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CA FINAL NOV'19

SUBJECT- FR

Test Code - FNJ 7194

BRANCH - () (Date :)

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Answer 1:

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

(4 marks)

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

(2 marks)

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

(1 mark)

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)		0	14,14,000	14,44,000
Other comprehensive income for the year		0	0	0
Total comprehensive income for the year		0	14,14,000	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

(1 mark)

* 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	(6,00,000)	
Add back: Dividend	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.		
Share capital	40,00,000	
Pre-acquisition reserves of Sub Ltd. (W.N.2)	33,20,000	
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

(1 mark x 7 = 7 marks)

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.

Answer 2:

Consolidated Balance Sheet as on 31.3.20X1

Particulars	*Note No.*	*Rs.*
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	1,00,000
(b) Reserves and Surplus	2	1,20,700
(2) Minority Interest		20,000
(3) Current Liabilities		
(a) Trade Payables	3	23,000
(b) Short Term Provisions	4	24,500
Total		2,88,200
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
Tangible assets	5	2,15,500
(b) Non-current investment	6	17,200
(2) Current assets	7	55,500
Total		2,88,200

(6 marks)

Notes to Accounts

			Rs.
1.	Share Capital		
	Called up equity shares of Rs. 1 each		1,00,000
2.	Reserves and Surplus		
	General Reserve	40,000	
	Profit and Loss A/c (W.N.3)	80,700	1,20,700
3.	Trade Payables		
	Holding & Subsidiary	20,000	
	Joint Venture (50%)	3,000	23,000
4.	Short term provisions		
	Provisions for Tax		
	Holding & Subsidiary	19,000	
	Joint Venture (50%)	5,500	24,500

5.	Tangibles Assets		
	Holding & Subsidiary	1,95,000	
	Joint Venture (50%)	20,500	2,15,500
6.	Non-current investment		
	Investment in Associate (W.N.4)		17,200
7.	Current Asset		
	Holding & Subsidiary	21,000	
	Joint Venture (50%)	34,500	55,500

(5 marks)

Working Notes:

1. Analysis of Profit & Loss of Associate / Joint Venture

		Pre-acquisition	*Post-acquisition*
		Rs.	*Rs.*
Profit as on 31.3.20X1	27,000	16,000	11,000
Share of Associate company (20%)		3,200	2,200
Analysis of Profit and Loss of Joint Venture		Nil	83,000
Share of Joint Venture (50%)			41,500

2. Calculation of Goodwill/Capital Reserve

	Associate		*Joint Venture*	
		Rs.		*Rs.*
Investment		15,000		5,000
Less: Nominal Value	8,000		5,000	
Capital Profit	3,200	(11,200)	-	(5,000)
Goodwill		3,800		Nil

3. Calculation of Consolidated Profit and Loss Account

	Rs.
Profit and Loss Account of Holding & Subsidiary	37,000
Add: Share of Associate (W.N.1)	2,200
Joint Venture (W.N.1)	41,500
	80,700

4. Calculation of Investment in Associate

	Rs.
Goodwill (W.N.2)	3,800
Net worth	11,200
Cost	15,000
Add: Share of Revenue Profit	2,200
	17,200

(1 mark x 4 = 4 marks)

Note: Out of Rs. 17,000 existed at the time of acquisition, only Rs. 16,000 (Opening Balance) is continuing in the books of the associate. Therefore, Rs. 16,000 is taken as capital profit assuming that it is a part of that Rs. 17,000 existed at the time of acquisition.

Answer 3:

To determine whether Pharma Limited can be continued to be classified as an associate on transition to Ind AS, we will have to determine whether Angel Limited controls Pharma Limited as defined under Ind AS 110.

An investor controls an investee if and only if the investor has all the following:

(a) Power over investee
(b) Exposure, or rights, to variable returns from its involvement with the investee
(c) Ability to use power over the investee to affect the amount of the investor's returns.

Since Angel Ltd. does not have majority voting rights in Pharma Ltd. we will have to determine whether the existing voting rights of Angel Ltd. are sufficient to provide it power over Pharma Ltd.

Analysis of each of the three elements of the definition of control:

Elements / conditions	**Analysis**
Power over investee	Angel Limited along with its subsidiary Little Angel Limited (hereinafter referred to as "the Angel group")
	does not have majority voting rights in Pharma Limited. Therefore, in order to determine whether Angel group have power over Pharma Limited. we will need to analyse whether Angel group, by virtue of its non-majority voting power, have *practical ability to unilaterally direct the relevant activities* of Pharma Limited. In other words, we will need to analyse whether Angel group has ***de facto* power** over Pharma Limited. Following is the analysis of *de facto* power of Angel over Pharma Limited: - The public shareholding of Pharma Limited (that is, 52% represents thousands of shareholders none individually holding material shareholding, - The actual participation of Individual public shareholders in the general meetings is minimal (that is, in the range of 6% to 8%). - Even the public shareholders who attend the meeting do not consult with each other to vote. - Therefore, as per guidance of Ind AS 110, the public shareholders will not be able to outvote Angel group (who is the largest shareholder group) in any general meeting. Based on the above-mentioned analysis, we can conclude that Angel group has *de facto* power over Pharma Limited.
Exposure, or rights, to variable returns from its involvement with the investee	Angel group has exposure to variable returns from its involvement with Pharma Limited by virtue of its equity stake.
Ability to use power over the investee to affect the amount of the investor's returns	Angel group has ability to use its power (in the capacity of a principal and not an agent) to affect the amount of returns from Pharma Limited because it is in the position to appoint directors of Pharma Limited who would take all

	the decisions regarding relevant activities of Pharma Limited. Here, it is worthwhile to evaluate whether certain rights held by the bank would prevent Angel Limited's ability to use the power over Pharma Limited to affect its returns. It is to be noted that, all the rights held by the bank in relation to Pharma Limited are protective in nature as they do not relate to the relevant activities
	(that is, activities that significantly affect he Pharma Limited's returns) of Pharma Limited. As per Ind AS 110, protective rights are the rights designed to protect the interest of the party holding those rights <u>*without giving that party power over the entity to which those rights relate.*</u> Therefore, the protective rights held by the bank should not be considered while evaluating whether or not Angel Group has control over Pharma Limited.
Conclusion: Since all the three elements of definition of control is present, it can be concluded that Angel Limited has control over Pharma Limited.	

Since it has been established that Angel Limited has control over Pharma Limited, upon transition to Ind AS, Angel Limited shall classify Pharma Limited as its subsidiary. **(10 marks)**

Answer 4:

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	800
(ii) Other Equity	8	1,978
(2) Current Liabilities		
(i) Financial Liabilities		
(a) Trade Payables	9	900
Total Equity & Liabilities		**3,678**

(4 marks)

Notes to accounts:

			(Rs. In '000)
1.	**Property Plant & 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
8.	**Cash & Cash equivalents**		
	Group (WN 3)	2,050	2,050
	Trade Payables		
	Group	1,350	
	Less: Trust Infocomm Ltd.	450	900

(0.5 mark x 8 = 4 marks)

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

(1 mark)

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

(1 mark)

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 asset is recognized for remaining 10%.

2. Fair value of remaining investment (in '000):

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

3. Cash on hand (in '000):

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):

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):

Retained Earnings before disposal	2,130
Less: Loss on disposal	(152)
Retained earnings after disposal	1,978

(1 mark x 5 = 5 marks)