 3. | **Investments** | | |
| | Investment in Trust Infocomm Ltd. (WN 2) | 128 | 128 |
| 4. | **Inventories** | | |
| | Group | 70 | |
| | Less: Trust Infocomm Ltd. | (20) | 50 |
| 5. | **Trade Receivables** | | |
| | Group | 850 | |
| | Less: Trust Infocomm Ltd. | (450) | 400 |
| 6. | **Cash & Cash equivalents** | | |
| | Group (WN 3) | 2,050 | 2,050 |
| | **Trade Payables** | | |
| | Group | 1,350 | |
| | Less: Trust Infocomm Ltd. | 450 | 900 |

**Statement of changes in Equity:**

**6. Equity share Capital**

| Balance at the beginning of the reporting period | Changes in Equity share capital during the year | Balance at the end of the reporting period |
|---|---|---|
| 800 | 0 | 800 |

**7. Other Equity.**

| | Share application money | Equity component | Reserves & Surplus | | | Total |
|---|---|---|---|---|---|---|
| | | | Capital reserve | Retained Earnings | Securities Premium | |
| Balance at the beginning | | | | 2,130 | | 2,130 |
| Total comprehensive income for the year | | | 0 | | | |
| Dividends | | | 0 | | | |
| Total comprehensive income attributable to parent | | | 0 | | | |
| Loss on disposal of Trust Infocomm Ltd. | | | | (152) | | (152) |
| **Balance at the end of reporting period** | | | **0** | **1,978** | | **1,978** |

**Working Notes:**

1. When 90% being sold, the carrying amount of all assets and liabilities attributable to Trust Infocomm Ltd. were eliminated from the consolidated statement of financial position and further financial assets are recognized for the remaining 10%.
2. Fair value of remaining investment (in '000):

| Particulars | Amount |
|---|---|
| Net Assets of Trust Ltd. | 1,280 |
| Less: 90% disposal | (1152) |
| **Financial Asset** | **128** |

3. Cash on hand (in '000):

| Particulars | Amount |
|---|---|
| Cash before disposal of Trust Infocomm Ltd. | 1,550 |
| Less: Trust Infocomm Ltd. Cash | (500) |
| Add: Cash realized from disposal | 1,000 |
| **Cash on Hand** | **2,050** |

4. Gain/ Loss on disposal of entity (in '000):

| Particulars | Amount |
|---|---|
| Proceeds from disposal | 1,000 |
| Less: Proportionate (90%) Net assets of Trust Infocomm Ltd. (90% of 1,280) | (1,152) |
| **Loss on disposal** | **(152)** |

5. Retained Earnings (in '000):

| Particulars | Amount |
|---|---|
| Retained Earnings before disposal | 2,130 |
| Less: Loss on disposal | (152) |
| **Retained earnings after disposal** | **1,978** |

**Note** - *only 1 amount for investment will be shown. All other assets and liabilities will be derecognised. We have lost control and therefore no consolidation.*

## Q16. (April 19 – 20 Marks)

The balance sheet of P Ltd. and D Ltd. as of 31st March, 20X2 is given below:

| **Assets** | **P Ltd.** | **D Ltd.** |
|---|---|---|
| Non-Current Assets: | | |
| Property, plant and equipment | 300 | 500 |
| Investment | 400 | 100 |
| Current assets: | | |
| Inventories | 250 | 150 |
| Financial assets | | |
| Trade receivables | 450 | 300 |
| Cash and cash equivalents | 200 | 100 |
| Others | 400 | 230 |
| **Total** | **2,000** | **1,380** |
| **Equity and Liabilities** | | |
| Equity | | |
| Share capital- Equity shares of Rs. 100 each | 500 | 400 |
| Other Equity | 810 | 225 |
| Non-Current liabilities: | | |
| Long term borrowings | 250 | 200 |
| Long term provisions | 50 | 70 |
| Deferred tax | 40 | 35 |
| Current Liabilities: | | |
| Short term borrowings | 100 | 150 |
| Trade payables | 250 | 300 |
| **Total** | **2,000** | **1,380** |

**Other information**

**(a)** P Ltd. acquired 70% shares of D Ltd. on 1st April, 20X2 by issuing its own shares in the ratio of 1 share of P Ltd. for every 2 shares of D Ltd. The fair value of the shares of P Ltd. was Rs. 40 per share.

**(b)** The fair value exercise resulted in the following: (all no. in Lakh)

- **a.** Fair value of PPE on 1st April, 20X2 was Rs. 350 lakhs.
- **b.** P Ltd. also agreed to pay an additional payment as consideration that is higher of 35 lakh and 25% of any excess profits in the first year, after acquisition, over its profits in the preceding 12 months made by D Ltd. This additional amount will be due after 2 years. D Ltd. has earned Rs. 10 lakh profit in the preceding year and expects to earn another Rs. 20 Lakh.
- **c.** In addition to above, P Ltd. also had agreed to pay one of the founder shareholder a payment of Rs. 20 lakh provided he stays with the Company for two year after the acquisition.
- **d.** D Ltd. had certain equity settled share based payment award (original award) which got replaced by the new awards issued by P Ltd. As per the original term the vesting period was 4 years and as of the acquisition date the employees of D Ltd. have already served 2 years of service. As per the

replaced awards the vesting period has been reduced to one year (one year from the acquisition date). The fair value of the award on the acquisition date was as follows:

i. Original award- Rs. 5 lakh

ii. Replacement award- Rs. 8 lakh.

e. D Ltd had a lawsuit pending with a customer who had made a claim of Rs. 50 lakh. Management reliably estimated the fair value of the liability to be Rs. 5 lakh.

f. The applicable tax rate for both entities is 30%.

You are required to prepare the opening consolidated balance sheet of P Ltd. as on 1st April, 20X2. Assume 10% discount rate.

## SOLUTION

**Consolidated Balance Sheet of P Ltd as on 1st April, 20X2 (Rs. in Lakhs)**

| | Amount |
|---|---|
| **Assets** | |
| **Non-Current Assets:** | |
| Property, plant and equipment | 650 |
| Investment | 500 |
| **Current assets:** | |
| Inventories | 400 |
| Financial assets: | |
| Trade receivables | 750 |
| Cash and cash equivalents | 300 |
| Others | 630 |
| **Total** | **3,230** |
| **Equity and Liabilities** | |
| **Equity** | |
| Share capital- Equity shares of Rs. 100 each | 514 |
| Other Equity | 1128.62 |
| NCI | 154.95 |
| **Non-Current liabilities:** | |
| Long term borrowings | 450 |
| Long term provisions (50+70+28.93) | 148.93 |
| Deferred tax | 28.5 |
| **Current Liabilities:** | |
| Short term borrowings | 250 |
| Trade payables | 550 |
| Provision for Law suit damages | 5 |
| **Total** | **3230** |

**Notes:**

**a.** Fair value adjustment- As per Ind AS 103, the acquirer is required to record the assets and liabilities at their respective fair value. Accordingly, the PPE will be recorded at Rs. 350 lakhs.

**b.** The value of replacement award is allocated between consideration transferred and post combination expense. The portion attributable to purchase consideration is determined based on the fair value of the replacement award for the service rendered till the date of the acquisition. Accordingly, 2.5 (5 x 2/4) is considered as a part of purchase consideration and is credited to P Ltd equity as this will be settled in

its own equity. The balance of 2.5 will be recorded as employee expense in the books of D Ltd. over the remaining life, which is 1 year in this scenario.

c. There is a difference between contingent consideration and deferred consideration. In the given case 35 is the minimum payment to be paid after 2 years and accordingly will be considered as deferred consideration. The other element is if a company meets a certain target then they will get 25% of that or 35 whichever is higher. In the given case since the minimum what is expected to be paid the fair value of the contingent consideration has been considered as zero. The impact of time value on deferred consideration has been given @ 10%.

d. The additional consideration of Rs. 20 lakhs to be paid to the founder shareholder is contingent to him/her continuing in employment and hence this will be considered as employee compensation and will be recorded as post combination expenses in the income statement of D Ltd.

**Working for Purchase consideration Rs. in lakhs**

| Particulars | | Amount |
|---|---|---|
| Share capital of D Ltd | | 400,00,000 |
| Number of shares | 4,00,000 | |
| Shares to be issued 2:1 | 2,00,000 | |
| Fair value per share | | 40 |
| PC (2,00,000 x 70% x Rs. 40 per share) **(A)** | | 56.00 |
| Deferred consideration after discounting Rs. 35 lakhs for 2 years @ 10% **(B)** | | 28.93 |
| Replacement award Market based measure of the acquiree award (5) x ratio of the portion of the vesting period completed (2) / greater of the total vesting period (3) or the original vesting period (4) of the acquiree award ie (5 x 2 / 4) **(C)** | | 2.50 |
| **PC in lakhs (A+B+C)** | | **87.43** |

**Purchase price allocation workings**

| Particulars | Book value (A) | Fair value (B) | FV adjustment (A-B) |
|---|---|---|---|
| Property, plant and equipment | 500 | 350 | (150) |
| Investment | 100 | 100 | - |
| Inventories | 150 | 150 | - |
| Financial assets: | | - | |
| Trade receivables | 300 | 300 | - |
| Cash and cash equivalents | 100 | 100 | - |
| Others | 230 | 230 | |
| Less: Long term borrowings | (200) | (200) | - |
| Long term provisions | | | - |

| | | | |
|---|---|---|---|
| Deferred tax | (70) | (70) | - |
| Short term borrowings | (35) | (35) | - |
| Trade payables | (150) | (150) | - |
| Contingent liability | (300) | (300) | |
| Net assets (X) | - | (5) | (5) |
| Deferred tax Asset on FV adjustment (155 x | 625 | 470 | (155) |
| 30%) (Y) | | 46.50 | 155 |
| Net assets (X+Y) | | | |
| Non-controlling interest (516.50 x 30%) rounded | | 516.5 | |
| off | | 154.95 | |
| Capital Reserve (Net assets – NCI – PC) | | 274.12 | |
| **Purchase consideration (PC)** | | **87.43** | |

## Consolidation workings

| | P Ltd. | D Ltd. (pre-acquisition) | PPA Allocation | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| **Non-Current Assets:** | | | | |
| Property, plant and equipment | 300 | 500 | (150) | 650 |
| Investment | 400 | 100 | | 500 |
| **Current assets:** | | | | |
| Inventories | 250 | 150 | | 400 |
| Financial assets: | | | | |
| Trade receivables | 450 | 300 | | 750 |
| Cash and cash equivalents | 200 | 100 | | 300 |
| Others | 400 | 230 | | 630 |
| **Total** | **2,000** | **1,380** | (150) | **3,230** |
| **Equity and Liabilities** | | | | |
| **Equity** | | | | |
| Share capital- Equity shares of Rs. 100 each | 500 | | | |
| Shares allotted to D Ltd. (2,00,000 x 70% x Rs. 10 per share) | | | 14 | 514 |
| Other Equity | 810 | | 318.62 | 1128.62 |
| **Non-controlling interest** | 0 | | 154.95 | 154.95 |
| **Non-Current liabilities:** | | | | |
| Long term borrowings | 250 | 200 | | 450 |
| Long term provisions | 50 | 70 | 28.93* | 148.93 |
| Deferred tax | 40 | 35 | (46.5) | 28.5 |
| **Current Liabilities:** | | | | |
| Short term borrowings | 100 | 150 | | 250 |
| Trade payable | 250 | 300 | 0 | 550 |
| Liability for lawsuit damages | | | 5 | 5 |
| **Total** | **2,000** | **755** | **475** | **3,230** |
| **Other Equity** | | | | |

|  |  |  |  |  |
|---|---|---|---|---|
| Other Equity | 810 |  |  | 810 |
| Replacement award |  |  | 2.5 | 2.5 |
| Security premium Reserve |  |  |  |  |
| (2,00,000 shares x 70% x Rs.30) |  |  | 42 | 42 |
| Capital Reserve |  |  | 274.12 | 274.12 |
|  | **810** |  | **318.62** | **1,128.62** |

*28.93 is the deferred consideration

## Q17. (April 19 – 6 Marks)

A parent purchased an 80% interest in a subsidiary for Rs. 1,60,000 on 1 April 20X1 when the fair value of the subsidiary's net assets was Rs. 1,75,000. Goodwill of Rs. 20,000 arose on consolidation under the partial goodwill method. An impairment of goodwill of Rs. 8,000 was charged in the consolidated financial statements to 31 March 20X3. No other impairment charges have been recorded. The parent sold its investment in the subsidiary on 31 March 20X4 for Rs. 2,00,000. The book value of the subsidiary's net assets in the consolidated financial statements on the date of the sale was Rs. 2,25,000 (not including goodwill of Rs. 12,000).

When the subsidiary met the criteria to be classified as held for sale under Ind AS 105, no write down was required because the expected fair value less cost to sell (of 100% of the subsidiary) was greater than the carrying value.

The parent carried the investment in the subsidiary at cost, as permitted by Ind AS 27.

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

## SOLUTION

The parent's separate statement of profit and loss for 20X3-20X4 would show a gain on the sale of investment of Rs. 40,000 calculated as follow:

|  | **Rs. '000** |
|---|---|
| Sale proceeds | 200 |
| Less: Cost of investment in subsidiary | (160) |
| **Gain on sale in parent's account** | **40** |

However, the group's statement of profit & loss for 20X3-20X4 would show a gain on the sale of subsidiary of Rs. 8,000 calculated as follows:

|  | **Rs.'000** | **Rs. '000** |
|---|---|---|
| Sale proceeds |  | 200 |
| Less: share of net assets at date of disposal (Rs. 2,25,000 X 80%) | (180) |  |
| Goodwill on consolidation at date of sale (W.N 1) | (12) |  |
|  |  | (192) |
| **Gain on sale in the group's account** |  | **8** |

**Working Note**

The goodwill on consolidation (assuming partial goodwill method) is calculated as follows:

|  |  |
|---|---|
| Fair value of consideration at the date of acquisition | 160 |

| | |
|---|---|
| Non- controlling interest measured at proportionate share of the acquiree's identifiable net assets (1,75,000 X 20%) | 35 |
| Less: fair value of net assets of subsidiary at date of acquisition | (175) |
| **Goodwill arising on consolidation** | **20** |
| Impairment at 31-03-20x3 | (8) |
| Goodwill at 31-03-20x4 | 12 |

## Q18. (October 19 – 5 Marks)

Sumeru Limited holds 35% of total equity shares of Meru Limited, an associate company. The value of Investments in Meru Limited on March 31, 20X1 is Rs. 3 crores in the consolidated financial statements of Sumeru Limited.

Sumeru Limited sold goods worth Rs. 3,50,000 to Meru Limited. The cost of goods sold. is Rs. 3,00,000. Out of these, goods costing Rs. 1,00,000 to Meru Limited were in the closing stock of Meru Limited.

During the year ended March 31, 20X2 the profit and loss statement of Meru Limited showed a loss of Rs. 1 crore.

**A.** What is the value of investment in Meru Limited as on March 31, 20X2 in the consolidated financial statements of Sumeru Limited, if an equity method is adopted for valuing the investments in associates?

**B.** Would your answer be different if Meru Limited had earned a profit of Rs. 1.50 crores and declared a dividend of Rs. 75 lacs to the equity shareholders of the Company?

## SOLUTION

### Case A:

| Particulars | Amount |
|---|---|
| Investments | 3,00,00,000 |
| Less: Share in Loss | (35,00,000) |
| Less: Investor's Share in unrealised Profit (14286x35%) | (5,000) |
| | **2,64,95,000** |

### Case 2:

| Particulars | Amount |
|---|---|
| Investments | 3,00,00,000 |
| Add: Post acq. Share in Profit | (52,50,000) |
| Less: Dividend Received | (26,25,000) |
| Less: Investor's Share in unrealised Profit (14286x35%) | (5,000) |
| | **3,26,20,000** |

## Q19. (May 20 – 16 Marks)

Prepare the Consolidated Balance Sheet as on 31st March, 20X2 of a group of companies comprising P Limited, S Limited and SS Limited. Their balance sheets on that date are given below:

**Rs. in lakhs**

| | P Ltd. | S Ltd. | SS Ltd. |
|---|---|---|---|
| **Assets** | | | |
| Non-Current Assets | | | |
| Property, Plant and Equipment Investment : | 320 | 360 | 300 |
| 16 lakhs shares in S Ltd. | 340 | | |
| 12 Lakhs shares in SS Ltd. | | 280 | |
| Current Assets | | | |
| Inventories | 220 | 70 | 50 |
| Financial Assets | | | |
| Trade Receivables | 260 | 100 | 220 |
| Bills Receivable | 72 | - | 30 |
| Cash in hand and at Bank | 228 | 40 | 40 |
| **Total** | **1440** | **850** | **640** |
| **Equity and Liabilities** | | | |
| Shareholder's Equity | | | |
| Share capital (Rs. 10 per Share) | 600 | 400 | 320 |
| Other Equity | | | |
| Reserves | 180 | 100 | 80 |
| Retained earnings | 160 | 50 | 60 |
| Current Liabilities | | | |
| Financial Liabilities | | | |
| Trade Payables | 470 | 230 | 180 |
| Bills Payable | | | |
| P Ltd. | | 70 | |
| SS Ltd. | 30 | | |
| **Total** | **1440** | **850** | **640** |

The following additional information is available:

**(i)** P Ltd. holds 80% shares in S Ltd. and S Ltd. holds 75% shares in SS Ltd. Their holdings were acquired on 30th September, 20X1.

**(ii)** The business activities of all the companies are not seasonal in nature and therefore, it can be assumed that profits are earned evenly throughout the year.

**(iii)** On 1st April, 20X1 the following balances stood in the books of S Limited and SS Limited.

**Rs. in lakhs**

| | S Limited | SS Limited |
|---|---|---|
| Reserves | 80 | 60 |
| Retained earnings | 20 | 30 |

**(iv)** Rs. 10 lakhs included in the inventory figure of S Limited, is inventory which has been purchased from SS Limited at cost plus 25%. The sale of goods by SS Ltd. is done after acquisition of shares by S Ltd.

The parent company has adopted an accounting policy to measure non-controlling interest at fair value (quoted market price) applying Ind AS 103. Assume market prices of S Limited and SS Limited are the same as respective face values.

## SOLUTION

### (a) Consolidated Balance Sheet of the Group as on 31st March, 20X2

| Particulars | Note No. | (Rs. in lakh) |
|---|---|---|
| **ASSETS**<br>Non-current assets | | |
| Property, plant and equipment | 1 | 980 |
| Current assets | | |
| (a) Inventory | 2 | 338 |
| (b) Financial assets | | |
| Trade receivables | 3 | 580 |
| Bills receivable | 4 | 2 |
| Cash and cash equivalents | 5 | 308 |
| **Total assets** | | **2,208** |
| **EQUITY & LIABILITIES** | | |
| Equity attributable to owners of the parent | | |
| Share capital | | 600 |
| Other Equity | | |
| Reserves (W.N.5) | | 194 |
| Retained Earnings (W.N.5) | | 179.8 |
| Capital Reserve (W.N.3) | | 188 |
| Non-controlling interests (W.N.4) | | 166.2 |
| **Total equity** | | **1,328** |
| **LIABILITIES**<br>Non-current liabilities | | Nil |
| Current liabilities | | |
| (a) Financial Liabilities | | |
| (b) Trade payables | 6 | 880 |
| Total liabilities | | 880 |
| **Total equity and liabilities** | | **2,208** |

**Notes to Accounts** **(Rs. in lakh)**

| | | | |
|---|---|---|---|
| 1. | Property, Plant & Equipment | | |
| | P Ltd. | 320 | |
| | S Ltd. | 360 | |
| | SS Ltd. | 300 | 980 |
| 2. | Inventories | | |
| | P Ltd. | 220 | |
| | S Ltd. (70-2) | 68 | |
| | SS Ltd. | 50 | 338 |
| 3. | Trade Receivables | | |

| | P Ltd. | 260 | |
|---|---|---|---|
| | S Ltd. | 100 | |
| | SS Ltd. | 220 | 580 |
| 4. | Bills Receivable | | |
| | P Ltd. (72-70) | 2 | |
| | SS Ltd. (30-30) | - | 2 |
| 5. | Cash & Cash equivalents | | |
| | P Ltd. | 228 | |
| | S Ltd. | 40 | |
| | SS Ltd. | 40 | 308 |
| 6. | Trade Payables<br>P Ltd.<br>S Ltd.<br>SS Ltd. | <br>470<br>230<br>180 | <br><br><br>880 |

**Working Notes:**

1. Analysis of Reserves and Surplus (Rs. in lakh)

| | | S Ltd. | | SS Ltd. |
|---|---|---|---|---|
| Reserves as on 31.3.20X1 | | 80 | | 60 |
| Increase during the year 20X1-20X2 | 20 | | 20 | |
| Increase for the half year till 30.9.20X1 | | 10 | | 10 |
| Balance as on 30.9.20X1 (A) | | 90 | | 70 |
| Total balance as on 31.3.20X2 | | 100 | | 80 |
| Post-acquisition balance | | 10 | | 10 |

| | | S Ltd. | | SS Ltd. |
|---|---|---|---|---|
| Retained Earnings as on 31.3.20X1 | | 20 | | 30 |
| Increase during the year 20X1-20X2 | 30 | | 30 | |
| Increase for the half year till 30.9.20X1 | | 15 | | 15 |
| Balance as on 30.9.20X1 (B) | | 35 | | 45 |
| Total balance as on 31.3.20X2 | | 50 | | 60 |
| Post-acquisition balance | | 15 | | 15 |
| Less: Unrealised Gain on inventories (10 x 25%) | | - | | (2) |
| Post-acquisition balance for CFS | | 15 | | 13 |
| Total balance on the acquisition date ie.30.9.20X1 (A+B) | | 125 | | 115 |

2. **Calculation of Effective Interest** of P Ltd. in SS Ltd. Acquisition by P Ltd. in S Ltd. = 80%

   Acquisition by S Ltd. in SS Ltd. = 75%

   Acquisition by Group in SS Ltd. (80% x 75%) = 60%

   Non-controlling Interest = 40%

### 3. Calculation of Goodwill / Capital Reserve on the acquisition date

| | **S Ltd.** | **SS Ltd.** |
|---|---|---|
| Investment or consideration | 340 | (280 × 80%) 224 |
| Add: NCI at Fair value | | |
| (400 x 20%) | 80 | |
| (320 x 40%) | | 128 |
| | **420** | **352** |
| Less: Identifiable net assets (Share capital + Increase in the Reserves and Surplus till acquisition date) | (400+125) (525) | (320+115) (435) |
| Capital Reserve | 105 | 83 |
| Total Capital Reserve (105 + 83) | **188** | |

### 4. Calculation of Non-Controlling Interest

| | S Ltd. | SS Ltd. |
|---|---|---|
| At Fair Value (See Note 3) | 80 | 128 |
| Add: Post Acquisition Reserves (See Note 1) | (10× 20%) 2 | (10× 40%) 4 |
| Add: Post Acquisition Retained Earnings (See Note 1) | (15× 20%) 3 | (13× 40%) 5.2 |
| Less: NCI share of investment in SS Ltd. | (280x20%) (56)* | |
| | 29 | 137.2 |
| **Total (29+ 137.2)** | **166.2** | |

### 5. Calculation of Consolidated Other Equity

| | **Reserves** | **Retained Earnings** |
|---|---|---|
| P Ltd. | 180 | 160 |
| Add: Share in S Ltd. | (10 x 80%) 8 | (15× 80%) 12 |
| Add: Share in SS Ltd. | (10× 60%) 6 | (13× 60%) 7.8 |
| | **194** | **179.8** |

## Q20. (Oct 20 – 16 Marks)

Summarised Balance Sheets of PN Ltd. and SR Ltd. as on 31 March 2020 were given as below:

**(Amount in Rs)**

| **Particulars** | **PN Ltd.** | **SR Ltd.** |
|---|---|---|
| **Assets** | | |
| Land & building | 4,68,000 | 5,61,600 |
| Plant & Machinery | 7,48,800 | 4,21,200 |
| Investment in SR Ltd. | 12,48,000 | - |
| Inventories | 3,74,400 | 1,13,600 |
| Trade Receivables | 1,86,500 | 1,24,800 |
| Cash & Cash equivalents | 45,200 | 24,900 |
| | **30,70,900** | **12,46,100** |

| Total Assets | | |
|---|---|---|
| **Equity & Liabilities** | | |
| Equity Share Capital (Shares of Rs 100) | 15,60,000 | 6,24,000 |
| Other Reserves | 9,36,000 | 3,12,000 |
| Retained Earnings | 1,78,400 | 2,55,800 |
| Trade Payables | 1,46,900 | 34,300 |
| Short-term borrowings | 2,49,600 | 20,000 |
| **Total Equity & Liabilities** | **30,70,900** | **12,46,100** |

**(i)** PN Ltd. acquired 70% equity shares of Rs 100 each of SR Ltd. on 1 October 2019.

**(ii)** The Retained Earnings of SR Ltd. showed a credit balance of Rs 93,600 on 1 April 2017 out of which a dividend of 12% was paid on 15 December 2019.

**(iii)** PN Ltd. has credited the dividend received to its Retained Earnings.

**(iv)** Fair value of Plant & Machinery of SR Ltd. as on 1 October 2019 was Rs 6,24,000. The rate of depreciation on Plant & Machinery was 10% p.a.

**(v)** Following are the increases on comparison of Fair Value as per respective Ind AS with book value as on 1 October 2019 of SR Ltd. which are to be considered while consolidating the Balance Sheets:

**(a)** Land & Buildings Rs 3,12,000

**(b)** Inventories Rs 46,800

**(c)** Trade Payables Rs 31,200.

**(vi)** The inventory is still unsold on Balance Sheet date and the Trade Payables are not yet settled.

**(vii)** Other Reserves as on 31 March 2020 are the same as was on 1 April 2019.

**(viii)** The business activities of both the companies are not seasonal in nature and therefore, it can be assumed that profits are earned evenly throughout the year.

Prepare the Consolidated Balance Sheet as on 31 March 2020 of the group of entities PN Ltd. and SR Ltd.

## SOLUTION

**Consolidated Balance Sheet of PN Ltd. and its subsidiary SR Ltd. as on 31 March 2020**

| Particulars | Note No. | Rs |
|---|---|---|
| **I.** **Assets** | | |
| **(1)** Non-current assets | | |
| **(i)** Property, Plant & Equipment | 1 | 26,83,200 |
| **(ii)** Goodwill | 2 | 89,402 |
| **(2)** Current Assets | | |
| **(i)** Inventories | 3 | 5,34,800 |
| **(ii)** Financial Assets | | |
| **(a)** Trade Receivables | 4 | 3,11,300 |
| **(b)** Cash & Cash equivalents | 5 | 70,100 |
| **Total Assets** | | **36,88,802** |
| **II.** **Equity and Liabilities** | | |
| **(1)** Equity | | |
| **(i)** Equity Share Capital | 6 | 15,60,000 |
| **(ii)** Other Equity | 7 | 11,39,502 |
| **(2)** Non-controlling Interest (W.N.3) | | 5,07,300 |
| **(3)** Current Liabilities | | |

| | | |
|---|---|---|
| **(i)** Financial Liabilities | | |
| **(a)** Trade Payables | 8 | 2,12,400 |
| **(b)** Short term borrowings | 9 | 2,69,600 |
| **Total Equity & Liabilities** | | **36,88,802** |

**Notes to accounts**

| | | | Rs |
|---|---|---|---|
| 1. | Property, Plant & Equipment | | |
| | Land & Building (4,68,000 + 5,61,600 + 3,12,000) | 13,41,600 | |
| | Plant & Machinery (W.N.5) | 13,41,600 | 26,83,200 |
| 2. | Goodwill (W.N.4) | | 89,402 |
| 3. | Inventories | | |
| | PN Ltd. | 3,74,400 | |
| | SR Ltd. (1,13,600 +46,800) | 1,60,400 | 5,34,800 |
| 4. | Trade Receivables | | |
| | PN Ltd. | 1,86,500 | |
| | SR Ltd. | 1,24,800 | 3,11,300 |
| 5. | Cash & Cash equivalents | | |
| | PN Ltd. | 45,200 | |
| | SR Ltd. | 24,900 | 70,100 |
| 8. | Trade Payables | | |
| | PN Ltd. | 1,46,900 | |
| | SR Ltd. (34,300 + 31,200) | 65,500 | 2,12,400 |
| 9. | Short-term borrowings | | |
| | PN Ltd. SR Ltd. | 2,49,600 | |
| | | 20,000 | 2,69,600 |

***Statement of Changes in Equity:***

**6. Equity share Capital**

| Balance at the beginning of the reporting period Rs | Changes in Equity share capital during the year Rs | Balance at the end of the reporting period Rs |
|---|---|---|
| 15,60,000 | 0 | 15,60,000 |

**7. Other Equity**

| | Reserves & Surplus | | | Total |
|---|---|---|---|---|
| | Capital reserve Rs | Retained Earnings Rs | Other Reserves Rs | Rs |
| Balance at the beginning of the reporting period | | 0 | 9,36,000 | 9,36,000 |
| Total comprehensive income for the year | 0 | 1,78,400 | | 1,78,400 |
| Dividends | 0 | (52,416) | | (52,416) |

| Total comprehensive income attributable to parent (W.N.2) | 0 | 77,518 | | 77,518 |
|---|---|---|---|---|
| Gain on Bargain purchase | | 0 | | 0 |
| **Balance at the end of reporting period** | | **2,03,502** | **9,36,000** | **11,39,502** |

**Working Notes:**

1. **Adjustments of Fair Value**

The Plant & Machinery of SR Ltd. would stand in the books at Rs 4,44,600 on 1 October 2019, considering only six months' depreciation on Rs 4,21,200/90% = 4,68,000;

total depreciation being Rs 4,68,000 ×10% × 6/12 = 23,400.

Being the fair value of the asset Rs 6,24,000 there is an appreciation to the extent of Rs 1,79,400 (Rs 6,24,000 – Rs 4,44,600).

| **Acquisition date profits of SR Ltd.** | **Rs** |
|---|---|
| Reserves on 1.4.2019 | 3,12,000 |
| Profit& Loss Account Balance on 1.4.2019 | 93,600 |
| Profit for 2019-2020: Total [Rs 2,55,800 - (93,600 - 74,880) ]x 6/12 | |
| i.e. Rs 1,18,540 up to 1.10.2019 | 1,18,540 |
| Total Appreciation | 5,07,000* |
| **Total** | **10,31,140** |
| Holding Co. Share (70%) | 7,21,798 |
| NCI | **3,09,342** |

*Appreciation = Land & Building Rs 3,12,000 + Inventories Rs 46,800+ Plant & Machinery Rs 1,79,400 –Trade Payables (Rs 31,200) = Rs 5,07,000

2. **Post-acquisition profits of SR Ltd.**

| | **Rs** |
|---|---|
| Profit after 1.10.2019 [2,55,800 - (93,600-74,880)] x 6/12 | 1,18,540 |
| Less: 10% depreciation on Rs6,24,000 for 6 months less depreciation already charged for 2nd half of 2019-2020 on Rs4,68,800 (ie 31,200-23,400) | (7,800) |
| **Total** | **1,10,740** |
| Share of holding Co. (70%) | 77,518 |
| Share of NCI (30%) | 33,222 |

3. **Non-controlling Interest**

| | |
|---|---|
| Par value of 1872 shares | 1,87,200 |
| Add:30% Acquisition date profits [(10,31,140 – 74,880) x 30%] | 2,86,878 |
| 30% Post-acquisition profits [W.N.2] | 33,222 |
| | **5,07,300** |

4. **Goodwill**

| | | **Rs** |
|---|---|---|
| Amount paid for 4,368 shares | | 12,48,000 |
| Less : Par value of shares | 4,36,800 | |
| Acquisition date profits-share of PN Ltd. (W.N.1) | 7,21,798 | (11,58,598) |
| **Goodwill** | | **89,402** |

**5. Value of Plant & Machinery:** Rs

| | | |
|---|---|---|
| PN Ltd. | | 7,48,800 |
| SR Ltd. | 4,21,200 | |
| Add: Appreciation on 1.10.2019 | 1,79,400 | |
| | 6,00,600 | |
| Add: Depreciation for 2nd half charged on pre-revalued value | 23,400 | |
| Less: Depreciation on Rs 6,24,000 for 6 months | (31,200) | 5,92,800 |
| | | **13,41,600** |

**6. Consolidated Profit & Loss account** Rs

| | | |
|---|---|---|
| PN Ltd. (as given) | 1,78,400 | |
| Less: Dividend | (52,416) | 1,25,984 |
| Share of PN Ltd. in post-acquisition profits (W.N.2) | | 77,518 |
| | | **2,03,502** |

## Q21. (March 21 – 14 Marks)

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

| | DEF Ltd. | XYZ Ltd. |
|---|---|---|
| **Assets** | | |
| Property Plant Equipment | | |
| Land & Buildings | 15,00,000 | 18,00,000 |
| Plant & Machinery | 24,00,000 | 13,50,000 |
| Investment in XYZ Ltd. | 34,00,000 | - |
| Inventory | 12,00,000 | 3,64,000 |
| Financial Assets | | |
| Trade Receivable | 5,98,000 | 4,00,000 |
| Cash | 1,45,000 | 80,000 |
| **Total** | **92,43,000** | **39,94,000** |
| **Equity & Liabilities** | | |
| Equity Capital (Shares of Rs. 100 each fully paid) | 50,00,000 | 20,00,000 |
| Other Equity | | |
| Other reserves | 24,00,000 | 10,00,000 |
| Retained Earnings | 5,72,000 | 8,20,000 |
| Financial Liabilities | | |
| Bank Overdraft | 8,00,000 | - |
| Trade Payable | 4,71,000 | 1,74,000 |
| **Total** | **92,43,000** | **39,94,000** |

The retained earnings of XYZ Ltd. showed a credit balance of Rs. 3,00,000 on 1st April 20X1 out of which a dividend of 10% was paid on 1st November; 20X1 DEF Ltd. has recognised the dividend received to profit or loss account; Fair Value of Plant & Machinery as on 1st October 20X1 was Rs. 20,00,000. The rate of depreciation on plant & machinery is 10%.

Following are the increases on comparison of Fair value as per respective Ind AS with Book value as on 1st October 20X1 which are to be considered while consolidating the Balance Sheets.

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

**Notes:**

1. It may be assumed that the inventory is still unsold on balance sheet date and the Trade Payables are also not yet settled.
2. Also assume that the Other Reserves of both the companies as on 31st March 20X2 are the same as was on 1st April 20X1.
3. All fair value adjustments have not yet started impacting consolidated post-acquisition profits.
4. Investment in XYZ Ltd is carried at cost in the separate financial statements of DEF Ltd.
5. Appreciation of Rs.10 lakhs in land & buildings is entirely attributable to land element only.
6. Depreciation on plant and machinery is on WDV method.
7. Acquisition-date fair value adjustment to inventories of XYZ Ltd. existing at the balance sheet date does not result in need for any write-down.

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

## SOLUTION

**Consolidated Balance Sheet of DEF Ltd. and its subsidiary, XYZ Ltd. as on 31st March, 20X2**

| Particulars | Note No. | Rs. |
|---|---|---|
| I. **Assets** | | |
| (1) Non-current assets | | |
| (i) Property Plant & Equipment | 1 | 86,00,000 |
| (2) Current Assets | | |
| (i) Inventories | 2 | 17,14,000 |
| (ii) Financial Assets | | |
| (a) Trade Receivables | 3 | 9,98,000 |
| (b) Cash & Cash equivalents | 4 | 2,25,000 |
| **Total Assets** | | **1,15,37,000** |
| II. Equity and Liabilities | | |
| (1) Equity | | |
| (i) Equity Share Capital | 5 | 50,00,000 |
| (ii) Other Equity | 6 | 49,92,000 |
| (2) Current Liabilities | | |
| (i) Financial Liabilities | | |
| (a) Trade Payables | 7 | 7,45,000 |
| (b) Short term borrowings | 8 | 8,00,000 |
| **Total Equity & Liabilities** | | **1,15,37,000** |

**Notes to Accounts**

| | | | Rs |
|---|---|---|---|
| 1. | Property Plant & Equipment | | |
| | Land & Building | 43,00,000 | |
| | Plant & Machinery (W.N. 7) | 43,00,000 | 86,00,000 |
| 2. | Inventories | | |

| | | | |
|---|---|---|---|
| | DEF Ltd. | 12,00,000 | |
| | XYZ Ltd. | 5,14,000 | 17,14,000 |
| 3. | Trade Receivables | | |
| | DEF Ltd. | 5,98,000 | |
| | XYZ Ltd. | 4,00,000 | 9,98,000 |
| 4. | Cash & Cash equivalents | | |
| | DEF Ltd. | 1,45,000 | |
| | XYZ Ltd. | 80,000 | 2,25,000 |
| 7. | Trade payable | | |
| | DEF Ltd. | 4,71,000 | |
| | XYZ Ltd. | 2,74,000 | 7,45,000 |
| 8. | Shorter-term borrowings | | |
| | Bank overdraft | | 8,00,000 |

## ***Statement of Changes in Equity:***

### Equity share Capital

| Balance at the beginning of the reporting period | Changes in Equity share capital during the year | Balance at the end of the reporting period |
|---|---|---|
| 50,00,000 | 0 | 50,00,000 |

### Other Equity

| | Share application money pending allotment | Equity component of compound financial instrument | Reserves & Surplus | | | Total |
|---|---|---|---|---|---|---|
| | | | Capital reserve | Retained Earnings | Other Reserves | |
| Balance at the beginning | | | | 0 | 24,00,000 | 24,00,000 |
| Total comprehensive income for the year | | | 0 | 5,72,000 | | 5,72,000 |
| Dividends | | | 0 | (2,00,000) | | (2,00,000) |
| Total comprehensive income attributable to parent | | | 0 | 3,35,000 | | 3,35,000 |
| Gain on Bargain purchase | | | 18,85,000 | | | 18,85,000 |
| Balance at the end of reporting period | | | **18,85,000** | **7,07,000** | **24,00,000** | **49,92,000** |

*It is assumed that there exists no clear evidence for classifying the acquisition of the subsidiary as a bargain purchase and, hence, the bargain purchase gain has been recognized directly in capital reserve. If, however, there exists such a clear evidence, the bargain purchase gain would be recognized in other comprehensive income and then accumulated in capital reserve. In both the cases, closing balance of capital reserve will be Rs. 18,85,000.*

**Working Notes:**

**Adjustments of Fair Value**

The Plant & Machinery of XYZ Ltd. would stand in the books at Rs. 14,25,000 on 1st October, 20X1, considering only six months' depreciation on Rs. 15,00,000 total depreciation being Rs. 1,50,000. The value put on the assets being Rs. 20,00,000 there is an appreciation to the extent of Rs. 5,75,000.

**Acquisition date profits of XYZ Ltd. Rs.**

| | |
|---|---|
| Reserves on 1.4. 20X1 | 10,00,000 |
| Profit & Loss Account Balance on 1.4. 20X1 | 3,00,000 |
| Profit for 20X2: Total Rs. 8,20,000 less Rs. 1,00,000 (3,00,000 – 2,00,000) i.e. Rs. 7,20,000; for 6 months i.e. up to 1.10.20X1 | 3,60,000 |
| Total Appreciation including machinery appreciation (10,00,000 1,50,000 + 5,75,000 – 1,00,000) | 16,25,000 |
| **Share of DEF Ltd.** | **32,85,000** |

**Post-acquisition profits of XYZ Ltd. Rs.**

| | |
|---|---|
| Profit after 1.10. 20X1 [8,20,000-1,00,000]x 6/12 | 3,60,000 |
| Less: 10% depreciation on Rs. 20,00,000 for 6 months less depreciation already charged for 2nd half of 20X1-20X2 on Rs. 15,00,000 (1,00,000-75,000) | (25,000) |
| **Share of DEF Ltd.** | **3,35,000** |

**Consolidated total comprehensive income Rs.**

| | |
|---|---|
| DEF Ltd. | |
| Retained earnings on 31.3.20X2 | 5,72,000 |
| Less: Retained earnings as on 1.4.20X1 Profits for the year 20X1-20X2 | (0)<br>**5,72,000** |
| Less: Elimination of intra-group dividend | (2,00,000) |
| **Adjusted profit for the year** | **3,72,000** |
| XYZ Ltd. | |
| Adjusted profit attributable to DEF Ltd. (W.N.3) | 3,35,000 |
| Consolidated profit or loss for the year | 7,07,000 |

No Non-controlling Interest as 100% shares of XYZ Ltd. are held by DEF Ltd.

**Gain on Bargain Purchase Rs.**

| | | |
|---|---|---|
| Amount paid for 20,000 shares | | 34,00,000 |
| Par value of shares | 20,00,000 | |
| DEF Ltd.'s share in acquisition date profits of XYZ Ltd. | 32,85,000 | (52,85,000) |
| **Gain on Bargain Purchase** | | **18,85,000** |

**Value of Plant & Machinery Rs.**

| | | |
|---|---|---|
| DEF Ltd. XYZ Ltd. | | 24,00,000 |
| Add: Appreciation on 1.10. 20X1 | 13,50,000<br>5,75,000 | |

| | | |
|---|---|---|
| Add: Depreciation for 2nd half charged on pre- revalued value | 19,25,000<br>75,000 | |
| Less: Depreciation on Rs. 20,00,000 for 6 months | (1,00,000) | 19,00,000 |
| | | **43,00,000** |

**Consolidated retained earnings Rs.**

| **Particulars** | **DEF Ltd.** | **XYZ Ltd.** | **Total** |
|---|---|---|---|
| As given | 5,72,000 | 8,20,000 | 13,92,000 |
| Consolidation adjustments: | | | |
| (i) elimination of pre-acquisition element (3,00,000 + 3,60,000) | 0 | (6,60,000) | (6,60,000) |
| (ii) elimination of intra-group dividend | (2,00,000) | 2,00,000 | 0 |
| (iii) impact of fair value adjustments | 0 | (25,000) | (25,000) |
| Adjusted retained earnings consolidated | 3,72,000 | 3,35,000 | 7,07,000 |

## Q22. (March 21 – 10 Marks)

Enterprise Ltd. has 2 divisions: Laptops and Mobiles. Division Laptops has been making constant profits while division Mobiles has been invariably suffering losses.

On 31st March, 20X2, the division-wise draft extract of the Balance Sheet was:

**(Rs. in crores)**

| | **Laptops** | **Mobiles** | **Total** |
|---|---|---|---|
| Property, Plant and Equipment cost | 250 | 500 | 750 |
| Depreciation | (225) | (400) | (625) |
| Net Property, Plant and Equipment (A) | 25 | 100 | 125 |
| Current assets: | 200 | 500 | 700 |
| Less: Current liabilities (B) | (25) | (400) | (425) |
| | 175 | 100 | 275 |
| **Total (A+B)** | **200** | **200** | **400** |
| Financed by: | | | |
| Loan funds | - | 300 | 300 |
| Capital : Equity Rs. 10 each | 25 | - | 25 |
| Surplus | 175 | (100) | 75 |
| | **200** | **200** | **400** |

Division Mobiles along with its assets and liabilities was sold for Rs. 25 crores to Turnaround Ltd. a new company, who allotted 1 crore equity shares of Rs. 10 each at a premium of Rs. 15 per share to the members of Enterprise Ltd. in full settlement of the consideration, in proportion to their shareholding in the company. One of the members of the Enterprise Ltd. was holding 52% shareholding of the Company.

Assuming that there are no other transactions, you are asked to:

**(i)** Pass journal entries in the books of Enterprise Ltd.

**(ii)** Prepare the Balance Sheet of Enterprise Ltd. after the entries in (i).

**(iii)** Prepare the Balance Sheet of Turnaround Ltd.

**SOLUTION:** **Journal of Enterprise Ltd.**

**(Rs. in crores)**

| | | | Dr. | Cr. |
|---|---|---|---|---|
| (1) | Loan Funds | Dr. | 300 | |
| | Current Liabilities | Dr. | 400 | |
| | Provision for Depreciation | Dr. | 400 | |
| | To Property, Plant and Equipment | | | 500 |
| | To Current Assets | | | 500 |
| | To Capital Reserve - profit on sale of division | | | 100 |
| | (Being division Mobiles along with its assets and liabilities sold to Turnaround Ltd. for Rs. 25 crores) | | | |

**Notes:**

*Any other alternative set of entries, with the same net effect on various accounts, may be given by the students.*

*In the given scenario, this demerger will meet the definition of common control transaction. Accordingly, the transfer of assets and liabilities will be derecognized and recognized as per book value and the resultant loss or gain will be recorded as capital reserve in the books of demerged entity (Enterprise Ltd).*

*Enterprise Ltd.*

**Balance Sheet after reconstruction** **(Rs. R in crores)**

| ASSETS | Note No. | Amount |
|---|---|---|
| Non-current assets | | |
| Property, Plant and Equipment | | 25 |
| Current assets | | |
| Other current assets | | 200 |
| | | **225** |
| **EQUITY AND LIABILITIES** | | |
| Equity | | |
| Equity share capital (of face value of Rs. 10 each) | | 25 |
| Other equity (Surplus) | | 175 |
| Liabilities | | |
| Current liabilities | | |
| Current liabilities | | 25 |
| | | **225** |

**Notes to Accounts**

| | | (Rs. in crores) |
|---|---|---|
| 1. | Other Equity | |
| | Surplus (175-100) | 75 |
| | Add: Capital Reserve on reconstruction | 100 |
| | | **175** |

**Notes to Accounts:** *Consequent on transfer of Division Mobiles to newly incorporated company Turnaround Ltd., the members of the company have been allotted 1 crore equity shares of Rs. 10 each at a premium of Rs.*

15 per share of Turnaround Ltd., in full settlement of the consideration in proportion to their shareholding in the company.

**Balance Sheet of Turnaround Ltd.** **(Rs. in crores)**

| **ASSETS** | **Note No.** | **Amount** |
|---|---|---|
| Non-current assets | | |
| Property, Plant and Equipment | | 100 |
| Current assets | | |
| Other current assets | | 500 |
| | | **600** |
| **EQUITY AND LIABILITIES** | | |
| Equity | | |
| Equity share capital (of face value of Rs. 10 each) | 1 | 10 |
| Other equity | 2 | (110) |
| Liabilities | | |
| Non-current liabilities | | |
| Financial liabilities | | |
| Borrowings | | 300 |
| Current liabilities | | |
| Current liabilities | | 400 |
| | | **600** |

**Notes to Accounts**

| | | **(Rs. in crores)** |
|---|---|---|
| 1. | Share Capital: | |
| | Issued and Paid-up capital | |
| | 1 crore Equity shares of Rs. 10 each fully paid up | 10 |
| | (All the above shares have been issued for consideration other than cash, to the members of Enterprise Ltd. on takeover of Division | |
| | Mobiles from Enterprise Ltd.) | |
| 2. | Other Equity: | |
| | Securities Premium | 15 |
| | Capital reserve [25- (600 – 700)] | (125) |
| | | **(110)** |

**Working Note:**

In the given case, since both the entities are under common control, this will be accounted as follows:

All assets and liabilities will be recorded at book value

Identity of reserves to be maintained.

No goodwill will be recorded.

Securities issued will be recorded as per the nominal value.

## QUESTIONS FROM PAST EXAM PAPERS

### Q23. (May 18 – 15 Marks) (Similar to Q20 & Q21)

Hold Limited acquired 100% ordinary shares of Rs 100 each of Sub Limited on 1st October, 2017. On 31st March, 2018 the summarized Balance Sheets of the two companies were as given below:

| Particulars | Hold Limited (Rs) | Sub Limited (Rs) |
|---|---|---|
| **I. Assets** | | |
| (1) Non-current Assets | | |
| (i) Property, Plant & Equipment<br>(a) Land & Building<br>(b) Plant & machinery | 30,00,000<br>48,00,000 | 36,00,000<br>27,00,000 |
| (ii) Investment in Sub Limited | 68,00,000 | |
| (2) Current Assets<br>(i) Inventory<br>(ii) Financial Assets<br>(a) Trade Receivables<br>(b) Cash & Cash Equivalents | 24,00,000<br>11,96,000<br>2,90,000 | 7,28,000<br>8,00,000<br>1,60,000 |
| **Total** | **1,84,86,000** | **79,88,000** |
| **II Equity and Liabilities** | | |
| (1) Equity<br>(i) Equity Share Capital (Shares of Rs 100 each fully paid) | 1,00,00,000 | 40,00,000 |
| (ii) Other Equity<br>(a) Other Reserves<br>(b) Retained Earnings | 48,00,000<br>11,44,000 | 20,00,000<br>16,40,000 |
| (2) Current Liabilities<br>Financial Liabilities<br>(a) Bank Overdraft<br>(b) Trade Payable | 16,00,000<br>9,42,000 | -<br>3,48,000 |
| **Total** | **1,84,86,000** | **79,88,000** |

The retained earnings of Sub Limited showed a credit balance of Rs 6,00,000 on 1st April, 2017 out of which a dividend of 10% was paid on 1st November 2017. Hold Limited has credited the dividend received to retained earnings account. There was no fresh addition to other reserves in case of both companies during the current financial year. There was no opening balance in the retained earnings in the books of Hold Limited.

Following are the changes in fair value as per respective Ind AS from the book value as on 1st October, 2017 in the books of Sub Limited which is to be considered while consolidating the Balance Sheets.

**(i)** Fair value of Plant and Machinery was Rs 40,00,000. (Rate of depreciation on Plant and Machinery is 10% p.a.)

**(ii)** Land and Building appreciated by Rs 20,00,000.

**(iii)** Inventories increased by Rs 3,00,000.

**(iv)** Trade payable increased by Rs 2,00,000.

Prepare Consolidated Balance Sheet as on 31st March, 2018. The Balance Sheet should comply with the relevant Ind AS and Schedule III of the Companies Act, 2013.

## SOLUTION

**Consolidated Balance Sheet of Hold Ltd. and its subsidiary, Sub Ltd. as on 31st March, 2018**

| Particulars | Note No. | Rs |
|---|---|---|
| **I. Assets** | | |
| (1) Non-current assets | | |
| Property, Plant & Equipment | 1 | 1,72,00,000 |
| (2) Current Assets | | |
| Inventories | 2 | 34,28,000 |
| Financial Assets | | |
| Trade Receivables | 3 | 19,96,000 |
| Cash & Cash equivalents | 4 | 4,50,000 |
| **Total Assets** | | **2,30,74,000** |
| **II. Equity and Liabilities** | | |
| (1) Equity | | |
| Equity Share Capital | 5 | 1,00,00,000 |
| Other Equity | 6 | 99,84,000 |
| (2) Current Liabilities | | |
| Financial Liabilities | | |
| Short term borrowings | 7 | 16,00,000 |
| Trade Payables | 8 | 14,90,000 |
| **Total Equity & Liabilities** | | **2,30,74,000** |

It may be noted that the consolidation adjustments in respect of tax effect, in particular, deferred tax effect of temporary differences associated with fair value adjustments, determined in accordance with Ind AS 12 'Income Taxes', will affect the above consolidated balance sheet.

**Notes to accounts**

| | | Rs | |
|---|---|---|---|
| **1.** | **Property Plant & Equipment** | | |
| Land & Building | | 86,00,000 | |
| Plant & Machinery | | 86,00,000 | 1,72,00,000 |
| **2.** | **Inventories** | | |
| Hold Ltd. | | 24,00,000 | |
| Sub Ltd. | | 10,28,000 | 34,28,000 |
| **3.** | **Trade Receivables** | | |
| Hold Ltd. | | 11,96,000 | |
| Sub Ltd. | | 8,00,000 | 19,96,000 |
| **4.** | **Cash & Cash equivalents** | | |
| Hold Ltd. | | 2,90,000 | |
| Sub Ltd. | | 1,60,000 | 4,50,000 |
| **7.** | **Short-term borrowings** | | |
| Bank overdraft of Hold Ltd. | | 16,00,000 | |
| **8.** | **Trade Payables** | | |
| Hold Ltd. | | 9,42,000 | |
| Sub Ltd. | | 5,48,000 | 14,90,000 |

**Statement of changes in Equity:**

**5. Equity share Capital**

| Balance at the beginning of the reporting period | Changes in Equity share capital during the year | Balance at the end of the reporting period |
|---|---|---|
| 1,00,00,000 | 0 | 1,00,00,000 |

**6. Other Equity**

| | Reserves & Surplus | | | Total |
|---|---|---|---|---|
| | Capital Reserve | Other reserves | Retained Earnings | |
| Balance at the beginning | | 48,00,000 | 0 | 48,00,000 |
| Profit or loss for the year (W.N.4)<br>Other comprehensive income for the year<br>Total comprehensive income for the year | | 0<br>0<br>0 | 14,14,000<br>0<br>14,14,000 | 14,44,000<br>0<br>14,14,000 |
| Dividends | | 0 | 0 | 0 |
| Gain on Bargain purchase on acquisition of a subsidiary* (W.N.5) | | 37,70,000 | 37,70,000 | |
| **Balance at the end of reporting period** | **37,70,000** | **48,00,000** | **14,14,000** | **99,84,000** |

* It is assumed that there exists no clear evidence for classifying the acquisition of the subsidiary as a bargain purchase and, hence, the bargain purchase gain has been recognised directly in capital reserve. If, however, there exists such a clear evidence, the bargain purchase gain would be recognised in other comprehensive income and then accumulated in capital reserve. In both the cases, closing balance of capital reserve will be Rs 37,70,000.

**Working Notes:**

1. **Adjustments of Fair Value- Total Appreciation**

| | Rs |
|---|---|
| Plant & Machinery (W.N.7) | 11,50,000 |
| Land and Building | 20,00,000 |
| Inventories | 3,00,000 |
| Less: Trade Payables | (2,00,000) |
| | **32,50,000** |

2. **Pre-acquisition reserves of Sub Ltd.**

| | Rs |
|---|---|
| Other Reserves on 1.4.2017 | 20,00,000 |
| Retained earnings Balance on 1.4.2017 | 6,00,000 |
| Retained earnings balance as on 31.3.2018 | 16,40,000 |
| Less: Retained earnings balance as on 1.4.2017<br>Add back: Dividend | (6,00,000)<br>4,00,000 |
| Profit for the year 2017-2018 | 14,40,000 |
| Profit for 6 months (14,40,000 x 6/12) | 7,20,000 |
| **Share of Hold Ltd.** | **33,20,000** |

There will be no Non-controlling Interest as 100% shares of Sub Ltd. are held by Hold Ltd.

**3. Post-acquisition profits of Sub Ltd.** **Rs**

| | |
|---|---|
| Profit for 6 months from 1.10.2017 to 31.3.2018 (14,40,000 x 6/12) | 7,20,000 |
| Less: Additional depreciation on account of revaluation of Plant and Machinery for 6 months [(40,00,000 x 10% x 6/12) – (30,00,000 x 10% x 6/12)] | (50,000) |
| Adjusted post-acquisition profit attributable to Hold Ltd. | 6,70,000 |

**4. Consolidated profit or loss for the year** **Rs**

| | |
|---|---|
| Hold Ltd. | |
| Retained earnings on 31.3.2018 | 11,44,000 |
| Less: Retained earnings as on 1.4.2017 | (0) |
| Profits for the year 2017-2018 | 11,44,000 |
| Less: Elimination of intra-group dividend | (4,00,000) |
| Adjusted profit for the year | 7,44,000 |
| Sub Ltd. | |
| Adjusted profit attributable to Hold Ltd. (W.N.3) | 6,70,000 |
| **Consolidated profit or loss for the year** | **14,14,000** |

**5. Goodwill/Gain on bargain purchase** **Rs**

| | | |
|---|---|---|
| Amount paid for 40,000 shares of Sub Ltd. | | 68,00,000 |
| Less: Share of Hold Ltd. in pre-acquisition equity of Sub Ltd. | 40,00,000 | |
| Share capital | 33,20,000 | |
| Pre-acquisition reserves of Sub Ltd. (W.N.2) | | |
| Fair value adjustments (W.N.1) | 32,50,000 | (1,05,70,000) |
| **Gain on Bargain Purchase** | | **37,70,000** |

**6. Value of Plant & Machinery** **Rs**

| | | |
|---|---|---|
| Hold Ltd. | | 48,00,000 |
| Sub Ltd. Book value as on 31.3.2018 27,00,000 | | |
| Book value as on 1.4.2017 (27,00,000/90%) | 30,00,000 | |
| Less: Depreciation @ 10% for 6 months | (1,50,000) | |
| | 28,50,000 | |
| Add: Appreciation on 1.10.2017 (Balancing fig. i.e., 40,00,000 – 28,50,000) | 11,50,000 | |
| Revalued amount (given) | 40,00,000 | |
| Less: Depreciation on Rs 40,00,000 @ 10% for 6 months | (2,00,000) | 38,00,000 |
| | | **86,00,000** |

**7. Consolidated retained earnings**

| | **Hold Ltd.** | **Sub Ltd.** | **Total** |
|---|---|---|---|
| As given | 11,44,000 | 16,40,000 | 27,84,000 |
| Consolidation Adjustments: | | | |
| (i) Elimination of pre-acquisition element [6,00,000 + 7,20,000] | 0 | (13,20,000) | (13,20,000) |
| (ii) Elimination of intra-group dividend | (4,00,000) | 4,00,000 | 0 |

| (iii) Impact of fair value adjustments | 0 | (50,000) | (50,000) |
|---|---|---|---|
| **Adjusted retained earnings consolidated** | **7,44,000** | **6,70,000** | **14,14,000** |

**Note:** The above solution has been drawn by making following assumptions, at required places:

**(i)** Hold Ltd. measures the investment in Sub Ltd. at cost (less impairment, if any) in its separate financial statements as permitted in Ind AS 27, Separate Financial Statements.

**(ii)** Increase in land and buildings represents only land element.

**(iii)** Depreciation on plant and machinery is on WDV method.

**(iv)** Fair value adjusted trade payables continue to exist on 31.3.2018.

**(v)** Inventories are valued at cost, being lower than NRV and that application of cost formula for the purposes of consolidated financial statements results in entire fair value adjustment to be included in the carrying amount of inventories of Sub Ltd. on 31.3.2018.

## Q24. (May 18 – 10 Marks) (Similar to Q22)

Notorola Limited has two divisions A and B. Division A has been making constant profits while Division B has been invariably suffering losses.

On 31st March 2018, the division-wise draft extract of the Balance Sheet was as follows:

**(Rs in crore)**

| | **A** | **B** | **Total** |
|---|---|---|---|
| Fixed Assets Cost | 500 | 1000 | 1500 |
| Depreciation | (450) | (800) | (1250) |
| Net Fixed Assets (A) | 50 | 200 | 250 |
| Current Assets | 400 | 1000 | 1400 |
| Less: Current Liabilities | (50) | (800) | (850) |
| Net Current Assets (B) | 350 | 200 | 550 |
| **Total (A) + (B)** | **400** | **400** | **800** |
| Financed by : | | | |
| Loan Funds | - | 600 | 600 |
| Capital : Equity Rs 10 each | 50 | - | 50 |
| Surplus | 350 | (200) | 150 |
| **Total** | **400** | **400** | **800** |

Division B along with its assets and liabilities was sold for Rs 50 crore to Senovo Limited a new company, who allotted 2 crore equity shares of Rs 10 each at a premium of Rs 15 per share to the members of Notorola Limited in full settlement of the consideration, in proportion to their shareholding in the company. One of the members of the Notorola Limited was holding 52% shares of the company.

Assuming that, there are no other transactions, you are required to:

**(i)** Pass journal entries in the books of Notorola Limited.

**(ii)** Prepare the Balance Sheet of Notorola Limited after the entries in (i).

**(iii)** Prepare the Balance Sheet of Senovo Limited.

Balance Sheet prepared for (ii) and (iii) above should comply with the relevant Ind AS and Schedule III of the Companies Act, 2013. Provide Notes to Accounts, for 'Other Equity' in case of (ii) and 'Share Capital' in case of (iii), only.

## SOLUTION

(i) **Journal of Notorola Ltd.** **(Rs in crore)**

| | | Dr. | Cr. |
|---|---|---|---|
| Loan Funds | Dr. | 600 | |
| Current Liabilities | Dr. | 800 | |
| Provision for Depreciation | Dr. | 800 | |
| To Fixed Assets | | | 1,000 |
| To Current Assets | | | 1,000 |
| To Capital Reserve<br>(Being division B along with its assets and liabilities sold to Senovo Ltd. for Rs 50 crore) | | | 200 |

In the given scenario, this demerger will meet the definition of common control transaction. Accordingly, the transfer of assets and liabilities will be derecognized and recognized as per book value and the resultant loss or gain will be recorded as capital reserve in the books of demerged entity (Notorola Ltd).

**Notes:** Any other alternative set of entries, with the same net effect on various accounts, may also be given.

(ii) **Notorola Ltd. Balance Sheet after demerger** **(Rs in crore)**

| ASSETS | Note No. | Amount |
|---|---|---|
| **Non-current assets** | | |
| Property, Plant and Equipment | | 50 |
| **Current assets** | | 400 |
| | | **450** |
| **EQUITY AND LIABILITIES** | | |
| Equity | | |
| Equity share capital (of face value of Rs 10 each) | 1 | 50 |
| Other equity | 2 | 350 |
| **Liabilities** | | |
| Current liabilities | | |
| Current liabilities | | 50 |
| | | **450** |

**Notes to Accounts**

| | | (Rs in crore) |
|---|---|---|
| **1.** | **Equity Share Capital** | |
| 5 crore equity shares of face value of Rs 10 each<br>Consequent to transfer of Division B to newly incorporated company Senovo Ltd., the members of the company have been allotted 2 crore equity shares of Rs 10 each at a premium of Rs 15 per share of Senovo Ltd., in full settlement of the consideration in proportion to their shareholding in the company | | 50 |
| | | |
| **2.** | **Other Equity** | |
| Surplus (350 - 200) | | 150 |
| Add: Capital Reserve on reconstruction | | 200 |
| | | **350** |

### (iii) Balance Sheet of Senovo Ltd. (Rs in crore)

| | Note No. | Amount |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | |
| Property, Plant and Equipment | | 200 |
| **Current assets** | | 1,000 |
| 1,200 | | |
| **EQUITY AND LIABILITIES** | | |
| **Equity** | | |
| Equity share capital (of face value of INR 10 each) | 1 | 20 |
| Other equity | 2 | (220) |
| **Liabilities** | | |
| **Non-current liabilities** | | |
| Financial liabilities | | |
| Borrowings | | 600 |
| **Current liabilities** | | |
| Current liabilities | | 800 |
| | | **1,200** |

**Notes to Accounts**

| | | (Rs in crore) |
|---|---|---|
| **1.** | **Share Capital** | |
| Issued and Paid-up capital | | |
| 2 crore Equity shares of Rs 10 each fully paid up (All the above shares have been allotted to the members of Notorola Ltd. on takeover of Division B from Notorola Ltd. as fully paid-up pursuant to contract without payment being received in cash) | | 20 |
| **2.** | **Other Equity** | |
| Securities Premium | | 30 |
| Capital reserve [50 - (1,200 – 1,400)] | | (250) |
| | | **(220)** |

## Q25. (Nov. 18 – 16 Marks) – (Similar to Q19)

Prepare the Consolidated Balance Sheet as on 31st March, 2018 of a group of companies comprising Usha Limited, Nisha Limited and Sandhya Limited. Their summarized balance sheets on that date are given below: Amounts Rs in lakh

| | Usha Ltd. | Nisha Ltd. | Sandhya Ltd. |
|---|---|---|---|
| **Equity and Liabilities** | | | |
| Shareholder's Equity | | | |
| Share capital Rs10 per share) | 300 | 200 | 160 |
| Reserves | 90 | 50 | 40 |
| Retained earnings | 80 | 25 | 30 |
| Current Liabilities | | | |
| Trade Payables | 235 | 115 | 90 |
| Bills Payable | | | |
| Usha Ltd. | - | 35 | - |
| Sandhya Ltd. | 15 | - | - |
| | **720** | **425** | **320** |
| **Assets** | | | |
| Non-Current Assets | | | 150 |
| Tangible assets | 160 | 180 | |
| Investment: | | | - |
| 16 lakh shares in Nisha Ltd. | 170 | - | - |
| 12 lakh shares in Sandhya Ltd. | - | 140 | |
| Current Assets | | | |
| Cash in hand and at Bank | | | |
| Bills Receivable | 114 | 20 | 20 |
| Trade Receivables | 36 | - | 15 |
| Inventories | 130 | 50 | 110 |
| | 110 | 35 | 25 |
| | **720** | **425** | **320** |

The following additional information is available:

**(i)** Usha Ltd. holds 80% shares in Nisha Ltd. and Nisha Ltd. holds 75% shares in Sandhya Ltd. Their holdings were acquired on 30th September, 2017.

**(ii)** The business activities of all the companies are not seasonal in nature and therefore, it can be assumed that profits are earned evenly throughout the year.

**(iii)** On 1st April, 2017, the following balances stood in the books of Nisha Limited and Sandhya Limited.

**Rs in lakh**

| | Nisha Limited | Sandhya Limited |
|---|---|---|
| Reserves | 40 | 30 |
| Retained earnings | 10 | 15 |

**(iv)** Rs5 Lakh included in the inventory figure of Nisha Limited, is inventory which has been purchased from Sandhya Limited at cost plus 25%.

**(v)** The parent company has adopted an accounting policy to measure Non-controlling interest at fair value (quoted market price) applying Ind AS 103. Assume market prices of Nisha Limited and Sandhya Limited are the same as respective face values.

**(vi)** The capital profit preferably is to be adjusted against cost of control.

**Note:** Analysis of profits and notes to accounts must be a part of your answer.

## SOLUTION

Consolidated Balance Sheet of the Group as on 31st March, 2018

| Particulars | Note No. | (Rs in lakh) |
|---|---|---|
| **ASSETS** | | |
| Non-current assets | | |
| Property, plant and equipment | 1 | 490 |
| Current assets | | |
| (a) Inventories | 2 | 169 |
| (b) Financial assets | | |
| Trade receivables | 3 | 290 |
| Bills receivable | 4 | 1 |
| (c) Cash and cash equivalents | 5 | 154 |
| **Total assets** | | **1,104** |
| **EQUITY & LIABILITIES** | | |
| Equity attributable to owners of the parent | | |
| Share capital | | 300 |
| Other Equity | | 97 |
| Reserves (W.N.5) | | |
| Retained Earnings (W.N.5) | | 89.9 |
| Capital Reserve (W.N.3) | | 94 |
| Non-controlling interests (W.N.4) | | 83.10 |
| Total equity | | 664 |
| **LIABILITIES** | | |
| Non-current liabilities | | |
| Current liabilities | | |
| (a) Financial Liabilities | | |
| (i) Trade payables | 6 | 440 |
| Total liabilities | | 440 |
| **Total equity and liabilities** | | **1,104** |

**Notes to Accounts** **(Rs in lakh)**

| | | | |
|---|---|---|---|
| 1. | **Property Plant & Equipment** | | |
| | Parent | 160 | |
| | Nisha Ltd. | 180 | |
| | Sandhya Ltd. | 150 | 490 |
| 2. | **Inventories** | | |
| | Parent | 110 | |
| | Nisha Ltd. (35-1) | 34 | |
| | Sandhya Ltd. | 25 | 169 |
| 3. | **Trade Receivables** | | |
| | Parent | 130 | |
| | Nisha Ltd. | 50 | |
| | Sandhya Ltd. | 110 | 290 |
| 4. | **Bills Receivable** | | |
| | Parent (36-35) | 1 | |
| | Sandhya Ltd. (15-15) | - | 1 |

| 5. | **Cash & Cash equivalents** | | |
|---|---|---|---|
| | Parent | 114 | |
| | Nisha Ltd. | 20 | |
| | Sandhya Ltd. | 20 | 154 |
| 6. | **Trade Payables** | | |
| | Parent | 235 | |
| | Nisha Ltd. | 115 | |
| | Sandhya Ltd. | 90 | 440 |

**Working Notes:**

**1. Analysis of Reserves and Surplus** **(Rs in lakh)**

| | | Nisha Ltd. | | Sandhya Ltd. |
|---|---|---|---|---|
| Reserves as on 31.3.2017 | | 40 | | 30 |
| Increase during the year 2017-2018 | 10 | | 10 | |
| Increase for the half year till 30.9.2017 | | 5 | | 5 |
| Balance as on 30.9.2017 (A) | | 45 | | 35 |
| Total balance as on 31.3.2018 | | 50 | | 40 |
| Post-acquisition balance retained Earnings as on | | 5 | | 5 |
| 31.3.2017 | | 10 | | 15 |
| Increase during the year 2017-2018 | 15 | | 15 | |
| Increase for the half year till 30.9.2017 | | 7.5 | | 7.5 |
| Balance as on 30.9.2017 (B) | | 17.5 | | 22.5 |
| Total balance as on 31.3.2018 | | 25 | | 30 |
| Post-acquisition balance | | 7.5 | | 7.5 |
| Less: Unealised gain on inventories (5 x 25%) | | | | |
| Post-acquisition balance for CFS | | - | | (1) |
| **Total balance on the acquisition date** | | 7.5 | | 6.5 |
| **ie.30.9.2017 (A+B)** | | **62.5** | | **57.5** |

**2. Calculation of Effective Interest of Parent company ie. Usha Ltd. in Sandhya Ltd.**

Acquisition by Usha Ltd. in Nisha Ltd. = 80%

Acquisition by Nisha Ltd. in Sandhya Ltd. = 75%

Acquisition by Group in Sandhya Ltd. (80% x 75%) = 60%

Non-controlling Interest = 40%

**3. Calculation of Goodwill / Capital Reserve on the acquisition date**

| | Nisha Ltd. | Sandhya Ltd. |
|---|---|---|
| Investment or consideration | 170 | (140 × 80%)112 |
| Add: NCI at Fair value | | |
| (200 x 20%) | 40 | |
| (160 x 40%) | - | 64 |
| | 210 | 176 |
| Less: Identifiable net assets (Share capital + Increase in the Reserves and Surplus till | | |

| acquisition date)<br>Capital Reserve<br>**Total Capital Reserve (52.5 + 41.5)** | (200+62.5) (262.5)<br>52.5 | (160+57.5) (217.5)<br>41.5 |
|---|---|---|
| | **94** | |

4. **Calculation of Non-Controlling Interest**

| | **Nisha Ltd.** | **Sandhya Ltd.** |
|---|---|---|
| At Fair Value (See Note 3) | 40 | 64 |
| Add: Post Acquisition Reserves (See Note 1) | (5× 20%) 1 | (5 × 40%) 2 |
| Add: Post Acquisition Retained Earnings (See Note 1) | (7.5 × 20%) 1.5 | (6.5 × 40%) 2.6 |
| Less: NCI share of investment in Sandhya Ltd.* | (140x20%) (28)* | |
| | 14.5 | 68.6 |
| **Total (14.5 + 68.6)** | **83.1** | |

***Note:*** The Non-controlling interest in Nisha Ltd. will take its proportion in Sandhya Ltd. So they have to bear their proportion in the investment made by Nisha Ltd. (as a whole) in Sandhya Ltd.

5. **Calculation of Consolidated Other Equity**

| | **Reserves** | **Retained Earnings** |
|---|---|---|
| Usha Ltd. | 90 | 80 |
| Add: Share in Nisha Ltd. | (5 x 80%) 4 | (7.5 × 80%) 6 |
| Add: Share in Sandhya Ltd. | (5 ×60%) 3 | (6.5 ×60%) 3.9 |
| | **97** | **89.9** |

**Note:** In the above solution, it is assumed date the sale of goods by Sandhya Ltd. is done after acquisition of shares by Nisha Ltd. Alternatively, one may assume that the sale has either been done before acquisition of shares by Nisha Ltd. in Sandhya Ltd. or sale has been throughout the year. Accordingly, there treatment for unrealized gain may vary.

## Q26. (Nov. 18 – 4 Marks)

Moon Ltd. acquired 75% of Star Limited on 1st April, 2017 for consideration transferred Rs60 lakh. Moon Limited intends to recognize the Non-Controlling Interest (NCI) at proportionate share of fair value of identifiable assets. With the assistance of a suitably qualified valuation professional, Moon Limited measures the identifiable net assets of Star Limited at Rs. 90 lakh. Moon Limited performs a review and determines that the business combination did not include any transactions that should be accounted for separately from the business combination.

State whether the procedures followed by Moon Limited and the resulting measurements are appropriate or not. Also calculate the bargain purchase gain in the process.

### SOLUTION

The amount of Star Ltd.'s identifiable net assets exceeds the fair value of the consideration transferred plus the fair value of the NCI in Star Ltd.'s, resulting in an initial indication of a gain on a bargain purchase. Accordingly, Moon Ltd. reviews the procedures it used to identify and measure the identifiable net assets

acquired, to measure the fair value of both the NCI and the consideration transferred, and to identify transactions that were not part of the business combination.

Following that review, Moon Ltd. can conclude that the procedures followed and the resulting measurements were appropriate.

| | |
|---|---|
| Identifiable net assets | 90,00,000 |
| Less: Consideration transferred | (60,00,000) |
| NCI (90,00,000 x 25%) | (22,50,000) |
| **Gain on bargain purchase** | **7,50,000** |

## Q27. (Exam Nov. 19 – 16 Marks & MTP April 21 – 16 Marks) – (Similar to Q16)

The Balance Sheet of David Ltd. and Parker Ltd. as of 31st March, 2019 is given below: **(Rs in lakh)**

| **Assets** | **David Ltd.** | **Parker Ltd.** |
|---|---|---|
| Non-current assets: | | |
| Property, plant and equipment | 400 | 600 |
| Investment | 300 | 200 |
| Current assets: | | |
| Inventories | 300 | 100 |
| Financial assets | | |
| Trade receivables | 400 | 200 |
| Cash and cash equivalents | 150 | 200 |
| Others | 300 | 300 |
| **Total** | **1,850** | **1,600** |
| Equity and Liabilities | | |
| Equity | | |
| Share capital - Equity shares of Rs 100 each for Parker Ltd. | | |
| & Rs 10 each for David Limited | 500 | 400 |
| Other Equity | 700 | 275 |
| Non-current liabilities: | | |
| Long term borrowings | 200 | 300 |
| Long term provisions | 100 | 80 |
| Deferred tax | 20 | 55 |
| Current liabilities: | | |
| Short term borrowings | 130 | 170 |
| Trade payables | 200 | 320 |
| **Total** | **1,850** | **1,600** |

**Other Information:**

**(i)** David Ltd. acquired 70% shares of Parker Ltd. on 1st April, 2019 by issuing its own shares in the ratio of 1 share of David Ltd. for every 2 shares of Parker Ltd. The fair value of the shares of David Ltd. was Rs 50 per share.

**(ii)** The fair value exercise resulted in the following :

**(1)** Fair value of property, plant and equipment (PPE) on 1st April, 2019 was Rs 450 lakh.

**(2)** David Ltd. agreed to pay an additional payment as consideration that is higher of Rs 30 lakh and 25% of any excess profits in the first year after acquisition, over its profits in the preceding 12 months made by Parker Ltd. This additional amount will be due after 3 years. Parker Ltd. has

earned Rs 20 lakh profit in the preceding year and expects to earn another Rs 10 lakh.

**(3)** In addition to above, David Ltd. also has agreed to pay one of the founder shareholder-Director a payment of Rs 25 lakh provided he stays with the Company for two years after the acquisition.

**(4)** Parker Ltd. had certain equity settled share-based payment award (original award) which got replaced by the new awards issued by David Ltd. As per the original term, the vesting period was 4 years and as of the acquisition date the employees of Parker Ltd. have already served 2 years of service. As per the replaced awards, the vesting period has been reduced to one year (one year from the acquisition date). The fair value of the award on the acquisition date was as follows:
Original award - Rs 6 lakh Replacement award - Rs 9 lakh

**(5)** Parker Ltd. had a lawsuit pending with a customer who had made a claim of Rs 35 lakh. Management reliably estimated the fair value of the liability to be Rs 10 lakh.

**(6)** The applicable tax rate for both entities is 40%.

You are required to prepare opening consolidated balance sheet of David Ltd. as on 1st April, 2019 along with workings. Assume discount rate of 8%.

## SOLUTION

**Consolidated Balance Sheet of David Ltd as on 1st April, 2019** **(Rs in lakh)**

| | Amount |
|---|---|
| **Assets** | |
| Non-current assets: | |
| Property, plant and equipment | 850.00 |
| Investment | 500.00 |
| Current assets: | |
| Inventories | 400.00 |
| Financial assets: | |
| Trade receivables | 600.00 |
| Cash and cash equivalents | 350.00 |
| Others | 600.00 |
| **Total** | **3,300.00** |
| **Equity and Liabilities** | |
| Equity | |
| Share capital - Equity shares of Rs 100 each | 514.00 |
| Other Equity | 1,067.49 |
| Non-controlling Interest | 173.70 |
| Non-current liabilities: | |
| Financial liabilities: | |
| Long term borrowings | 500.00 |
| Long term provisions (100+80+23.81) | 203.81 |
| Deferred tax | 11.00 |
| Current liabilities: | |
| Financial liabilities: | |
| Short term borrowings | 300.00 |
| Trade payables | 520.00 |
| Provision for law suit damages | 10.00 |
| **Total** | **3,300.00** |

**Working Notes:**

a. Fair value adjustment- As per Ind AS 103, the acquirer is required to record the assets and liabilities at their respective fair value. Accordingly, the PPE will be recorded at Rs 450 lakh.

b. The value of replacement award is allocated between consideration transferred and post combination expense. The portion attributable to purchase consideration is determined based on the fair value of the replacement award for the service rendered till the date of the acquisition. Accordingly, Rs 3 lakh (6 x 2/4) is considered as a part of purchase consideration and is credited to David Ltd equity as this will be settled in its own equity. The balance of Rs 3 lakh will be recorded as employee expense in the books of Parker Ltd over the remaining life, which is 1 year in this scenario.

c. There is a difference between contingent consideration and deferred consideration. In the given case, Rs 30 lakh is the minimum payment to be paid after 3 years and accordingly will be considered as deferred consideration. The other element is if company meets certain target then they will get 25% of that or Rs 30 lakh whichever is higher. In the given case, since the criterion is the minimum what is expected to be paid, the fair value of the contingent consideration has been considered as zero. The impact of time value on deferred consideration has been given @ 8%.

d. The additional consideration of Rs 25 lakh to be paid to the founder shareholder is contingent to him/her continuing in employment and hence this will be considered as employee compensation and will be recorded as post combination expenses in the income statement of Parker Ltd.

**Working Notes:**

**1. Computation of Purchase Consideration Rs in lakh**

| Particulars | | Amount |
|---|---|---|
| Share capital of Parker Ltd. | | 400 |
| Number of shares | 4,00,000 | |
| Shares to be issued 2:1 | 2,00,000 | |
| Fair value per share | | 50 |
| Purchase consideration (2,00,000x70%xRs 50 per share) (A) | | 70.00 |
| Deferred consideration after discounting Rs 30 lakh for 3 years @ 8% (B) | | 23.81 |
| Replacement award - Market based measure of the acquiree award ie Fair value of original award (6) x ratio of the portion of the vesting period completed (2) / greater of the total vesting period (3) or the original vesting period (4) of the acquiree award i.e., (6 x 2 / 4) (C) | | 3.00 |
| **Purchase consideration (A+B+C)** | | **96.81** |

**2. Allocation of Purchase consideration**

| Particulars | Book value (A) | Fair value (B) | FV adjustment (A-B) |
|---|---|---|---|
| Property, plant & equipment | 600 | 450 | (150) |
| Investment | 200 | 200 | - |
| Inventories | 100 | 100 | - |
| Financial assets: | | | - |
| Trade receivables | 200 | 200 | - |
| Cash and cash equivalents | 200 | 200 | - |
| Others | 300 | 300 | |

| Less: Financial Liabilities | | | |
|---|---|---|---|
| Long term borrowings | (300) | (300) | - |
| Long term provisions | (80) | (80) | - |
| Deferred tax | (55) | (55) | - |
| Financial Liabilities | | | |
| Short term borrowings | (170) | (170) | - |
| Trade payables | (320) | (320) | - |
| Contingent liability | - | (10) | (10) |
| **Net assets (X)** | **675** | **515** | **(160)** |
| Deferred tax asset on fair value adjustment (160 x 40%) (Y) | | 64 | 160 |
| Net assets (X+Y) | | 579 | |
| Non-controlling interest (NCI) (579 x 30%) rounded off | | 173.70 | |
| Capital reserve<br>(Net assets – NCI – PC) | | 308.49 | |
| **Purchase consideration (PC)** | | **96.81** | |

### 3. Computation of Consolidated amounts of consolidated financial statements

| | **David Ltd.** | **Parker Ltd. (pre- acquisition)** | **PPA Allocation** | **Total** |
|---|---|---|---|---|
| **Assets** | | | | |
| Non-current assets: | | | | |
| Property, plant & equipment | 400 | 600 | (150) | 850 |
| Investment | 300 | 200 | | 500 |
| Current assets: | | | | |
| Inventories | 300 | 100 | | 400 |
| Financial assets: | | | | |
| Trade receivables | 400 | 200 | | 600 |
| Cash and cash equivalents | 150 | 200 | | 350 |
| Others | 300 | 300 | | 600 |
| **Total** | **1,850** | **1,600** | **(150)** | **3300** |
| Equity and Liabilities | | | | |
| Equity | | | | |
| Share capital- Equity shares of Rs 100 each | 500 | | | |
| Shares allotted to Parker Ltd. (2,00,000 x 70% x Rs 10 per share) | | | 14 | 514 |
| Other Equity | | | | |
| Other Equity | 700 | | | 700 |
| Replacement award | | | 3 | 3 |
| Security premium (2,00,000 shares x 70% x Rs 40) | | | 56 | 56 |
| Capital reserve | | | 308.49 | 308.49 |

| | | | | |
|---|---|---|---|---|
| Non-controlling interest | 0 | | 173.70 | 173.70 |
| Non-current liabilities: | | | | |
| Financial Liabilities | | | | |
| Long term borrowings | 200 | 300 | | 500 |
| Long term provisions | 100 | 80 | 23.81 | 203.81 |
| Deferred tax | 20 | 55 | (64) | 11 |
| Current liabilities: | | | | |
| Financial Liabilities | | | | |
| Short term borrowings | 130 | 170 | | 300 |
| Trade payable | 200 | 320 | 0 | 520 |
| Liability for lawsuit damages | | | 10 | 10 |
| **Total** | **1,850** | **925** | **525** | **3,300** |

## Q28. (Nov. 19 – 8 Marks) – (Similar to Q5) (IndAS 38 & IndAS 103)

*MNC Ltd. is in process of setting up a medicine manufacturing business which is at very initial stage. For this purpose, MNC Ltd. as part of its business expansion strategy acquired on 1st April, 2019, 100% shares of Akash Ltd., a company that manufactures pharmacy products. The purchase consideration for the same was by way of a share exchange valued at Rs 38 crore. The fair value of Akash Ltd.'s assets and liabilities were Rs68 crore and Rs 50 crore respectively, but the same does not include the following:*

**(i)** *A patent owned by Akash Ltd. for an established successful new drug that has a remaining life of 6 years. A consultant has estimated the value of this patent to be Rs 8 crore. However, the outcome of clinical trails for the same are awaited. If the trails are successful, the value of the drug would fetch the estimated Rs 12 crore.*

**(ii)** *Akash Ltd. has developed and patented another new drug which has been approved for clinical use. The cost of developing the drug was Rs 13 crore. Based on early assessment of its sales success, a reputed valuer has estimated its market value at Rs 19 crore. However, there is no active market for the patent.*

**(iii)** *Akash Ltd.'s manufacturing facilities have received a favourable inspection by a government department. As a result of this, the company has been granted an exclusive five-year license on 1st April, 2018 to manufacture and distribute a new vaccine. Although the license has no direct cost to the Company, its directors believe that obtaining the license is valuable asset which assures guaranteed sales and the cost to acquire the license is estimated at Rs 7 crore of remaining period of life. It is expected to generate at least equivalent revenue.*

*Suggest the accounting treatment of the above transactions with reasoning under applicable Ind AS in the books of MNC Ltd.*

## SOLUTION

As per para 13 of Ind AS 103 'Business Combination', the acquirer's application of the recognition principle and conditions may result in recognising some assets and liabilities that the acquiree had not previously recognised as assets and liabilities in its financial statements. This may be the case when the asset is developed by the entity internally and charged the related costs to expense.

Based on the above, the company can recognise following Intangible assets while determining Goodwill / Bargain Purchase for the transaction:

**(i)** **Patent owned by Akash Ltd.:** The patent owned will be recognised at fair value by MNC Ltd. even

though it was not recognised by Akash Ltd. in its financial statements. The patent will be amortised over the remaining useful life of the asset i.e. 6 years. Since the company is awaiting the outcome of the trials, the value of the patent should be valued at Rs 8 crore. It cannot be estimated at Rs 12 crore and the extra Rs 4 crore should only be disclosed as a contingent asset and not recognised.

**(ii)** **Patent internally developed by Akash Ltd.:** Further as per para 75 of Ind AS 38 'Intangible Assets', after initial recognition, an intangible asset shall be carried at revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. For the purpose of revaluations under this Standard, fair value shall be determined by reference to an active market.

There is no active market for patents since the fair value is based on early assessment of its sale success. Hence it is suggested to use the cost model and recognise the patent at the actual development cost of Rs 13 crore.

**(iii)** **Grant of License to Akash Ltd. by the Government:** As regards to the five-year licence, para 44 of Ind AS 38 requires to recognize grant assets at fair value by MNC Ltd. It can recognize both the asset (license) and the grant at Rs 7 crore to be amortised over 4 remaining years of useful life i.e; Rs 1.75 crore per annum.

**Hence the revised working would be as follows:**

| Fair value of net assets of Akash Ltd. (68-50) | Rs 18 crore |
|---|---|
| Add: Patent (8 + 13) | Rs 21 crore |
| Add: License | Rs 7 crore |
| Less: Grant for License | (Rs 7 crore) |
| | Rs 39 crore |
| **Purchase Consideration** | **Rs 38 crore** |
| **Capital Reserve** | **Rs1 crore** |

## Q29. (Nov. 19 – 4 Marks)

Parent A holds 100% in its subsidiary B. Parent A had acquired B, 10 years back and had decided to account for the acquisition under the purchase method using fair values of the subsidiary B in its consolidated financial statements.

During the current year, A decides to merge B with itself.

For the purpose of this proposed merger, what values of B should be used for accounting under the Ind AS?

## SOLUTION

**Reference to be included to Appendix C of Ind AS 103**

The acquisition of B Ltd. by A Ltd. is a business combination under common control. In such a situation, a pooling of interest method should be applied. However, B Ltd. is 100% subsidiary of A Ltd. and A Ltd. in its Consolidated financial statements used to give the carrying values of assets and liabilities of B Ltd. at fair value (as per acquisition under purchase method). Hence the carrying value for the purpose of pooling of interest method will be the values given in Consolidated financial statements and not in Separate financial statements.

In other words, since B Ltd. is merging with A Ltd. (i.e. parent) nothing has changed and the transaction only means that the assets, liabilities and reserves of B Ltd. which were appearing in the consolidated

financial statements of Group A immediately before the merger would now be a part of the separate financial statements of A Ltd. Accordingly, it would be appropriate to recognise the carrying value of the assets, liabilities and reserves pertaining to B Ltd as appearing in the consolidated financial statements of A Ltd.

## Q30. (Nov. 20)

P Limited and S Limited are in the business of manufacturing garments. P Limited holds 30% of equity shares of S Limited for the last several years. P Limited obtains control of S Limited when it acquires a further 65% stake of S Limited's shares, thereby resulting in a total holding of 95% on December 31", 2019. The acquisition had the following features.

**i)** P Limited transfers cash of ₹ 50,00,000 and issues 90,000 shares on December 31st, 2019. The market price of P Limited's shares on the date of issue was ₹ 10 per share. The equity shares issued as per this transaction will comprise 5% of the post-acquisition capital of P Limited.

**ii)** P Limited agrees to pay additional consideration of ₹ 4,00,000, if the cumulative profits of S Limited exceeds ₹ 40,00,000 over the next two years. At the acquisition date, it is not considered probable that extra consideration will be paid. The fair value of contingent consideration is determined to be ₹ 2,00,000 at the acquisition date.

**iii)** P Limited spent acquisition-related costs of ₹ 2,00,000.

**iv)** The fair value of the NCI is determined to be ₹ 5,00,000 at the acquisition date based on Market price. P Limited decided to measure non-controlling interest at fair value for this transaction.

**v)** P Limited has owned 30% of the shares in S Limited for several years. On December 31st 2019, the investment was included in P Limited's consolidated balance sheet at ₹ 8,00,000. The fair value of previous holdings, accounted for using the equity method, arrived at ₹ 18,00,000.

The fair value of S Limited's net identifiable assets at December 31st, 2019 is ₹ 45,00,000, determined in accordance with Ind AS 103.

Analyse the transaction and determine the accounting under acquisition method for the business combination by P Limited.

## SOLUTION

**Identify the acquirer**

In this case, P Limited has paid cash consideration to shareholders of S Limited. Further, the shares issued to S Limited pursuant to the acquisition do not transfer control of P Limited to erstwhile shareholders of S Limited. Therefore, P Limited is the acquirer and S Limited is the acquirer.

**Determine acquisition date**

As the control over the business of S Limited is transferred to P Limited on 31 December 2019, that date is considered as the acquisition date.

**Determine the purchase consideration**

The purchase consideration in this case will comprise of the following:

| | |
|---|---|
| Cash consideration | Rs.50,00,000 |
| Equity shares issued (90,000 x 10 i.e., at fair value) | Rs.9,00,000 |
| Contingent consideration (at fair value) | Rs.2,00,000 |
| Fair value of previously held interest | Rs.18,00,000 |
| **Total purchase consideration** | **Rs.79,00,000** |

Acquisition cost incurred by and on behalf of P Limited for acquisition of S Limited should be recognised in

the Statement of Profit and Loss. As such, an amount of Rs.2,00,000 should be recognised in the Statement of Profit and Loss.

**Fair value of identifiable assets and liabilities**

The fair value of identifiable net assets (as given in the question) Rs 45,00,000.

**Non-Controlling Interest**

The management has decided to recognize NCI at its fair value, which is given in the question as RsRs 5,00,000.

**Re-measure previously held interests in case business combination is achieved in stages**

In this case, the control has been acquired in stages i.e., before acquisition to control, P Limited exercised significant influence over S Limited. As such, the previously held interest should be measured at fair value and the difference between the fair value and the carrying amount as at the acquisition date should be recognised in the Statement of Profit and Loss. As such, an amount of Rs 10,00,000 (i.e. 18,00,000 – 8,00,000) will be recognised in the Statement of Profit and Loss.

**Determination of goodwill or gain on bargain purchase**

| Goodwill should be calculated as follows: | (Rs) |
|---|---|
| Total consideration | 79,00,000 |
| Recognised amount of any non-controlling interest | 5,00,000 |
| Less: Fair value of net identifiable assets | (45,00,000) |
| **Goodwill** | **39,00,000** |

## Q31. (Jan. 21)

On 1st April 2017, A Limited acquired 80% of the share capital of S Limited. On acquisition date the share capital and reserves of S Ltd. stood at Rs. 5,00,000 and Rs. 1,25,000 respectively. A Limited paid initial cash consideration of Rs. 10,00,000. Additionally, A Limited issued 2,00,000 equity shares with a nominal value of Rs. 1 per share at current market value of Rs. 1.80 per share.

It was also agreed that A Limited would pay a further sum of Rs. 5,00,000 after three years. A Limited's cost of capital is 10%. The appropriate discount factor for Rs. 1 @ 10% receivable at the end of

1st year: 0.91

2nd year: 0.83

3rd year: 0.75

The shares and deferred consideration have not yet been recorded by A limited. Below are the Balance Sheet of A Limited and S Limited as at 31st March, 2019:

| | A Limited (Rs. 000) | S Limited (Rs. 000) |
|---|---|---|
| Non-current assets: | | |
| Property, plant & equipment | 5,500 | 1,500 |
| Investment in S Limited at cost | 1,000 | |
| Current assets: | | |
| Inventory | 550 | 100 |

| | | |
|---|---|---|
| Receivables | 400 | 200 |
| Cash | 200 | 50 |
| | **7,650** | **1,850** |
| Equity: | | |
| Share capital | 2,000 | 500 |
| Retained earnings | 1,400 | 300 |
| | 3,400 | 800 |
| Non-current liabilities | 3,000 | 400 |
| Current liabilities | 1,250 | 650 |
| | **7,650** | **1,850** |

**Further information:**

**i)** On the date of acquisition the fair values of S Limited's plant exceeded its book value by Rs. 2,00,000. The plant had a remaining useful life of five years at this date;

**ii)** The consolidated goodwill has been impaired by Rs. 2,58,000; and

**iii)** the fair value method. At the date of acquisition, the fair value of the 20 % non-controlling interest was Rs. 3,80,000.

You are required to prepare the Consolidated Balance Sheet of A Limited as at 31st March, 2019. (Notes to Account on Consolidated Balance Sheet is not required).

## SOLUTION

**Consolidated Balance Sheet of A Ltd. and its subsidiary, S Ltd. as at 31st March, 2019**

| Particulars | Rs. in 000s |
|---|---|
| **I. Assets** | |
| **(1)** Non-current assets | |
| **(i)** Property Plant & Equipment (W.N.4) | 7,120.00 |
| **(ii)** Intangible asset – Goodwill (W.N.3) | 1,032.00 |
| **(2)** Current Assets | |
| **(i)** Inventories (550 + 100) | 650.00 |
| **(ii)** Financial Assets | |
| **(a)** Trade Receivables (400 + 200) | 600.00 |
| **(b)** Cash & Cash equivalents (200 + 50) | 250.00 |
| **Total Assets** | **9,652.00** |
| **II. Equity and Liabilities** | |
| **(1) Equity** | 2,200.00 |
| **(i)** Equity Share Capital (2,000 + 200) | |
| **(ii)** Other Equity | |
| **(a)** Retained Earnings (W.N.6) | 1190.85 |
| **(b)** Securities Premium | 160.00 |
| **(2)** Non-Controlling Interest (W.N.5) | 347.40 |
| **(3)** Non-Current Liabilities (3,000 + 400) | 3,400.00 |
| **(4)** Current Liabilities (W.N.8) | 2,353.75 |
| **Total Equity & Liabilities** | **9,652.00** |

**Notes:**

1. Since the question required not to prepare Notes to Account, the column of Note to Accounts had not been drawn.
2. It is assumed that shares were issued during the year 2018-2019 and entries are yet to be made.

**Working Notes:**

1. **Calculation of purchase consideration at the acquisition date i.e. 1st April, 2017**

| | Rs. in 000s |
|---|---|
| Payment made by A Ltd. to S Ltd. | |
| Cash | 1,000.00 |
| Equity shares (2,00,000 shares x Rs. 1.80) | 360.00 |
| Present value of deferred consideration (Rs. 5,00,000 x 0.75) | 375.00 |
| **Total consideration** | **1,735.00** |

2. **Calculation of net assets i.e. net worth at the acquisition date i.e. 1st April, 2017**

| | Rs. in 000s |
|---|---|
| Share capital of S Ltd. | 500.00 |
| Reserves of S Ltd. | 125.00 |
| Fair value increase on Property, Plant and Equipment | 200.00 |
| **Net worth on acquisition date** | **825.00** |

3. **Calculation of Goodwill at the acquisition date i.e. 1 st April, 2017 and 31st March, 2019**

| | Rs. in 000s |
|---|---|
| Purchase consideration (W.N.1) | 1,735.00 |
| Non-controlling interest at fair value (as given in the question) | 380.00 |
| | 2,115.00 |
| Less: Net worth (W.N.2) | (825.00) |
| Goodwill as on 1st April 2017 | 1,290.00 |
| Less: Impairment (as given in the question) | 258.00 |
| **Goodwill as on 31st March 2019** | **1,032.00** |

4. **Calculation of Property, Plant and Equipment as on 31st March 2019**

| | | | Rs. in 000s |
|---|---|---|---|
| A Ltd.<br>S Ltd. | | 1,500.00 | 5,500.00 |
| Add: Net fair value gain not recorded yet | 200.00 | | |
| Less: Depreciation [(200/5) x 2] | (80.00) | 120.00 | 1,620.00 |
| | | | 7,120.00 |

5. **Calculation of Post-acquisition gain (after adjustment of impairment on goodwill) and value of NCI as on 31st March 2019**

| | Rs. In 000s | Rs. in 000s |
|---|---|---|
| | NCI (20%) | A Ltd. (80%) |
| Acquisition date balance | 380.00 | Nil |

| | | | |
|---|---|---|---|
| Closing balance of Retained Earnings | 300.00 | | |
| Less: Pre-acquisition balance | (125.00) | | |
| Post-acquisition gain | 175.00 | | |
| Less: Additional Depreciation on PPE [(200/5) x 2] (80.00) | | | |
| Share in post-acquisition gain | 95.00 | 19.00 | 76.00 |
| Less: Impairment on goodwill | 258.00 | (51.60) | (206.40) |
| | | **347.40** | **(130.40)** |

### 6. Consolidated Retained Earnings as on 31st March 2019

| | **Rs. in 000s** |
|---|---|
| A Ltd. | 1,400.00 |
| Add: Share of post-acquisition loss of S Ltd. (W.N.5) | (130.40) |
| Less: Finance cost on deferred consideration (37.5 + 41.25) (W.N.7) | (78.75) |
| **Retained Earnings as on 31st March 2019** | **1,190.85** |

### 7. Calculation of value of deferred consideration as on 31st March 2019

| | **Rs. in 000s** |
|---|---|
| Value of deferred consideration as on 1st April 2017 (W.N.1) | 375.00 |
| Add: Finance cost for the year 2017-2018 (375 x 10%) | 37.50 |
| | 412.50 |
| Add: Finance cost for the year 2018-2019 (412.50 x 10%) | 41.25 |
| **Deferred consideration as on 31st March 2019** | **453.75** |

### 8. Calculation of current Liability as on 31st March 2019

| | **Rs. in 000s** |
|---|---|
| A Ltd. | 1,250.00 |
| S Ltd. | 650.00 |
| Deferred consideration as on 31st March 2019 (W.N.7) | 453.75 |
| **Current Liability as on 31st March 2019** | **2,353.75** |

## Q32. (Jan. 21) (Similar to Q18)

On 1st April 2019, Big Limited acquired a 35 interest in Dig Limited and achieved a significant influence. The cost of the investment was Rs. 3,00,000. Dig Limited has net assets of Rs. 5,50,000 as on 1st April 2019. The fair value of those net assets is Rs. 6,50,000, since the fair value of property, plant and equipment is Rs. 1,00,000 higher than its book value. This property, plant and equipment have a remaining useful life of 8 years. For the financial year 2019-2020, Dig Limited earned a profit (after tax) of Rs. 1,00,000 and paid a dividend of Rs. 11,000 out of these profits. Dig Ltd. has also recognized the loss of Rs. 15,000, that arose from re-measurement of defined benefit directly in 'Other Comprehensive Income'. Calculate Big Ltd.'s interest in Dig Ltd. as at the year ended 31 st March 2020 under the relevant method.

## SOLUTION

**Calculation of Big Ltd.'s interest in Dig Ltd at the year ended 31st March, 2020 as per Equity method:**

| | Amount (Rs.) |
|---|---|
| Cost of investment (35%) | 3,00,000 |
| Share in profit after adjustment (Refer Working Note) | 30,625 |
| Dividend received by Big Ltd from Dig Ltd (35% x Rs. 11,000) | (3,850) |
| Big Ltd.'s share of loss in OCI w.r.t Dig Ltd.'s loss from remeasurement of defined benefit liability (35% x Rs. 15,000) | (5,250) |
| **Big Ltd.'s interest in Dig Ltd at the end of the year** | **3,21,525** |

**Working Note:**

**Computation of Share in profit after adjustment**

| | Amount (Rs.) |
|---|---|
| Big Ltd.'s share of Dig Ltd.'s after tax profit (35% x Rs. 1,00,000) | 35,000 |
| Less: Big Ltd.'s share of depreciation based on fair value | |
| (35% x Rs. 12,500*) | (4,375) |
| **Share in profit after adjustment** | **30,625** |

*depreciation on upward revaluation = 1,00,000 / 8 = 12,500

## Q33. (July. 21) – (Similar to Q19)

Given below are the balance sheets of a group of companies comprising LX Limited, MX Limited and NX Limited as on 31st March 2021: **Rs in lakh**

| Particulars | LX Limited | MX Limited | NX Limited |
|---|---|---|---|
| **Assets** | | | |
| Non-current Assets | | | |
| Property, Plant and Equipment | 1,500 | 1,600 | 1,400 |
| Investment | | | |
| 17.0 lakh share in MX Limited | 2,620 | - | - |
| 9.6 lakh shares in NX Limited | - | 1,350 | - |
| Current Assets | | | |
| Inventories | 1,230 | 730 | 1,180 |
| Financial Assets | | | |
| Trade Receivables | 1,415 | 270 | 620 |
| Bills Receivables | 650 | 60 | - |
| Cash in hand and at Bank | 1,085 | 90 | 150 |
| | **8,500** | **4,100** | **3,350** |
| **Equity and Liabilities** | | | |
| Shareholders' Equity | | | |
| Share Capital (Rs 100 per share) | 3,400 | 2,000 | 1,600 |
| Other Equity | | | |
| Reserves | 1,150 | 810 | 580 |
| Retained earnings | 1,030 | 600 | 310 |
| Current Liabilities | | | |
| Financial Liabilities | | | |
| Trade Payables | 2,920 | 690 | 805 |

| Bills Payable | - | - | |
|---|---|---|---|
| MX Limited | | | 55 |
| | **8,500** | **4,100** | **3,350** |

LX Limited holds 85% shares in MX Limited, which were acquired on 1st April 2020 and MX Limited holds 60% shares in NX Limited, which were acquired on 30th September 2020.

The following balances stood in the books of MX Limited and NX Limited as on 1st April 2020:

| | **MX Limited** | **NX Limited** |
|---|---|---|
| | **Rs in lakh** | **Rs in lakh** |
| Reserves | 760 | 520 |
| Retained earnings | 480 | 150 |

The business activities of NX Limited are not seasonal in nature.

The parent company has adopted an accounting policy to measure non-controlling interest at fair value applying Ind AS 103. The fair value is to be determined at quoted market price. The given market price of MX Limited is Rs 120 per share and NX Limited is Rs 125 per share.

Prepare the consolidated Balance Sheet as on 31st March 2021 of the group of companies LX Limited, MX Limited and NX Limited.

## SOLUTION

**Consolidated Balance Sheet of the Group as at 31st March, 2021**

| Particulars | Note No. | Rs in lakh |
|---|---|---|
| **ASSETS** | | |
| Non-current assets | | |
| Property, plant and equipment | 1 | 4,500.00 |
| Current assets | | |
| (a) Inventories | 2 | 3,140.00 |
| (b) Financial assets | | |
| Trade receivables | 3 | 2,305.00 |
| Bills receivables | 4 | 655.00 |
| Cash and cash equivalents | 5 | 1,325.00 |
| **Total assets** | | **11,925.00** |
| **EQUITY & LIABILITIES** | | |
| Equity attributable to owners of parent | | |
| Share Capital | | 3,400.00 |
| Other Equity | 6 | 2,893.10 |
| Non-controlling interests (W.N.4) | | 1,216.90 |
| **LIABILITIES** | | |
| Current liabilities | | |
| (a) Financial Liabilities | | |
| Trade payables | 7 | 4,415.00 |
| **Total equity and liabilities** | | **11,925.00** |

**Notes to Accounts (Rs in lakh)**

| | | | |
|---|---|---|---|
| 1. | Property Plant & Equipment | | |
| | LX Ltd. | 1,500 | |
| | MX Ltd. | 1,600 | |
| | NX Ltd. | 1,400 | 4,500 |
| 2. | Inventories | | |
| | LX Ltd. | 1,230 | |
| | MX Ltd. | 730 | |
| | NX Ltd. | 1,180 | 3,140 |
| 3. | Trade Receivables | | |
| | LX Ltd. | 1,415 | |
| | MX Ltd. | 270 | |
| | NX Ltd. | 620 | 2,305 |
| 4. | Bills Receivables | | |
| | LX Ltd. | 650 | |
| | MX Ltd. (60-55) | 5 | 655 |
| 5. | Cash & Cash equivalents | | |
| | LX Ltd. | 1,085 | |
| | MX Ltd. | 90 | |
| | NX Ltd. | 150 | 1,325 |
| 6. | Other Equity | | |
| | Reserve (W.N.5)<br>Retained earnings (W.N.5)<br>Capital Reserve (W.N.3) | 1,207.80<br>1,172.80<br>512.50 | 2,893.10 |
| 7. | Trade Payables | | |
| | LX Ltd. | 2,920 | |
| | MX Ltd. | 690 | |
| | NX Ltd. | 805 | 4,415 |

**Working Notes:**

**1. Analysis of Reserves and Surplus (Rs in lakh)**

| | MX Ltd. | | NX Ltd. |
|---|---|---|---|
| Reserves as on 1.4.2020 | 760 | | 520 |
| Increase during the year 2020-2021 (580 - 520) | | 60 | |
| Increase for the half year till 30.9.2020 | | | 30 |
| **Balance on acquisition date (A)** | **760** | | **550** |
| Total balance as on 31.3.2021 | 810 | | 580 |
| Post-acquisition balance | 50 | | 30 |
| Retained Earnings as on 1.4.2020 | 480 | | 150 |
| Increase during the year 2020-2021 (310 - 150) | | 160 | |
| Increase for the half year till 30.9.2020 | | | 80 |
| **Balance on acquisition date (B)** | **480** | | **230** |
| Total balance as on 31.3.2021 | 600 | | 310 |

| Post-acquisition balance | 120 | | 80 |
|---|---|---|---|
| **Total balance on the acquisition date (A+B)** | **1,240** | | **780** |

**2. Calculation of Effective Interest of LX Ltd. in NX Ltd.**

Acquisition by LX Ltd. in MX Ltd. = 85%

Acquisition by MX Ltd. in NX Ltd. = 60%

Acquisition by Group in NX Ltd. (85% x 60%) = 51%

Non-controlling Interest = 49%

**3. Calculation of Goodwill / Capital Reserve on the acquisition**

| | **MX Ltd.** | **NX Ltd.** |
|---|---|---|
| Investment or consideration | 2,620.00 | (1,350 x 85%) 1,147.50 |
| Add: NCI at Fair value | | |
| [(2,000 / 100) x 120 x 15%] | 360.00 | |
| [(1,600 / 100) x 125 x 49%] | - | 980.00 |
| | 2,980.00 | 2,127.50 |
| Less: Identifiable net assets (Share Capital + Increase in the Reserves and Surplus till acquisition date) | (2,000+760+480) (3,240.00) | (1,600+550+230) (2,380.00) |
| Capital Reserve | 260.00 | 252.50 |
| **Total Capital Reserve (260 + 252.50)** | **512.50** | |

**4. Calculation of Non-controlling Interest**

| | **MX Ltd.** | **NX Ltd.** |
|---|---|---|
| At Fair Value (See Note 3) | 360.00 | 980.00 |
| Add: Post Acquisition Reserves (W.N.1) | (50 x 15%) 7.50 | (30 x 49%) 14.70 |
| Add: Post Acquisition Retained Earnings (W.N.1) | (120 x 15%) 18.00 | (80 x 49%) 39.20 |
| Less: NCI share of investment in NX Ltd. | (1,350 x 15%) (202.50) * | - |
| | 183.00 | 1,033.90 |
| **Total (183.00 + 1,033.90)** | **1,216.90** | |

*__Note:__ The non-controlling interest in MX Ltd. will take its proportion in NX Ltd. Therefore, they have to bear their proportion in the investment by MX Ltd. (in NX Ltd.) also.

**5. Calculation of Consolidated Other Equity**

| | **Reserves** | **Retained Earnings** |
|---|---|---|
| LX Ltd. | 1,150.00 | 1,030.00 |
| Add: Share in MX Ltd. | (50 x 85%) 42.50 | (120 x 85%) 102.00 |
| Add: Share in NX Ltd. | (30 x 51%) 15.30 | (80 x 51%) 40.80 |
| | **1,207.80** | **1,172.80** |

## Q34. (Dec. 21 – 14 Marks) – (Similar to Q13)

SUN Ltd. and MOON Ltd. amalgamated from 1st January, 20X2. A new Company SUNMOON Ltd. with shares of Rs 10 each was formed to take over the businesses of the existing companies.

**Summarized Balance Sheet as on 31-12-20X2** Rs. In '000

| ASSETS | Note No. | Sun Ltd. | Moon Ltd. |
|---|---|---|---|
| Non-current assets | | | |
| Property, Plant and Equipment | | 17,000 | 15,000 |
| Financial assets | | | |
| Investment | | 2,100 | 1,100 |
| Current assets | | | |
| Inventory | | 2,500 | 5,500 |
| Trade receivables | | 3,600 | 8,000 |
| Cash and Cash equivalent | | 900 | 800 |
| **Total** | | **26,100** | **30,400** |
| **EQUITY AND LIABILITIES** | | | |
| Equity | | | |
| Equity share capital (of face value of Rs 10 each) | | 12,000 | 14,000 |
| Other equity | | 6,100 | 5,400 |
| Liabilities | | | |
| Non-current liabilities | | | |
| Financial liabilities | | | |
| Borrowings (12% Debentures) | | 6,000 | 8,000 |
| Current liabilities | | | |
| Trade payables | | 2,000 | 3,000 |
| **Total** | | **26,100** | **30,400** |

**Note:**

| 1 | Other equity | Sun Ltd | Moon Ltd |
|---|---|---|---|
| | General Reserve | 3,000 | 4,000 |
| | Profit & Loss | 2,000 | 1,000 |
| | Investment Allowance Reserve | 1,000 | 200 |
| | Export Profit Reserve | 100 | 200 |
| | | **6,100** | **5,400** |

SUNMOON Ltd. issued requisite number of shares to discharge the claims of the equity shareholders of the transferor companies. Also the new debentures were issued in exchange of the old series of both the companies.

Prepare a note showing purchase consideration and discharge thereof and draft the Balance Sheet of SUNMOON Ltd:

**a.** Assuming that both the entities are under common control

**b.** Assuming MOON Ltd is a larger entity and their management will take the control of the entity SUNMOON Ltd.

The fair value of net assets of SUN and MOON limited are as follows:

| Assets | Sun Ltd. ('000) | Moon Ltd. ('000) |
|---|---|---|
| Property, Plant and Equipment | 19,000 | 17,000 |
| Inventory | 1,300 | 2,900 |
| Fair value of the business | 22,000 | 28,000 |

## Solution

### (a) (Assumption: Common control transaction)

1. Calculation of Purchase Consideration

| | | Sun ltd | | Moon ltd |
|---|---|---|---|---|
| | | '000 | | '000 |
| Assets taken over: | | | | |
| Property, Plant and Equipment | | 17,000 | | 15,000 |
| Investment | | 2,100 | | 1,100 |
| Inventory | | 2,500 | | 5,500 |
| Trade receivables | | 3,600 | | 8,000 |
| Cash & Cash equivalent | | 900 | | 800 |
| Gross Assets | | 26,100 | | 30,400 |
| Less: Liabilities | | | | |
| 12% Debentures | 6,000 | | 8,000 | |
| Trade payables | 2,000 | (8,000) | 3,000 | 11,000 |
| Net Assets taken over | | 18,100 | | 19,400 |
| Less: Other Equity: | | | | |
| General Reserve | 3,000 | | 4,000 | |
| P & L A/c | 2,000 | | 1,000 | |
| Investment Allowance Reserve | 1,000 | | 200 | |
| Export Profit Reserve | 100 | (6,100) | 200 | (5,400) |
| **Purchase Consideration** | | **12,000** | | **14,000** |

Total Purchase Consideration = 26,000 (12,000 of SUN Ltd. & 14,000 of MOON Ltd.)

2. Discharge of Purchase Consideration

**No. of shares to be issued to Sun Ltd =**

$$\frac{Net\ Assets\ taken\ over\ of\ Sun\ Ltd.}{Net\ Assets\ taken\ over\ of\ Sun\ Ltd.\ and\ Moon\ Ltd.}\ x\ Purchase\ Consideration$$

**No. of shares to be issued to Moon Ltd =**

$$\frac{Net\ Assets\ taken\ over\ of\ Moon\ Ltd.}{Net\ Assets\ taken\ over\ of\ Sun\ Ltd.\ and\ Moon\ Ltd.}\ x\ Purchase\ Consideration$$

| | Sun Ltd | Moon Ltd |
|---|---|---|
| 26,000 X 18,100/37,500 = 12,55,000 | 1,255 | |
| Equity shares of Rs 10 each | | |
| 26,000 X 19,400/37,500 = 13,45,000 | | 1,345 |
| Equity shares of Rs 10 each | | |

**Balance Sheet of SUNMOON Ltd. as on 1.1.20X2 Rs in '000**

| ASSETS | Note No. | Amount |
|---|---|---|
| Non-current assets | | |
| Property, Plant and Equipment | | 32,000 |
| Financial assets | | |
| Investments | | 3,200 |
| Current assets | | |
| Inventory | | 8,000 |
| Trade receivable | | 11,600 |
| Cash and Cash equivalent | | 1,700 |
| **EQUITY AND LIABILITIES** | | |
| Equity | | |
| Equity share capital (of face value of Rs 10 each) | 1 | 26,000 |
| Other equity | 2 | 11,500 |
| Liabilities | | |
| Non-current liabilities | | |
| Financial liabilities | | |
| Borrowings | 3 | 14,000 |
| Current liabilities | | |
| Trade payable | | 5,000 |
| | | **56,500** |

**Notes to Accounts**

| | | (R in '000) | (R in '000) |
|---|---|---|---|
| 1 | **Share Capital** | | |
| | 26,00,000 Equity Shares of Rs 10 each | | 260,00 |
| 2 | **Other Equity** | | |
| | General Reserve (30,00 + 40,00) | 70,00 | |
| | Profit & Loss (20,00 + 10,00) | 30,00 | |
| | Investment Allowance Reserve (10,00 + 2,00) | 12,00 | |
| | Export Profit Reserve (50 + 1,00) | 300 | 11,500 |
| 3 | **Long Term Borrowings** | | |
| | 12% Debentures | | 14,000 |

**(b) Assuming MOON Ltd is a larger entity and their management will take the control of the entity SUNMOON Ltd.**

In this case MOON Ltd. and SUN Ltd. are not under common control and hence accounting prescribed under Ind AS 103 for business combination will be applied. A question arises here is who is the accounting acquirer SUNMOON Ltd which is issuing the shares or SUN Ltd. or MOON Ltd. As per the accounting guidance provided in Ind AS 103, sometimes the legal acquirer may not be the accounting acquirer. In the given scenario although SUNMOON Ltd. is issuing the shares but MOON Ltd. post-merger will have control and is bigger in size which is a clear indicator that MOON Ltd. will be an accounting acquirer. This can be justified by the following table

**Rs in '000**

| | **Sun Ltd** | **Moon Ltd** |
|---|---|---|
| Fair Value | 22,000 | 28,000 |
| Value per share | 10 | 10 |
| No. of shares | 2,200 | 2,800 |
| i.e. Total No. of shares in ABX Ltd. = 5,000 thousand shares | | |
| Thus, % Held by each Company in Combined Entity | 44% | 56% |

**Note:** It is a case of Reverse Acquisition.

Accordingly, BX Ltd. assets will be recorded at historical cost in the merged financial statements.

**(1) Calculation of Purchase Consideration (All figures are in thousands)**

We need to calculate the number of shares to be issued by Monn Ltd. to Sun Ltd. to maintain the same percentage i.e. 56%:

Thus, 1400 thousand shares of Moon Ltd. (given in the balance sheet) represents 56%. This means that total no. of shares would be 2,500 thousand shares ie 1400 thousand shares / 56%.

This implies Moon Ltd. would need to issue 1100 thousand shares (2,500 less 1,400) to Sun Ltd.

Purchase Consideration = 1,100 thousand shares x Rs 20 per share = 22,000

**Balance Sheet of SUNMOON Ltd. as on 1.1.20X2**

**Rs in '000**

| **ASSETS** | **Note No.** | **Amount** |
|---|---|---|
| Non-current assets: | | |
| Goodwill (Refer Working Note) | | 3,100 |
| Property, Plant and Equipment (19,000 + 15,000) | | 34,000 |
| Financial assets | | |
| Investments (2,100 + 1,100) | | 3,200 |
| Current assets | | |
| Inventory (1,300 + 5,500) | | 6,800 |
| Trade receivable (3,600 + 8,000) | | 11,600 |
| Cash and Cash equivalent (900 + 800) | | 1,700 |
| | | **60,400** |
| **EQUITY AND LIABILITIES** | | |
| Equity | | |
| Equity share capital (of face value of Rs 10 each) | 1 | 25,000 |
| Other equity | 2 | 16,400 |
| Liabilities | | |
| Non-current liabilities | | |
| Financial liabilities | | |
| Borrowings | 3 | 14,000 |
| Current liabilities | | |
| Trade payable | | 5,000 |
| | | **60,400** |

**Notes to Accounts**

| | | (R in '000) | (R in '000) |
|---|---|---|---|
| 1 | Share Capital | | |
| | 25,00,000 Equity Shares of Rs 10 each | | 250,00 |
| 2 | Other Equity | | |
| | General Reserve | 40,00 | |
| | Profit & Loss | 10,00 | |
| | Export Profit Reserve | 200 | |
| | Investment Allowance Reserve | 200 | |
| | Security Premium | 11,000 | 16,400 |
| 3 | Long Term Borrowings | | |
| | 12% Debentures | | 14,000 |

**Working Note:**

**Goodwill Computation:**

| **Assets:** | **Rs in 000s** |
|---|---|
| Property, Plant and Equipment | 19,000 |
| Investment | 2,100 |
| Inventory | 1,300 |
| Trade Receivable | 3,600 |
| Cash & Cash Equivalent | 900 |
| **Total Assets** | **28,200** |
| Less: Liabilities: | |
| Borrowings | 6,000 |
| Trade Payable | 1,000 |
| Net Assets | 20,200 |
| Purchase Consideration | 22,000 |
| **Goodwill** | **3,100** |