## Consolidation - Associate

- Initial Accounting (On the date of Investment i.e. Retrospective)
  - Calculation of Goodwill/ Capital Reserve
  - Goodwill = Cost of Investment (PC) Share
     of Equity

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## Equity Method

Investment

- + Goodwill/ (Capital Reserve)
- = Cost
- + Profit/Loss
- <u>Dividends</u>
- = Carrying amount of investments

# Equity Method

- Elimination of unrealised profits/ losses to the extent of investor's interest in the associate
- Uniform Accounting Policies

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## Example

- H Ltd. holds 25% stake in A Ltd at cost of Rs. 5 lacs. Goodwill of Rs. 1 Lac. At the time of investment, Share capital was 10 lacs and Reserves was 6 lacs.
- As at March 31, 2014, A's share capital is 10 lacs and Reserves is 30 lacs
- Also CY profit is 8 lacs and dividend is 4 lacs.
- How will these transactions be accounted for?



- X Itd. invests in 25% shares of A Ltd in 2012. In 2014, A Ltd revalues its assets by Rs. 15 lacs and creates revaluation reserve to that extent.
- How should X Ltd account for this using Equity Method in its consolidated financial statements?

# Step Acquisition (15 to 30)

Date	% Investment	Amount	Net worth as on that date
01/04/2010	15	5,00,000	15,00,000
01/04/2012	15	4,00,000	20,00,000

Cost of Investment: 5,00,000 + 4,00,000 = 9,00,000 Equity as on date of significant influence: 20,00,000

Share of Equity (30%): 6,00,000 Goodwill: 9,00,000-6,00,000 = **3,00,000** 

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## Goodwill

- AS 23 is silent on amortisation
- AS 26 acquired goodwill 10 years rebuttable period
- Mixed opinions
- Tested for impairment

 T Company equity accounts for its 40% interest in S Company. S's financial statements include the following:

Rs'000

Revenue 600,000
 Cost of sales (250,000)

350,000

• Operating expenses (285,000) 65,000

> (20,000) 45,000

• Is the following statement true or false?

• T's consolidated revenue should include Rs. 240,000 in respect of S

o True

Tax

o False



## Case Study

 T Company equity accounts for its 40% interest in \$ Company. S's financial statements include the following:

Rs'000 Revenue 600,000

 Cost of sales (250,000) 350,000
 Operating expenses (285,000)

65,000 • Tax (20,000)

45,000
Is the following statement true or false?

 T's consolidated profit before tax should include Rs. 26,000 in respect of S

o True

o False



 P Company owns 80% of M Company and 35% of O Company. The tax charges in their individual statements of comprehensive income are:

P Rs. 200,000 M Rs. 560,000

O Rs. 800,000

- What amount should be shown as the tax charge in the consolidated statement of Profit & Loss?
  - o Rs. 1,560,000
  - o Rs. 760,000
  - o Rs. 1,040,000
  - o Rs. 928,000



## Case Study

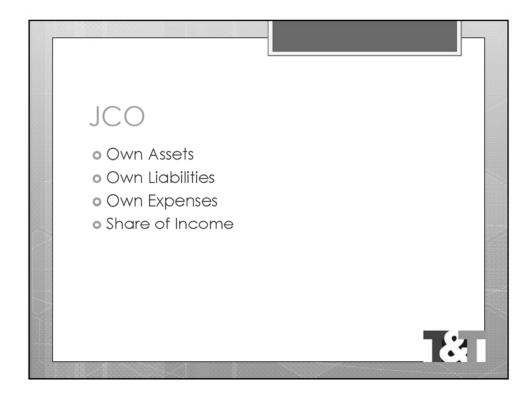
- C Company owns 25% of B Company. The following figures are from their separate financial statements:
- C: Trade receivables Rs. 840,000, including Rs. 30,000 due from B
- B: Trade receivables Rs. 215,000, including Rs. 50,000 due from C
- What figure should appear for trade receivables in C's consolidated balance sheet?
  - o Rs. 1,055,000
  - o Rs. 1,035,000
  - o Rs. 832,500
  - o Rs. 840,000

 Partnership firm is a subsidiary, associate or a joint venture?

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# Joint Venture Accounting

- Jointly Controlled Operations
- Jointly Controlled Assets
- Jointly Controlled Entities
- o Contractual Agreement is must!!
- Mandatory for Separate Financial Statements also



# JCA • its share of the jointly controlled assets • any liabilities which it has incurred; • its share of liabilities, if any • Its share of income and expenses • Its own expenses

## JCE

- Proportionate Consolidation Method
- Uniform accounting policies
- Calculate Goodwill/ Capital Reserve
- De-recognise own share of unrealised gains/ losses

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## Case Study

A Ltd has a 25% equity interest in JV Ltd which has been correctly classified as a jointly controlled entity. During the year ended 31 March 2015 A Ltd sold goods to JV Ltd for Rs. 1,60,000. JV Ltd held these goods in its inventory at 31 March 2015. The goods had cost A Ltd Rs. 1,00,000.

What amount in respect of JV Ltd's inventories should A Ltd recognise in its consolidated balance sheet at 31 March 2015?

- ° Rs. 36,250
- ° Rs. 40,000
- ° Rs. 25,000
- Rs. 100,000

# Illustrative Accounting Policies



## Wipro Limited

## ii. Principles of consolidation

The consolidated financial statements have been prepared on the following basis:

- The consolidated financial statements include the financial statements of Wipro and all its subsidiaries, which are more than 50% owned or controlled. The financial statements of the parent company and its majority owned / controlled subsidiaries have been combined on a line by line basis by adding together the book values of all items of assets, liabilities, incomes and expenses after eliminating all intercompany balances / transactions and resulting unrealized gain / loss.
- The excess of the cost to the parent of its investments in a subsidiary over the parent's portion of equity at the date on which investment in the subsidiary is made, is recognised as 'Goodwill'. When the cost to the parent of its investment in a subsidiary is less than the parent's portion of equity of the subsidiary at the date on which investment in the subsidiary is made, the difference is treated as 'Capital Reserve' in the consolidated financial statements.
- Minority interest in the net assets of consolidated subsidiaries consists of:
  - a) the amount of equity attributable to the minorities at the dates on which investment in a subsidiary is made; and
  - the minorities share of movements in equity since the date of parent-subsidiary relationship came into existence.

Minority interest in share of net result for the year is identified and adjusted against the profit after tax. Excess of loss, if any, attributable to the minority over and above the minority interest in the equity of the subsidiaries is absorbed by the Company.

 The consolidated financial statements are prepared using uniform accounting policies for similar transactions and other events in similar circumstances.

## **TATA Capital Limited**

The Consolidated Financial Statements comprise the individual financial statements of the Company, its subsidiaries, its jointly controlled entity and associates as on March 31, 2012 and for the period ended on that date. The Consolidated Financial Statements have been prepared on the following basis:

- a) The financial statements of the Company and its subsidiaries have been consolidated on a line by line basis by adding together the book values of like items of assets, liabilities, income and expenses, after eliminating intra group balances and intra group transactions resulting in unrealised profits or losses as per Accounting Standard (AS) 21 on 'Consolidated Financial Statements' as notified by the Companies (Accounting Standards) Rules, 2006.
- b) The financial statements of the jointly controlled entities have been consolidated on a line by line basis by adding together the book values of like items of assets, liabilities, income and expenses, after eliminating intra-group balances and intra-group transactions resulting in unrealised profits or losses as per Accounting Standard 27 on 'Financial Reporting of Interests in Joint Ventures' as notified by the Companies (Accounting Standards) Rules, 2006 using the 'proportionate consolidation' method.
- c) The consolidated financial statements include the share of profit/(ioss) of associate companies, which are accounted under the "Equity method" in accordance with Accounting Standard (AS) 23 on "Accounting for investments in Associates in Consolidated Financial Statements' as notified by the Companies (Accounting Standards) Rules, 2006, the share of profit/(ioss) of the associate company has been added/deducted to the cost of investment. An Associate is an enterprise in which the investor has stanfacant influence and which is neither a subsidiary nor a lointly controlled.
- d) The financial statements of the subsidiaries and the associates used in the consolidation are drawn up to the same reporting date as that of the Company, i.e. March 31, 2012.
- The excess of cost to the Company, of its investment in the subsidiaries and the associates over the Company's portion of equity is recognised in the financial statements as Goodwill and is tested for impairment on an annual basis.
- f) The excess of the Company's portion of equity of the subsidiaries and the associates on the acquisition date over its cost of investment is treated as Capital Reserve.



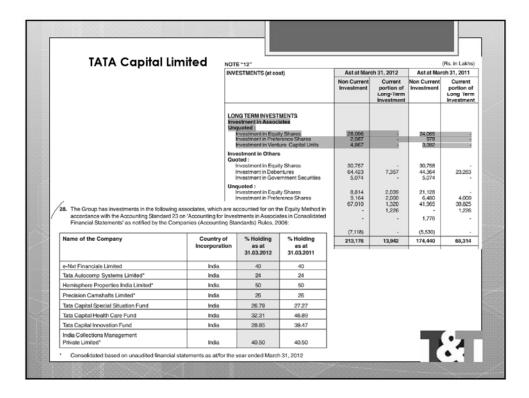
TATA Capital Limited

consolidated statement of profit and loss

for the year ended march 31, 2012

				(Rs. in Lakhs)
		Note No.	For the Year Ended March 31, 2012	For the Year Ended March 31, 2011
	Financing Income Investment Income Other Income	21 22 23	205,948 41,415 21,947	138,416 22,365 11,745
V	Total Revenue (I + II + III) Expenses : Finance costs Employee benefits expense Other operating expenses Depreciation and amortisation Amortisation of expenses Total expenses	24 25 26 11	269,309 156,611 23,354 43,932 3,842 2,038 229,777	172,526 101,032 18,154 42,080 2,664 2,064 165,994
VI VIII VIII IX X XI	Profit before exceptional and extraordinary items and tax (IV - V) Exceptional items Profit before extraordinary items and tax (VI - VII) Extraordinary items Profit before tax (VIII - IX) Tax expense: (1) Current tax (2) Deferred tax (3) MAT Cradit Entitlement (4) Current tax expenses relating to prior years Total Tax expense		39,532 39,532 39,532 14,896 (2,867) (1,073)	6,532 6,532 6,532 4,398 (1,206) (32) 12
XV XVII XVIII XVIII	Profit for the year from Continuing Operations (X-XI) Profit (Loss) from discontinuing operations Tax expense of discontinuing operations Profit from discontinuing operations Profit from discontinuing operations (after tax) (XIII - XIV) Share of Loss of Minority Interest Share of Profit of Associates Profit for the year (XII + XVI + XVII) Earnings per equity share: (1) Bast (in Rupees) (2) Diluted (in Rupees)		28,576 - 109 3,775 32,461 1.30 1.27	3,360 - - 743 2,549 6,652 0.34 0.31





# TATA Capital Limited

The Financial statements of the following jointly controlled entities have been consolidated as per Accounting Standard 27 on 'Financial Reporting of Interests in Joint Ventures' as notified by the Companies (Accounting Standards) Rules, 2006.

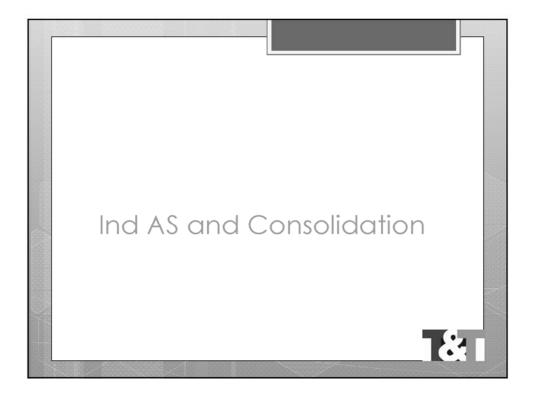
Name of Jointly controlled Entity	% Holding as at 31.03.2012	% Holding as at 31.03.2011
Nectar Loyalty Management India Limited*		
(w.e.f 5th March 2012)	49	NA

Consolidated based on unaudited financial statements as at/for the year ended March 31, 2012

The following amounts are included in the Financial Statements in respect of the jointly controlled entity referred to in Note above, based on the proportionate consolidation method:

	(Rs. in Lakh		
PARTICULARS	As at March 31, 201		
Assets:			
Deposits	44		
Advances Paid	21		
Cash and Bank Balances	611		
Duties & Taxes	57		
Liabilities			
Sundry Creditors	42		
Income	NIL		
Expenses			
Purchase of data base license	545		
Others	68		





## Consolidation Procedure

- o Ind AS 103 Business Combinations
  - FV of Assets & Liabilities
  - Non-controlling Interests
  - Goodwill
  - Deferred Tax
- Ind AS 110 Consolidated Financial Statements
  - o Line-by-line
  - o Inter-company Elimination
  - FV Adjustment
  - Deferred Tax on FV Adjustment

## Consolidation Procedure

- Ind A\$ 28 Investment in Associates & JV
  - Equity Method
  - FV of Assets & Liabilities
  - Goodwill
  - Inter-company Elimination
- Ind AS 111 Joint Arrangements
  - Joint Operations
  - Joint Ventures

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Thank You!

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