

KARPAGAM ACADEMY OF HIGHER EDUCATION
(Deemed To Be University)
(Established Under Sec 3 of Ugc Act, 1956)
Pollachi Main Road, Eachanari Post, Coimbatore - 641021
(For the candidates admitted from 2017 onwards)
DEPARTMENT OF COMMERCE

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CORPORATE ACCOUNTING

Course Objectives:

1. To enable the students to acquire the basic knowledge in the Issue of Shares and Debentures
2. To understand the concept of treatment of Forfeiture and reissue of shares in Companies
3. To learn to prepare Final Accounts of the Companies in accordance with statutory requirements.
4. To familiarize students to handle the accounts of Holding / Parent Companies and Banking Companies

Course Outcomes:

1. Students will be able to post the entries for issue and redemption of Shares and Debentures
2. Students will be able to calculate Goodwill for the companies
3. Students will be able to treat the accounts of Amalgamating Companies as per Accounting Standards of ICAI
4. Students can understand how to prepare accounts of Holding and Banking Companies.

UNIT-I

Accounting for Share Capital and Debentures: Issue, forfeiture and reissue of forfeited shares - concept & process of book building - Issue of rights and bonus shares - Buyback of shares - Redemption of preference shares Issue and Redemption of Debentures

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UNIT-II

Final Accounts: Preparation of profit and loss account and balance sheet of corporate entities – excluding calculation of managerial remuneration - Disposal of company profits. **Valuation of Goodwill and Valuation of Shares:** Concepts and calculation: simple problem only

UNIT- III

Amalgamation of Companies: Concepts and accounting treatment as per Accounting Standard: 14 (ICAI) (excluding inter- company holdings). Internal reconstruction - concepts and accounting treatment (excluding scheme of reconstruction)

UNIT- IV

Accounts of Holding Companies/Parent Companies: Preparation of consolidated balance sheet with one subsidiary company - Relevant provisions of Accounting Standard: 21 (ICAI).

UNIT-V

Accounts of Banking Companies: Difference between balance sheet of banking and non-banking companies - Prudential norms - Asset structure of a commercial bank - Non-performing assets (NPA).

Suggested Readings:

Text Book:

1. Reddy & Moorthy. (2012) *Corporate Accounting*. [Vol. 1] Chennai , Margham Publications,

Reference Books

1. M.C. Shukla, T.S. Grewal, and S.C. Gupta. (2013) *Advanced Accounts*. [Vol.-II. – Revised Edition]. New Delhi, S. Chand & Co.
2. S.N. Maheshwari, and S. K. Maheshwari. (2013) *Corporate Accounting* [5th Edition] New

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- Delhi, Vikas Publishing House.
3. V.K. Goyal and Ruchi Goyal. (2007) *Corporate Accounting*. [3rd Edition] New Delhi,. PHI Learning.
 4. Jain, S.P. and K.L. Narang. (2014) *Corporate Accounting*. [Vol – II] New Delhi, Kalyani Publishers,.
 5. P. C. Tulsian and Bharat Tulsian. (2017), *Corporate Accounting*. [11th Edition] New Delhi, S.Chand.

UNIT-I

Accounting for Share Capital and Debentures: Issue, forfeiture and reissue of forfeited shares - concept & process of book building - Issue of rights and bonus shares - Buyback of shares - Redemption of preference shares Issue and Redemption of Debentures

Introduction

Two major limitations of sole-proprietorship concerns and partnership firms are : (i) inadequacy of funds, and (ii) unlimited liability. To overcome these limitations, one of the most convenient form of organisation that grew with expansion of business requiring huge funds is the joint stock company form of organisation. In India, joint stock companies are governed by the provisions of the Companies Act, 1956.

Meaning of the Company

A joint stock company is a voluntary association of persons formed for the purpose of some business for profit with common capital, divisible into transferable shares and possessing a corporate legal entity and a common seal. It is created by a process of law and can be put to an end only by a process of law. It is a legal person and is something different from its members. It is, therefore, capable of acting in its own name. But as it has no physical existence, it must act through its agents and all the contracts entered into by its agents must be under the seal of the company. The members as such do not carry on the business of the company. A group of persons who individually called the directors and collectively form the Board of Directors are appointed. The company acts through the Board of Directors or subordinates appointed by the Board for the purpose.

Share capital of a company is divided into parts and each part is called a share. Every person who takes up a share or shares of a company becomes its member and continues to be a member so long as he holds even a single share. He is called a shareholder and is a part-owner of the company. But a person can be both a shareholder and the creditor of the same company and at the same time.

KINDS OF COMPANIES

From the point of view of *formation*, the companies are of three kinds:

(i) Chartered Companies: Those companies which are incorporated under a special charter by the king or sovereign such as East India Company. Such companies are rarely formed now-a-days as trading companies.

(ii) Statutory Companies: These companies are formed by a special Act of the Legislatures or Parliament, e.g., the Reserve Bank of India, Damodar Valley Corporation, etc.

(iii) Registered Companies: Such companies which are incorporated under the Companies Act, 1956 or were registered under the previous Companies Act.

From the point of view of *liability* there are three kinds of companies:

(i) Limited Companies: In case of such companies, the liability of each member is limited to the extent of a face value of shares held by him. Suppose Vishal takes a share of Rs. 100, he remains liable to the extent of that amount. As soon as that amount is paid, he is no more liable.

(ii) Guarantee Companies: The liability of the member of such a company is limited to the amount he has undertaken to contribute to the assets of the company in the event of its wound up. This guaranteed amount is limited by fixed sum which is specified in the memorandum. Chambers of commerce, trade associations and sports clubs are usually guarantee concerns. The object of such companies is not to make profit and distribute dividend.

(iii) Unlimited Companies: They are nothing but large partnerships registered under the Companies Act and the members just like partners have unlimited liability and both their share of contribution as well as their private property are at stake when the company is to be wound up. Such companies are rare these days.

From the point of view of *public investment* company may be of two kinds:

(i) Private Companies: A private company means a company which by its articles (a) restrict the right to transfer its shares, if any (b) Limits the number of members to fifty, excluding past or present employees of the company who are the members of the company and (c) Prohibits any invitation to the public to subscribe for any shares in or debentures of the company

(ii) Public Companies: Public companies are those companies which are not private companies. All the three restrictions are not imposed on such companies.

Books of Accounts: Section 209 of the companies Act, 1956 requires that every company is required to keep at its registered office books of account. These books are to be maintained in such a way so as to disclose (i) the sums of money received and expended by the company and the matter in respect of which the receipt and expenditure has taken place. (ii) All sales and purchases of goods of the company. (iii) All assets and liabilities of the company. In case a company is engaged in production, processing, manufacturing or mining activities, it has also to maintain cost

accounting records relating to utilization of material or labour or other items of cost as may be required by the Central Government.

Statutory Books: Statutory books are those which a limited company is under statutory obligation to maintain at its registered office for maintaining a record of its activities in order to safeguard the interest of the shareholders and creditors. The following is the list of such books:

- (i) Register of investments not held in company's name.
- (ii) Register of fixed deposits.
- (iii) Register of mortgage charges.
- (iv) Register of members.
- (v) Index of members where the number is more than 50 unless the register of member itself affords an index.
- (vi) Register of debentureholders.
- (vii) Index of debenture holders where their number is more than 50 unless the register of debentureholders itself affords an index.
- (viii) Foreign register of member's and debenture holders and their duplicates.
- (ix) Minutes books containing minutes of proceeding of general meeting and Board Meetings.
- (x) Register of contracts with companies and firms in which directors are interested directly or indirectly.
- (xi) Register of directors, managing directors, manager and secretary.
- (xii) Register of directors' shareholdings.
- (xiii) Register of loans, guarantees etc. to or investments in shares and debentures of the companies in the same group under the same management.
- (xiv) Register of renewed and duplicate certificates.
- (xv) Copy of every instrument creating any charge requiring registration.

ISSUE OF SHARES

The capital of the company can be divided into different units with definite value called shares. Holders of these shares are called shareholders or members of the company. There are two types of shares which a company may issue, i.e., (1) Preference Shares and (2) Equity Shares.

1. **Preference Shares:** Shares which enjoy the preferential right as to dividend and repayment of capital in the event of winding up of the company over the equity shares are called preference shares. These shares will get fixed rate of dividend. Preference shares may be:
 - (a) Cumulative Preference Shares
 - (b) Non-cumulative Preference Shares
 - (c) Redeemable Preference Shares
 - (d) Irredeemable Preference Shares
 - (e) Convertible Preference Shares
 - (f) Non-convertible Preference Shares
 - (g) Participating Preference Shares
 - (h) Non-participating Preference Shares
2. **Equity Shares:** Equity shares will get dividend and repayment of capital after meeting the claims of preference shareholders. There will be no fixed rate of dividend to be paid to the equity shareholders and this rate may vary from year to year. This rate of dividend is determined by directors and in case of large profits, it may even be more than the rate attached to preference shares. Such shareholders may go without any dividend if no profit is made.

Terms of Issue

The terms on which shares are to be issued by the company are given in the prospectus. Shares can be issued either at par or at a premium or at a discount. Shares are said to be issued at par when a shareholder is required to pay the face value of the shares to the company. For example, when shares of Rs. 10 are issued at Rs. 10, these are said to be issued at face value. Shares are said to be issued at premium when a shareholder is required to pay more than the face value to the company. For example, if shares of Rs. 10 are issued at Rs. 12, then shares are said to be issued at a premium. Shares are said to be issued at discount when the shareholder is required to pay less amount than the face value of the share to the company. When the shares of Rs. 10 are issued at Rs. 8, the shares are said to be issued at a discount.

The issue price of shares can be received in one instalment or it can be spread over different instalments. The amount when received in different instalments may be paid on application, allotment or in different calls. The amount which is received on application is called the application money and the amount which becomes due on allotment is called allotment money. Rest of the

amount may be called in different calls according to the requirements and needs of the company. If it is called in more than one instalment, the first instalment is called as first call, second instalment as the second call and the last instalment as the final call. For example, if a company issued 1,50,000 equity shares of Rs. 10 each in January, Rs. 10 may be called as under:

Jan.	5	Rs. 2 with application known as application money.
Feb.	9	Rs. 3 on allotting the shares known as attotment money.
May	16	Rs. 1.50 in the first instalment known as first call.
July.	27	Rs. 1.50 in second instalment known as second call.
Sept.	11	Rs. 2.00 in last instalment known as final call.

Journal Entries for Issue of Shares:

Journals		Dr.	Cr.
1.	On receipt of application money: Bank Account Dr. To Share Application Account (Being the application money on ...shares @ Rs. ....per share)	Rs. Xxx	Rs. xxx
2.	On allotment of Shares: (a) Application money on allotted shares is transfered to share capital account: Share Application Account Dr. To Share Capital Account (Being the application money transfered to Share Capital Account)	xxx	xxx
	(b) Those applicants who could not be allotted any share, their money will be returned: Share Applicatio Account Dr. To Bank Account (Being the application money of shares returned)	xxx	xxx
3.	On the allotment of shares, all allotment money becomes due to the company:		

	Share Allotment Account To Share Capital Account (Being the share allotment money on shares @ Rs. per share as per resolution dated)	Dr.	Xxx	xxx
4.	On receipt of allotment money: Bank Account To Share Allotment Account (Being the receipt of share allotment money)	Dr.	xxx	xxx
5.	On making the first call due from the shareholders: Share first Call Account To Share Capital Account (Being the first call money due on ... shares @ Rs. ....per share as per resolution of the directors dated....)	Dr.	xxx	xxx
6.	On receipt of the first call money: Bank Account To Share First Call Account (Being the receipt of share first call money)	Dr.	xxx	xxx

Note: Similar entries will be passed for second call, third and final call, if any.

Illustration 1. Vishal Ltd., issued a prospectus inviting applications for 1,00,000 Equity Shares of Rs. 10 each, payable as to Rs. 2 with application, Rs. 3 on allotment and the balance on first and final call. Applications were received for 80,000 shares only. All the applications were accepted in full. The call was also made in the due course of time. All moneys were duly received. Journalise all the abovementioned transactions including cash transactions.

Solution:

Journal		Dr.	Cr.
1.	Bank Account To Equity Share Application A/C (Being the receipt of application money on 80,000 equity shares @ Rs. 2 per share)	Rs. 1,60,000	Rs. 1,60,000

2.	Equity Share Application Account	Dr.	1,60,000	
	Equity Share Allotment Account	Dr.	2,40,000	
	To Equity Share Capital Account			4,00,000
	(Being capitalisation of application money @ Rs. 2 per share and allotment money due @ Rs. 3 per share on 80,000 equity shares allotted)			
3.	Bank Account	Dr.	2,40,000	
	To Equity Share Allotment Account			2,40,000
	(Being the receipt of allotment money on 80,000 equity shares @ Rs. 3 per share)			
4.	Equity Share First and Final Call Account	Dr.	4,00,000	
	To Equity Share Capital Account			4,00,000
	(Being the first and final call due on 80,000 equity shares @ Rs. 5 per share)			
5.	Bank Account	Dr.	4,00,000	
	To Equity Share First and final Call Account			4,00,000
	(Being the receipt of first and final call on 80,000 equity shares @ Rs. 5 per share)			

Issue of Shares for Purchase of Assets:

If the shares have been allotted to any person or firm from whom the company has purchased any assets, the following entry will be passed:

Asset Account	Dr.	xxx	
To Share Capital Account			xxx

(Being shares allotted in consideration of purchase of assets for the company)

Issue of Shares at a Premium:

A company may issue shares at a premium, i.e., at a value greater than its face value. The power to issue shares at a premium need not be given in the Articles of Association. Premium so received shall be credited to a separate account called Securities Premium Account. However, according to guidelines issued by the SEBI, a new company set up the entrepreneurs without a track record can issue capital to public only at par. A new company has been defined by SEBI as one which has

completed 12 months of commercial operations and its audited operative results are not available. But where a new company is being set up by the existing companies with a five year track record of consistant profitability, it will be free to price its issue provided:

- (i) The participation of the promoting companies is not less than 50% of the equity of the new company.
- (ii) The issue price is made applicable to all new investors uniformly; and
- (iii) The prospectus or offer document contains justification for issue price.

Section 78 of the Companies Act, 1956 gives the purpose for which securities premium account may be applied by the company. These are:

- (i) For the issue of fully paid bonus shares to the members of the company;
- (ii) for writting off preliminary expenses of the company;
- (iii) For writting off the expenses of the commission paid or discount allowed on any issue of shares or debentures of the company; and
- (iv) For providing premium payable on the redemption of any redeemable preference shares or debentures of the company.

Journal Entries:

	Journal	Dr.	Cr.
(a)	If the premium is paid with application money: (i) Bank Account Dr. To Share Application Account (Being share application money along with premium received)	Rs. xxx	Rs. xxx
	(ii) Share Application Account Dr. To Share Capital Account To Securities Ptemium Account (Being share application transfered to share capital and securities premium account)	xxx	xxx xxx
(b)	If the securities premium is received alongwith the allotment: (i) Share Allotment Account Dr. To Share Capital Account	xxx	xxx

	To Securities Premium Account (Being the allotment money and securities premium money due on shares)			xxx
	(ii) Bank Account Dr. To Share Allotment Account (Being the receipt of allotment money along with securities premium account)		xxx	xxx

Issue of Shares at a Discount:

A company can issue shares at a discount, i.e., value less than the face value subject to the following conditions:

- (i) The issue of shares at a discount is authorised by a resolution by the company in the general meeting and sanctioned by the Central Government.
- (ii) The resolution must specify the maximum rate of discount which should not exceed 10% of the nominal value of shares or such higher percentage as the Central Government may permit.
- (iii) One year must have been elapsed since the date at which the company was allowed to commence business.
- (iv) Issue must take place within two months after the date of the sanction by the court or within such extended time as the court may allow.
- (v) Every prospectus relating to the issue of shares and every balance sheet after the issue of shares shall contain particulars of the discount allowed and so much of the discount as has not been written off.

Journal Entry:

1.	The following journal entry is passed on the issue of the shares at a discount at the time of allotment:		Rs.	Rs.
	Share Allotment Account Dr.		xxx	
	Discount on the Issue of Shares Account Dr.		xxx	
	To Share Capital Account			xxx

Calls in Arrears and Calls in Advance:

If any amount has been called by the company either as allotment or call money and a shareholder has not paid that money, this is known as calls in arrears. On such calls in arrears, if the company directors want and there is a provision in the Articles of Association, the company can charge interest @ 5% for the period for which such amount remained in arrear from the shareholder.

Similarly, if any calls has been made but while paying that call, some shareholders has paid the amount of the rest of calls also, then such amount will be called as calls in advance and will be credited to a separate account known as calls in advance account by passing the following entry.

1.	Bank Account	Dr.	xxx	
	To Calls in Advance Account			xxx

Calls in Advance Account is shown on the liabilities side of the Balance Sheet separately from the paid up capital. Generally interest is paid on such calls according to the provisions of the Articles of Association but such rate should not exceed 6% per annum. Calls in advance are not entitled for any dividend declared by the company.

Illustration 2. On 1st March, 2008, ABC Ltd., makes an issue of 20,000 equity shares of Rs. 10 each payable as below:

On application Rs. 2; On allotment Rs. 3 and the first and final call Rs. 6 (three months after allotment).

Applications were received for 26,000 shares and Directors made allotment in full to the applicants demanding ten or more shares and returned money to the applicants for 6,000 shares. One shareholder who was allotted 40 shares paid first and final call with allotment money and another shareholder who was allotted 60 shares did not pay allotment money on his shares, but which he paid with the first and final call. Directors have decided to charge and allow interest, as the case may be, on calls in arrears and calls in advance respectively according to the provisions of Table A. Give the necessary journal entries in the books of the company.

Solution

JOURNAL ENTRIES

2008			Rs.	Rs.
Mar. 1	Bank Account Dr. To Share Application Account (Being application money received on 26,000 shares @ Rs. 2 per share)		52,000	52,000
Mar. 1	Share Application Account Dr. To Share Capital Account To Bank Account Being application money of 20,000 shares transferred to share capital account and application money of 6,000 shares refunded)		52,000	40,000 12,000
„	Share Allotment Account Dr. To Share Capital Account To Securities Premium Account (Being allotment money and securities premium due on 20,000 shares @ Rs. 3 per share)		60,000	40,000 20,000
„	Bank Account Dr. To Share Allotment Account To Calls in Advance Account (Being the receipt of allotment money @ Rs 3 on 19,940 shares and advance call money on 40 shares @ Rs. 6 each)		60,060	59,820 240
June. 1	Share First and Final Call Account Dr. To Share Capital Account (Being the amount due in respect of first and final call on 20,000 shares @ Rs. 6 per share)		1,20,000	1,20,000
June. 1	BankAccount Dr. To Share First and Final Call Account To Share Allotment Account (Being the amount received on account of first and final call on 19,960 shares @ Rs. 6 and calls		1,19,940	1,19,760 180

	in arrears on allotment)			
June. 1	Calls in Advance Account Dr. To share First & Final Call Account (Being adjustment of calls in advance against the first and final call)		240	240
June. 1	Interest on Calls in Advance Account Dr. To Bank Account (Being interest paid on calls in advance i.e., on Rs. 240 for 3 monts @ 6% p.a)		3.60	3.60
June. 1	Bank Account Dr. To Interest on Calls in Arrears Account (Being receipt of interest on calls in arrears, i.e., Rs. 180 for 3 months @ 5% p.a)		2.25	2.25

Forfeiture of Shares:

When a shareholder fails to pay calls, the company, if empowered by its articles, may forfeit the shares. If a shareholder has not paid any call on the day fixed for payment thereof and fails to pay it even after his allotment is drawn to it by the secretary by registered notice, the Board of Directors pass a resolution to the effect that such shares be forfeited. Shares once forfeited becomes the property of the company and may be sold on such terms as directors think fit. Upon forfeiture, the original shareholder ceases to be a member and his name must be removed from the register of members.

Journal Entries

The following entry is passed at the time of forfeiture of shares.

Share Capital Account	Dr.	(with the called amount on such shares as capital)
Securities Premium Account	Dr.	(if not received)
To Share Capital Account		(with amount which becomes due but not paid)
To Discount on Issue of Shares Account		(if shares are issued at discount)
To Shares Forfeited Account		(with the amount already received on such shares)

Surrender of Shares: After the allotment of shares, sometimes a shareholder is not able to pay the further calls and returns his shares to the company for cancellation. Such voluntary return of shares to the company by the shareholder himself is called surrender of shares. Surrender of shares has no separate accounting treatment but it will be like that of forfeiture of shares. The same entries (as are passed in case of forfeiture of shares) will be passed in case of surrender of shares.

Reissue of Forfeited Shares:

Forfeited shares may be reissued by the company directors for any amount but if such shares are issued at a discount then the amount of discount should not exceed the actual amount received on forfeited shares plus original discount on reissued shares, if any. The purchaser of forfeited reissued shares is liable for payment of all future calls duly made by the company.

The following journal entry on such reissue is passed:

Bank Account	Dr.	(amount received on such reissue)
Discount on Issue of Shares Account	Dr.	(with original rate of discount if the shares originally were issued at discount)
Shares Forfeited Account	Dr.	(loss on reissue of shares)
To Share Capital Account		(with face value of shares)
To Securities Premium Account		(if shares are reissued at premium)

After reissue of all forfeited shares if there is no balance in shares forfeited account, then there will be no capital profit. But where there is profit on the reissue of forfeited shares (i.e., shares forfeited account is showing credit balance after reissue of all forfeited shares) then such profit should be treated as capital profit and will be transferred to capital reserve by passing the following entry:

1.	Shares Forfeited Account	Dr.		xxx	
	To Capital Reserve Account				xxx

Illustration 3: A shareholder was holding 500 equity shares of Rs. 10 each of a company issued at 10% discount. He paid Rs. 2 on application, Rs. 3 on allotment but could not pay the first call of Rs. 3 per share and his shares were forfeited by the directors. The shares were reissued subsequently at a price of Rs. 7 per share. Give the necessary journal entries.

Solution

JOURNAL ENTRIES

1.	Equity Share Capital Account	Dr.	Rs. 4,500	Rs. 1,500 500 2,500
	To Equity Share First Call Account			
	To Discount on Issue of Shares Account			
	To Shares Forfeited Account			
	(Being forfeiture of 500 equity shares of Rs. 10 each Rs. 9 per share called issued at a discount of 10% for non-payment of first call of Rs. 3 per share; Rs. 5 per share paid forfeited)			
2.	Bank Account	Dr.	3,500	
	Discount on Issue of Shares Account	Dr.	500	
	Shares Forfeited	Dr.	500	
	To Equity Share Capital Account			4,500
	(Being reissue of 500 forfeited shares @ Rs. 7 per share credited as Rs. 9 per share paid-up)			
3.	Shares Forfeited Account	Dr.	2,000	
	To Capital Reserve			2,000
	(Being profit on reissue of forfeited shares transferred to capital reserve account)			

Illustration 4: A holds 200 equity shares of Rs. 10 each on which he paid Re. 1 per share as application money. B holds 300 equity shares of Rs. 10 each on which he has paid Re. 1 and Rs. 3 per share as application and allotment money respectively.

C holds 500 equity shares of Rs. 10 each on which he has paid Re. 1 on application, Rs. 3 on allotment and Rs. 2 on first call.

They all fail to pay their arrears and the second call of Rs. 2 per share and the directors, thereafter, forfeited the shares. All these shares were reissued subsequently @ Rs. 11 per share as fully paid. Give the necessary journal entries.

Solution

JOURNAL ENTRIES

			Rs.	Rs.
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1.	Equity Share Capital Account To Equity Share Allotment Account To Equity Share First Call Account To Equity Share Second Call Account To Shares Forfeited Account (Being forfeiture of shares of A,B & C)	Dr.	8,000	600 1,000 2,000 4,400
2.	Bank Account To Equity Share Capital Account To Securities Premium Account (Being reissue of 1,000 forfeited shares of Rs. 10 each at Rs. 11 per share credited as fully paid-up)	Dr.	11,000	10,000 1,000
3.	Shares Forfeited Account To Capital Reserve Account (Being balance of shares forfeited account taking as capital profit transferred to Capital Reserve Account)	Dr.	4,400	4,400

Forfeiture of Shares when there is Over-subscription and Pro-rata Allotment

It has already been stated that in case of companies of repute, there is possibility of over-subscription. Some applications are rejected altogether and others are allotted on pro-rata basis. When allotted shares on pro-rata basis are forfeited, the problem arises about the amount to be forfeited. In such cases, the following procedure may be adopted:

- Calculate the total number of shares applied for on the basis of allotted shares.
- Calculate the total amount received on application by multiplying the number of shares with application money. This is the amount which is to be forfeited on default.
- Deduct the amount due on application on allotted shares and calculate balance, i.e., money received in advance and to be adjusted on allotment.
- Calculate the amount due on allotment on such shares and deduct the amount already received as advance on application. This gives the amount in arrear on allotment and is credited to Share Allotment Account at the time of forfeiture of shares.

Illustration 5: X Ltd., issued for public subscription 20,000 equity shares of Rs. 10 each at a premium of Rs. 2 per share payable as under:

Rs. 2 per share on application; Rs. 5 per share (including premium) on allotment; Rs. 2 per share on first call; Rs. 3 per share on final call.

Applications for 30,000 shares were received. Allotment was made pro-rata to the applicants for 24,000 shares, the remaining applications being rejected. Money overpaid on application was utilised towards sums due on allotment.

Shri Balaji to whom 800 shares were allotted failed to pay the allotment money, first and second call money and Shri Murugan of whom 1,000 shares were allotted failed to pay the last two calls.

All these forfeited shares were reissued to Shri Vinod as fully paid-up at Rs. 8 per share.

Give the necessary journal entries to record the above transactions.

Solution**In the books of X Limited****JOURNAL**

			Rs.	Rs.
1.	Bank Account Dr. To Equity Share Application Account (Being the application money received on 30,000 equity shares @ Rs. 2 per share)		60,000	60,000
2.	Equity Share Application Account Dr. To Share Capital Account To Equity Share Allotment Account To Bank Account (Being application money transferred to share capital account, share allotment account and the balance refunded to the applicants)		60,000	40,000 8,000 12,000
3.	Equity Share Allotment Account Dr. To Share Capital Account To Securities Premium Account (Being the allotment money due on 20,000 equity shares @ Rs. 5 per share including premium)		1,00,000	60,000 40,000
4.	Bank Account (1) Dr. To Equity Share Allotment account		88,320	88,320

	(Being the share allotment money received)			
5.	Equity Share First Call Account Dr. To Share Capital Account (Being the share first call money due on 20,000 equity shares @ Rs. 2 per share)		40,000	40,000
6.	Bank Account Dr. To Equity Share First Call Account (Being the receipt of share first call money)		36,400	36,400
7.	Equity Share Final Call Account Dr. To Share Capital Account (Being the share final call money due on 20,000 equity shares @ Rs. 3 per share)		60,000	60,000
8.	Bank Account Dr. To Equity Share Final Call Account (Being the receipt of share final call money)		54,600	54,600
9.	Equity Share Capital Account Dr. Share Premium Account Dr. To Equity Share Allotment Account To Equity Share First Call Account To Equity Share Final Call Account To Share Forfeited Account (Being the forfeiture of 1,800 shares for the non-payment of allotment on 800 shares and first and final call money on 1,800 equity shares)		18,000 1,600	3,680 3,600 5,400 6,920
10.	Bank Account Dr. Share Forfeited Account Dr. To Equity Share Capital Account (Being the reissue of the forfeited shares as fully paid up @ Rs. 8 per share)		14,400 3,600	18,000
11.	Share Forfeited Account Dr. To Capital Reserve Account		3,320	3,320

	(Being the profit on reissue of forfeited shares transferred to Capital Reserve Account)			
--	--	--	--	--

Working Note:**Rs.**

(1) Calculation of amount received on allotment

Amount due on allotment		1,00,000
Less: Already received		8,000

		92,000
Less: Amount not received on 800 shares		
Shares Allotted to Shri Balaji 800		
If allotted 5 shares applied 6		
If allotted 800 shares applied 960		
Surplus money on application $(160 \times 2) =$	320	
Amount of allotment due $= 800 \times 5 =$	4,000	
Less: Already received	320	
	-----	3,680

		88,320

Illustration 6: On 1st March, 2009 Bama Co Ltd., issued 25,000 10% preference shares of Rs. 25 each payable as to Rs. 4 with application, Rs. 6 on allotment and the balance in two equal calls of Rs. 7.50 per share. Subscription list (which was opened on 6th March, 2009) totalled 51,000 shares. The Board of Directors rejected one application for 1,000 shares and allotted shares on the remaining applications on pro-rata basis on 1st April, 2009. First call was made three after allotment whereas the second call was made four months after the first call. All moneys were duly received. In each case, a 14 days notice was served.

Pass journal entries, prepare Cash Book and show Ledger accounts.

Solution:**Dr.****Cash Book (Bank Columns only)****Cr.**

2009		Rs.	2009		Rs.
Mar.6	To 10% Preference Shares Applications & Allotment Account (application money on 51,000 10% preference shares @ RS. 4 per share)	2,04,000		By 10% Preference Share Application Account (refund of application money on 1,000 preference shares @ Rs. 4 per share)	4,000
April 1-14	To 10% Preference Shares allotmnt Account	50,000		By Balance c/d	6,25,000
July 1-14	To 10% Preference Shares First call account	1,87,500			
Nov 1-14	To 10% Preference Shares Second and Final call	1,87,500			
		6,29,000			6,29,000

Journal		Dr. Cr.	
2009		Rs.	Rs.
Apr. 1	10% Preference Share Application & Allotment A/c Dr. To 10% Preference Capital Account (Being application money @ Rs. 4 per share and allotment money @ Rs. 6 per share credited to 10% Preference Capital Account On allotment of 25,000 shares as per Directors resolution)	2,50,000	2,50,000
July.1	10% Preference Shares First Call Account Dr. To 10% Preference Share Capital Account (Being first call money due on 25,000 10% preference shares @ Rs. 7.50 per share, as per Directors resolution)	1,87,500	1,87,500
Nov. 1	10% Preference Share Second and Final Call A/c Dr. To 10% Preference share Capital Account (Being second and final call money due on 25,000 10% preference shares @ Rs. 7.50 per share as per Board of Directors resolution)	1,87,500	1,87,500

Working Notes:

Share Applied for	Shares Alloted	Application money received	Application money	Appropriation towards Allotment money	Refund
1,000	--	Rs.	Rs.	Rs.	Rs.
50,000	25,000	4,000	--	--	4,000
		2,00,000	1,00,000	1,00,000	--
51,000	25,000	2,04,000	1,00,000	1,00,000	4,000

	Rs.
Total allotment money on 25,000 10% Preference shares @ Rs. 6 per share	1,50,000
Less: Amount of application money appropriate towards allotment money	1,00,000

Balance received after allotment	50,000

Ledger**Dr. 10% Preference Share Application & Allotment Account Cr.**

2009		Rs.	2009		Rs.
Apr. 1	To 10% Preference Share Capital account	2,50,000	Mar.6	By Bank Account	2,04,000
	To Bank Account	4,000	April		
		<u>2,54,000</u>	1-14	By Bank Account	50,000
					<u>2,54,000</u>

10% Preference Share first Call Account

2009		Rs.	2009		Rs.
July 1	To 10% Preference Share capital Account	1,87,500	July		
		<u>1,87,500</u>	1-14	By Bank Account	1,87,500
					<u>1,87,500</u>

10% Preference Share Second and Final Call Account

2009		Rs.	2009		Rs.
Nov.1	To 10% Preference Share Capital Account	1,87,500	Nov. 1-14	By Bank Account	1,87,500

10% Preference Share Capital Account

		Rs.	2009		Rs.
	To Balance c/d	6,25,000	Apr.1	By 10% Preference Share Application & Allotment Account	2,50,000
			July 1	By 10% Preference Share First Call Account	1,87,500
			Nov. 1	By 10% Preference Share Second & Final Call Account	1,87,500
		6,25,000			6,25,000
				By Balance b/d	6,25,000

REDEMPTION OF PREFERENCE SHARES:

Under section 100 of the Companies Act, a company is not allowed to return to its shareholders the share money without the permission of the Court. But permission of the court is not necessary, if the refund is to be made to the preference shareholders.

When the capital is raised by issuing redeemable preference shares, it is to be paid back by the company to such shareholders after the expiry of stipulated period whether the company is to be wound up or not. The amount of such shares will be paid back within ten years of their issue either out of the profits or proceeds of the issue of fresh shares. The following important provisions regarding redemption of preference shares are given under section 80 of the Companies Act.

- (1) Such shares cannot be redeemed unless they are fully paid up. In other words partly paid up shares cannot be redeemed. This provision is made in order to protect the interest of the creditors.
- (2) Such shares can be redeemed either out of profits which would be available for dividend or out of the proceeds of a fresh issue of shares made with the object of redemption. These shares cannot be redeemed out of the proceeds of fresh issue of debentures or out of the sale proceeds of any property of the company as it will lead to erosion of available security to the creditors. Capital profits such as shares forfeited account, development rebate account, capital redemption reserve account, securities premium account, profit prior to incorporation and capital reserve are not available for dividend. If shares are to be redeemed at premium, then such premium must be provided either out of the accumulated profits of the company or out of the company's securities premium account. The word 'proceeds' implies the amount received excluding the amount of securities premium if the shares are issued at premium but the net amount if the shares are issued either at a par or at a discount. This clause is inserted in order to protect the interest of the creditors.
- (3) When shares are redeemed out of profits available for distribution for dividend, a sum equal to the nominal amount of the shares so redeemed must be transferred out of profits to a reserve account to be called 'Capital Redemption Reserve Account'. This provision is made in order to immobilise profits from being used for any other purpose such as distribution of dividend, redemption of debentures, etc.
- (4) Capital Redemption Reserve Account can be used for issuing fully paid bonus shares to the shareholders. This account cannot be reduced except in accordance with the sanction of the court relating to reduction of share capital.
- (5) Redemption of preference shares should not be regarded as a reduction of the authorised capital of the company and as such the reduced shares should remain part of the authorised capital and must be shown in the Balance Sheet.

Procedure for Solving Problems: The following procedure for solving problems is suggested:

1. First of all see whether the redeemable preference shares are fully paid up or partly paid up. If partly paid up, make the following journal entries for making partly paid up as fully paid up.

(a)	Preference Shares Final Call Account	Dr.		xxx	
	To Preference Share Capital Account				xxx
(b)	Bank Account	Dr.		xxx	
	To Preference Shares Final Call Account				xxx

2. Pass entry for the total amount due to preference shareholders including the face value of preference shares and the premium to be paid on redemption of preference shares. The entry is:

	Redeemable Preference Share Capital Account	Dr.		xxx	
	Premium on Redemption Account	Dr.		xxx	
	To Preference Shareholders Account or Preference Shares Redemption Account				xxx

3. Make entry for issue of equity shares either with premium or without premium in order to provide amount for the purpose of redemption of preference shares by fresh issue.

	Bank Account	Dr.		xxx	
	Discount on Issue of Shares Account	Dr.		xxx	
	To Equity Share Capital Account				xxx
	To Securities Premium Account				xxx

4. Provide premium to be paid on redemption of preference shares out of securities premium account (from fresh issue or existing balance) or profit and loss account or general reserve etc. by passing the following entry:

	Securities Premium Account or				
--	-------------------------------	--	--	--	--

Profit and Loss Account or General Reserve Account	Dr.	xxx	xxx
To Premium on Redemption Account			

5. Appropriate amount from profit and loss account or general reserve or any other reserve (available for dividend) to meet the deficiency of the amount required for redemption of preference shares (or if redemption is to be made out of profits only) by passing the following entry:

Profit and Loss Account or General Reserve etc. Dr.	xxx	xxx
To Capital Redemption Reserve Account		

6. If liquid assets are not available for making payment to preference shareholders on redemption then current assets may be sold by the company or bank overdraft may be arranged.

Bank Account	Dr.	xxx	
Profit and Loss Account (loss on sale of assets) Dr.	xxx		
To Current Assets A/C or Bank Loan A/C			xxx
To Profit and Loss A/C (profit on sale of assets)			xxx

7. Payment will be made to the preference shareholders by passing the following entry:

Preference Shareholders Account (Or) Preference Share Redemption Account	Dr.	xxx	
To Bank Account			xxx

8. If redemption of preference shares is made by conversion of some other shares, then the following entry will be passed:

Preference Share Capital Account	Dr.	xxx	
To New Share Capital Account			xxx

9. Sometimes capital redemption reserve account is utilised for issuing fully paid bonus shares. In such a case the following entries will be passed:

(1)	When decision is taken to issue bonus shares: Capital Redemption Reserve Account (Or) Any other Reserve (Specifically mentioned in the question) To Bonus to Equity Shareholders Account		xxx	
(2)	When issue of bonus shares is made: Bonus to Equity Shareholders Account Equity Share Capital Account	Dr.	xxx	xxx

10. When right issue is made to the shareholders after redemption of preference shares and issue of bonus shares, then the number of such right shares is calculated after taking into consideration the recent issue of bonus shares. Entries for issue of rights shares will be made on the same lines as are made for issue of equity shares in the ordinary course.

Illustration 1: A company has 40,000 10% redeemable preference shares of Rs. 100 each, fully paid. The company decides to redeem the shares on December 31, 2009 at a premium of 5 per cent. The company makes the following issues : -

- (a) 10,000 equity shares of Rs. 100 each at a premium of 10 per cent.
- (b) 10,000 12% debentures of Rs. 100 each.

The issue was fully subscribed and all the amounts were received. The redemption was duly carried out. The company has sufficient profits. Give journal entries.

Solution:

Journal

Dr.

Cr.

2009			Rs.	Rs.
Dec. 31	Bank Account Dr. To Equity Share Capital account To Share Premium Account (Being the allotment of 10,000 shares of Rs.100 each at a premium of Rs. 10 each.)		11,00,000	10,00,000 1,00,000
Dec. 31	Bank Account Dr. To 12% Debentures Account (Being allotment of 10,000 12% debentures of Rs. 100 each)		10,00,000	10,00,000
Dec. 31	Profit and Loss Account Dr. Share Premium Account Dr. To Premium on Redemption of Preference Shares Account (Being the provision of premium of 5% payable on redemption of 40,000 redeemable preference shares of Rs. 100 each)		1,00,000 1,00,000	2,00,000
Dec. 31	Profit and Loss Account Dr. To Capital Redemption Reserve Account (Being the amount transferred to Capital Redemption Reserve Account – the amount uncovered by the face value of the shares issued)		30,00,000	30,00,000
Dec. 31	10% Redeemable Preference Share Capital Account Dr. Premium on Redemption of Preference shares Account Dr. To Bank Account		40,00,000 2,00,000	42,00,000

Illustration 2: The following is the summarised Balance Sheet of Reliance Limited:

Liabilities	Rs.	Assets	Rs.
-------------	-----	--------	-----

Paid up Share Capital		Bank	90,000
Equity Shares:		Other Assets	8,10,000
50,000 shares of Rs. 10 each	5,00,000		
10% Redeemable Pref. Shares			
1,000 shares of Rs. 100			
Each fully called	1,00,000		
Less: Calls in arrear	1,000		
(On 50 shares @ Rs. 20 each)	99,000		
Reserves and Surplus:			
General Reserve	1,00,000		
Dev. Rebate Reserve	50,000		
Other Liabilities	1,51,000		
	9,00,000		9,00,000

The Redeemable Preference Shares were redeemed on the following basis:

- (1) Further 4,500 equity shares were issued at a premium of 10 per cent;
- (2) Expenses for fresh issue of shares – Rs. 5,000;
- (3) Of the 50 preference shares, holders for 40 shares paid the call before the date of redemption. The balance 10 shares were forfeited for non payment of calls before redemption. The forfeited shares were reissued as fully paid on receipt of Rs. 500 before redemption;
- (4) Preference shares were redeemed at a premium of 10 per cent, and securities premium amount was utilised on full for the purpose.

Show journal entries including those relating to cash and the summarised Balance Sheet after redemption showing rough workings.

Solution:

Journal Entries

Dr.

Cr.

			Rs.	Rs.
Bank Account	Dr.		49,500	
To Equity Share Capital Account				45,000
To Securities Premium Account				4,500
(Being the issue of 4,500 equity shares at a				

	premium of 10%)			
	Shares Issue Expenses Account Dr. To Bank Account (Being the expenses on the issue of shares)		5,000	5,000
	Bank Account Dr. To Preference Shares Call in Arrears A/C (Being the receipt of calls in arrears on 40 preference shares @ Rs. 20 each)		800	800
	Redeemable Preference Share Capital A/c Dr. To Preference Shares Calls in Arrear A/c To Shares Forfeited Account (Being the forfeiture of 10 preference shares for non payment of final call of Rs. 20 each)		1,000	200 800
	Bank Account Dr. Shares Forfeited Account Dr. To Redeemable Preference Share Capital To Capital Reserve Account (Being the reissue of redeemable preference shares on payment of Rs. 500 and the profit transferred to Capital Reserve Account)		500 800	1,000 300
	Securities Premium Account Dr. General Reserve Account Dr. To Premium on Redemption Account (Being premium on redemption provided out of past accumulated profits & securities premium out of fresh issue)		4,500 5,500	10,000
	General Reserve Account Dr. To Capital Redemption Reserve A/C (Being the transfer of Rs. 55,000, the amount of shares redeemed out of profit, to Capital Redemption Reserve Account)		55,000	55,000

Redeemable Preference Share Capital A/C Dr.	1,00,000	
Premium on Redemption Account Dr.	10,000	
To Preference Shareholders Account		1,10,000
(Being the amount due to redeemable preference shareholders on redemption)		
Preference Shareholders Account Dr.	1,10,000	
To Bank Account		1,10,000
(Being amount paid on redemption of 1,000 Redeemable Preference Shares)		

BALANCE SHEET OF RELIANCE LIMITED. (after redemption)

Liabilities	Rs	Assets	Rs.
Share Capital:		Fixed Assets:	
54,500 equity shares of Rs.		Other assets	8,10,000
10 each fully paid.	5,45,000	Current Assets	
Reserves and Surplus:		Cash at Bank (see note)	25,800
Capital Reserve	300	Misc. Expenses & Losses	
Capital Redemption Reserve	55,000	Share issue expenses	5,000
General Reserve	39,000		
Dev. Rebate Reserve	50,000		
Current Liabilities:			
Other Liabilities	1,51,000		
	8,40,800		8,40,800

Note: Calculation of Cash at Bank :

CASH AT BANK ACCOUNT

	Rs		Rs
To Balance b/d	90,000	By Share Issue Expenses	5,000
To Share Capital	45,000	By Preference Shareholders	1,10,000

To Securities Premium	4,500		
To Pref. Shares Calls in Arrears	800	By Balance c/d	25,800
To Red Pref. Share Capital	500		
	1,40,800		1,40,800

Illustration 3: Tata Limited has the following balances as on 31 – 03 – 2006:

Liabilities	Rs.	Assets	Rs.
Share Capital :			
Issued, Subscribed and fully paid up		Fixed Assets	22,00,000
10,000 Equity Shares of Rs. 100 each	10,00,000	Current Assets	8,00,000
5,000 Preference Shares of Rs. 100 each	5,00,000		
Capital Reserve	1,00,000		
Securities Premium A/c	1,00,000		
General Reserve	2,00,000		
Profit and Loss A/c	1,00,000		
Current Liabilities	10,00,000		
	30,00,000		30,00,000

The preference shares are to be redeemed at 10% premium. Fresh issue of equity shares is to be made to the extent it is required under the Companies Act for the purpose of this redemption. The shortfall in funds for the purpose of the redemption after utilising the proceeds of the fresh issue is to be met by taking a bank loan. Show journal entries.

DEBENTURES

A debenture may be defined as an acknowledgement (mostly under seal of the company) of a debt or loan raised by a company. Just as share capital of a company is divided in a large number

of parts, each part being called a share, a loan raised by a company may be divided in a large number of parts, each part being called a debenture. Debentures are serially numbered.

Debenture is a creditorship security; company has to pay interest to debentureholders at the agreed rate. It is used to prefix 'Debentures' with the annual rate of interest. Thus, if interest at 10% per annum has to be paid on certain debentures, these debentures will be called 10% Debentures.

Distinction between Debentures and Shares: The following are the points of distinction between debentures and shares:

1. **Creditorship Security V. Ownership Security:** Whereas a debenture is creditorship security, a share is an ownership security. It means that a debentureholder is a creditor of the company, while the shareholder is a part-owner of the company. It is the fundamental distinction between a debenture and a share.
2. **Certainty of return:** A debentureholder is certain of return on his investment. The company has to pay interest on debentures at the fixed rate agreed upon at the time of issue even if it suffers heavy losses. A shareholder cannot get dividend if the company does not earn profits. As a matter of fact, even when a company earns a profit, its Directors may decide to plough back the profits and not declare a dividend. Thus, there is no certainty of return on investment in shares.
3. **Order of repayment on winding up:** In case of winding up of a company, the amount of debentures will be repaid before any amount is paid to shareholders to return share capital.
4. **Restrictions on issue at a discount:** There are no restrictions on issue of debentures at a discount, but there are legal conditions which have to be fulfilled to issue shares at a discount.
5. **Mortgage:** There can be mortgage debentures. It means that assets of the company can be mortgaged in favour of debentureholders by way of security. But there can be no mortgage shares.
6. **Convertibility:** Debentures which can be converted into shares at the option of debentureholders can be issued. But shares convertible into debentures cannot be issued.

Issue of Debentures. Debentures are issued in the same manner in which shares are issued. The company issues a prospectus inviting applications along with a sum of money called application money. After Scrutiny, the Board of Directors makes allotment of debentures. If the entire sum of money has not been asked for along with applications another sum of money called, allotment

money may be asked for. Subsequently there may be a few calls even. But mostly, the entire amount is received on application or on application and allotment.

According to SEBI (Securities and Exchange Board of India) guidelines, issue of fully convertible debentures having a conversion period of more than 36 months is not permissible unless conversion is optional with “put” and “call” option.

Entries for issue of debentures are similar to those passed for issue of shares, only the names of the accounts are changed. There are Debenture Application Account, Debenture Allotment Account, Debenture First Call Account, Debenture Second Call Account and Debenture Third and Final Call Account etc. Instead of crediting Share Capital Account, Debentures Account is credited.

Journal Entries

		Dr.	Cr.
1.	When applications are received, the entry is: Bank Account Dr. To Debenture Application Account	Rs. xxx	Rs. xxx
2.	On allotment, the application money on debentures allotted is transferred to Debentures Account: Debenture Application Account Dr. To Debentures Account	xxx	xxx
3.	The amount on application which are rejected will be refunded: Debentures Application Account Dr. To Bank Account	xxx	xxx
4.	Surplus application money on partially accepted applications will be transferred to Debenture Allotment Account: Debenture Application Account Dr. To Debenture Allotment Account	xxx	xxx
5.	The amount due on allotment: Debenture Allotment Account Dr. To Debentures Account	xxx	xxx
6.	On receipt of the allotment money: Bank Account Dr.	xxx	

	To Debenture Allotment Account		xxx
7.	The amount due on first call: Debenture First Call Account Dr. To Debentures Account	xxx	xxx
8.	On receipt of the first call money: Bank Account Dr. To Debenture First Call Account	xxx	xxx
9.	The amount due on second and final call: Debenture Second and Final Call Account Dr. To Debentures Account	xxx	xxx
10.	On receipt of the second and final call money: Bank Account Dr. To Debenture Second and Final Call Account	xxx	xxx

Illustration 7. J. S Ltd. issued 10,000 12% Debentures of Rs. 100 each, payable as to Rs. 20 on application and the balance on allotment. Applications were received for 15,000 debentures out of which applications for 9,000 were allotted fully, applications for 400 were allotted 100 debentures and the remaining rejected. All sums due were received. Journalise. Also show the Balance Sheet.

Solution:

J S Ltd.'s Journal

		Dr.	Cr.
		Rs.	Rs.
1.	Bank Account Dr. To 12% Debenture Application Account (Being the amount received as application money on 15,000 debentures @ Rs. 20 each)	3,00,000	3,00,000
2.	12% Debenture Application Account Dr. 12% Debenture allotment Account Dr. To 12% Debentures Account (Being application money @ Rs. 20 per debenture and allotment money @ Rs. 80 per	2,00,000 8,00,000	10,00,000

	debenture credited to 12% Debentures Account in respect of 10,000 debentures allotted as per Directors resolution)			
3.	12% Debentures Application Account Dr. To 12% Debentures Allotment Account To Bank Account (Being transfer of requisite amount from debentures applications account to debentures allotment account and refund made to unsuccessful applicants)		1,00,000	60,000 40,000
4.	Bank Account Dr. To 12% Debentures Allotment Account (Being the amount received against Debenture Allotment Account)		7,40,000	7,40,000

Balance Sheet of J S Ltd.

Liabilities	Rs.	Assets	Rs.
12% Debentures	10,00,000	Bank	10,00,000

Premium on Issue of Debentures and Discount on Issue of Debentures:

Premium on issue of Debentures account and Discount in issue of Debentures Account take place of Share Premium Account and Discount on issue of Shares Account respectively. Like shares, debentures may be issued at par, at a premium or at a discount. But the law does not lay down any maximum limit for discount on issue of debentures. The sanction of the Company Law Board is also not needed.

Illustration 8 : Give journal entries in the books of a purchasing company:

- (a) A company purchased assets of Rs. 3,50,000 and took over the liabilities of Rs. 30,000. It agreed to pay the purchase price, Rs. 3,30,000, by issuing debentures of Rs. 100 each at a premium of 10%.

- (b) A company Purchased assets of Rs. 3,60,000 and took over liabilities of Rs. 35,000. It agreed to pay the purchase price, Rs. 3,34,950, by issuing debentures of Rs. 100 each at a premium of 10% and Rs. 65 by cash. The debentures of the same company are quoted in the market at Rs. 130.
- (c) A company purchased assets of Rs. 3,80,000 and took over the liabilities of Rs. 30,000 at an agreed value of Rs. 3,33,000. The company issued debentures at 10% discount in full satisfaction of the purchase price.

Solution:**JOURNAL**

			Dr.	Cr.
			Rs.	Rs.
(a)	Sundry Assets Account	Dr.	3,50,000	
	Goodwill Account (Balance Figure)	Dr.	10,000	
	To Liabilities Account			30,000
	To Vendors Account			3,30,000
	(Being the purchase of assets and liabilities by purchasing company)			
	Vendor Account	Dr.	3,30,000	
	To Debentures Account			3,00,000
	To Premium on Issue of Debentures A/c			30,000
	(Being issue of debentures at a premium of 10%)			
(b)	Sundry Assets Account	Dr.	3,60,000	
	Goodwill Account	Dr.	10,015	
	To Sundry Liabilities Account			3,35,015
	To Vendors Account			35,000
	(Being the purchase of assets and liabilities by the purchasing company)			
	Vendors Account	Dr.	3,35,015	
	To Debentures Account			3,04,500
	To Premium on Issue of Debentures A/c			30,450
	To Cash Account			65
(c)	Sundry Assets Account	Dr.	3,80,000	

To Sundry Liabilities Account			30,000
To Vendors Account			3,33,000
To Capital Reserve account			17,000
(Being the take over of assets and liabilities)			
Vendors Account Dr.		3,33,000	
Discount on Issue of Debentures Account Dr.		37,000	
To Debentures Account			3,70,000
(Being the payment of purchase consideration by issuing debentures at a discount of 10%)			

If the whole amount of debentures is to be called by the company either on application or in different calls, then the entries will be passed in the books of the company on the same lines as was done in case of issue of shares.

REDEMPTION OF DEBENTURES

Meaning of Debentures

A company for its extension and development may require to raise funds without increasing its share capital. The company may invite the public by open declaration to lend money for a fixed period at a declared rate to be paid on such money. Debentures is an instrument in writing given by a company acknowledging the liability for the total amount received as a result of issue of debentures and agreeing thereby to pay the money raised after the expiry of the stipulated period at a certain rate of interest per annum. The Company Act defines debentures as 'debenture includes debenture stock, bonds or any other securities of a company, whether constituting a charge on the assets of the company or not.'

Difference between Debenture and Debenture Stock

The following are the difference between a debenture and a debenture stock:

- (1) Debenture need not be fully paid whereas debenture stock must be fully paid.
- (2) Debenture can be transferred wholly whereas debenture stock can be transferred in fractions also.

- (3) Debentures are identified by their distinct numbers whereas no such distinct numbers are in case of debenture stock.

Stages of Debentures:

- (I) Issue of Debentures
- (II) Redemption of Debentures.

Debentures may be redeemed in one of the following three ways:-

- (1) **In one lot:** All the debentures may be redeemed in one lot at the end of a specified period of time or even before the expiry of the specified period of time by serving a notice to debenture holders.
- (2) **In instalments by draw of lots:** The debentures may be redeemed in instalments. For example one-tenth of the total debentures may be redeemed every year for ten years by draw of lots. Lot will have to be drawn every year to determine which particular debentures have to be redeemed in that particular year.
- (3) **By purchase of debentures in the open market:** A company may reserve the right to buy its debentures in the open market. If the company cancels the debentures so purchased, it will amount to redemption of these debentures.

When debentures are issued with certain conditions at which redemption can be made, there are five cases which are given as follows:

Case	Conditions of Issue	Conditions of Redemption
1.	Issued at par	Repayable at par
2.	Issued at Premium	Repayable at par
3.	Issued at discount	Repayable at par
4.	Issued at par	Repayable at premium
5.	Issued at discount	Repayable at premium

The journal entries to be passed at the time of issue and redemption of debentures in the five cases are given below:

I.	When debentures are issued at par and repayable at par:		Rs.	Rs.
	(a) On issue of debentures:			
	Bank Account	Dr.	xxx	
	To Debentures Account			xxx
	(b) On redemption of debentures:			

	<p>Debentures Account Dr.</p> <p>To Bank Account</p>		xxx	xxx
II.	<p>When debentures are issued at premium and repayable at par:</p> <p>(a) On issue of debentures:</p> <p>Bank Account Dr.</p> <p>To Debentures Account</p> <p>To Premium on Issue of Debentures A/C</p>		xxx	xxx xxx
	<p>(b) On redemption of debentures:</p> <p>Debentures Account Dr.</p> <p>To Bank Account</p>		xxx	xxx
III.	<p>When debentures are issued at discount and repayable at par:</p> <p>(a) On issue of debentures:</p> <p>Bank Account Dr.</p> <p>Discount on Issue of Debentures A/C Dr.</p> <p>To Debentures Account</p>		xxx xxx	xxx
	<p>(b) On redemption of debentures:</p> <p>Debentures Account Dr.</p> <p>To Bank Account</p>		xxx	xxx
IV.	<p>When debentures are issued at par and repayable at premium:</p> <p>(a) On issue of debentures:</p> <p>Bank Account Dr.</p> <p>Loss on the issue of Debentures Account Dr.</p> <p>To Debentures Account</p> <p>To Premium on Redemption of Debentures</p>		xxx xxx	xxx xxx
	<p>(b) On redemption of debentures:</p> <p>Debentures Account Dr.</p> <p>Premium on the redemption of debentures Dr</p> <p>To Bank Account</p>		xxx xxx	xxx

V.	When debentures are issued at a discount but repayable at a premium: (a) On issue of debentures: Bank Account Dr. xxx Loss on the Issue of Debentures Account Dr. xxx To Debentures Account xxx To Premium on Issue of Debentures A/C xxx			
	(b) On redemption of debentures: Debentures Account Dr. xxx Premium on Redemption of Debentures A/c Dr. xxx To Bank account xxx			

Sources of Finance for Redemption of Debentures:**(1) Redemption out of Profits:**

When debentures are redeemed out of profits, profits of the company are utilised for the purpose of redemption withholding the same for dividend. In such a case the following journal entries will be passed.

1.	Entry for amount paid on redemption: Debentures Account Dr. xxx To Bank Account xxx		Rs. xxx	Rs. xxx
2.	Entry for transfer of profit: Profit and Loss Appropriation Account Dr. xxx To Debenture Redemption Reserve Account xxx		xxx	xxx
3.	When balance of D.R.R A/c is not required for redemption and is transferred to General Reserve Account: Debenture Redemption Reserve Account Dr. xxx To General Reserve Account xxx		xxx	xxx

(2) Redemption out of capital:

If debentures are redeemed out of capital, no amount of divisible profit is kept aside for redeeming debentures. Profits are not utilised for redemption of debentures and may go to the shareholders by way of dividends. Redemption out of capital reduces the liquidity resources available to the company. Therefore, a company may adopt this method only when it has sufficient surplus funds.

According to the guidelines issued by SEBI, a company has to create Debenture Redemption Reserve equivalent to 50% of the amount of debentures issued before redemption of debentures commences. Thus, according to this provision redemption of debentures wholly out of capital is now not possible. However, creation of Debenture Redemption Reserve is not required in the following cases:

1. Debentures with a maturity of 18 months or less.
2. Fully convertible debentures. In case of partly convertible debentures, Debenture Redemption Reserve is to be created for the non-convertible part in the same way as applicable for fully non-convertible debentures.

When debentures are redeemed out of capital the following entry is made:		Rs.	Rs.
Debentures Account	Dr.	xxx	
To Bank Account			xxx
Sometimes instead of passing one entry given above, the following two entries are passed:			
(a) Debentures Account	Dr.	xxx	
To Debentureholders			xxx
(c) Debentureholders Account	Dr.	xxx	
To Bank Account			xxx

3. Redemption by conversion:

Sometimes the debentureholders of a company are given the option to convert their debentures into the shares or new debentures within a stipulated period. Such option is exercised by the debentureholders only when they are very sure about the progress of the company. The new

shares or debentures can be issued either at par or at a premium or at a discount. The following entry will be made:

			Rs.	Rs.
Old Debentures Account	Dr.		xxx	
Discount on the Issue of Shares/Debentures A/C	Dr.		xxx	xxx
To New Share Capital / Debentures Account				xxx
To Premium on Issue of shares/Debentures Account				

Illustration 4: On July 1, 2006 X Ltd. gave notice of its intention to redeem its outstanding Rs. 4,00,000 4 ½ % Debenture Stock on January 1, 2007 at 102 per cent and offered the holders the following options:

(1) To apply the redemption money to subscribe for:

(a) 6[^] Cumulative Preference Shares of Rs. 20 each at Rs. 22.50 per share accepted by the holders of Rs.1,71,000 stock, or

(b) 6% Debenture stock of Rs. 96 accepted by the holders of Rs. 1,44,000 stock, or

(2) To have their holdings redeemed for cash if neither of the options under (1) was accepted.

You are required to show the journal entries necessary to record the redemption and allotments under (1) and (2) and to state the amount of cash required to satisfy the option.

Solution:

JOURNAL

Dr.

Cr.

			Rs.	Rs.
4 ½ % Debentures Account	Dr.		4,00,000	
Premium on Redemption of Debentures Account	Dr.		8,000	
To Debentureholders Account				4,08,000
(Being redemption of debentures of Rs. 4,00,000 at 102 per cent)				
(1)(a)	Debentureholders Account	Dr.	1,74,420	
	To 6% Cumulative Preference Share Capital A/c			1,55,040
	To Securities Premium Account			19,380
	(Being debentureholders of Rs. 1,71,000 (Redemption value Rs. 1,74,420) accepted Cum. Pref. Shares of Rs. 20 each at 22.50 per share)			

(b)	Debentureholders Account	Dr.	1,46,880	
	Discount on Issue of Debentures Account	Dr.	6,120	
	To 6% Debentures Account (being debentureholders of Rs. 1,44,000 (redemption value Rs. 1,46,880) issued new 6% Debentures at Rs. 96)			1,53,000
	Debentureholders Account	Dr.	86,700	
	To Bank Account (Being Debentureholders of Rs. 85,000 (redemption value Rs. 86,700) paid in cash)			86,700
(2)	Total amount required for Redemption is Rs. 4,08,000, i.e., (4,00,000 X 102/100)			

KARPAGAM ACADEMY OF HIGHER EDUCATION

Coimbatore - 641021

DEPARTMENT OF COMMERCE

CORPORATE ACCOUNTING (17CCU301)

UNIT I

S. No.	Questions	Option 1	Option 2	Option3	Option4	Answer
1	..... is an artificial person created by la	Firm	Sole trader	Company	HUF	Company
2	The liability of shareholders of a company is ...	Limited	Unlimited	Uncertain	Certain	Limited
3	A company is managed by its.....	Partners	Auditor	Board of Directors	Debenture holder	Board of Directors
4	.....company Is a company created by a special Act in Parliament	Government	Registered	Chartered	Statutory	Statutory
5	A company registered with Registrar of Companies under Indian Companies Act is called as.....	Government	Registered	Chartered	Statutory	Registered
6	The company in which the liability of members is liable to pay the agreed amount at the time of winding up is called as	Unlimited Company	Company limited by shares	Company limited by guarantee	Liquidating Company	Company limited by guarantee
7	A company in which the transferability of share is restricted is called as	Government Company	Private Company	Public Company	Foreign Company	Private Company
8	.....is the first stage in the formation of a public company	Promotion	Incorporation	Capital Subscription	Commencement	. Promotion
9	Authorised capital is called as.....	Reserve capital	Nominal Capital	Capital Reserve	Subscribed capital	Nominal Capital

10	.....is that portion of capital which is called up only on winding up of the company	Authorised Capital	Issued capital	Subscribed capital	Reserve capital	Reserve capital
11	In case of .....preference shares, the arrears of dividend are carried forward and	Participating	Convertible	Cumulative	Redeemable	Cumulative
12	.....shares are repayable after the expiry of the fixed period or at the option of the holder	Participating	Convertible	Cumulative	Redeemable	Redeemable
13	A bundle of fully paid shares is called.....	Stock	Sweat Equity	Warrant	Debenture	Stock
14	IPO stands for	Initial Private Offer	International Public Offer	Initial Public Offer	International Private Offer	Initial Public Offer
15	In the company offers the investors an opportunity to bid collectively.	Private Placement	Offer for sale	Book building	IPO	Book building
16	As per the companies Act, the interest on calls in advance is	10%	6%	5%	7%	6%
17	The rate of interest on Calls in arrears as per Companies Act is	10%	6%	5%	7%	5%
18	The shares of a company can be issued at	Par	Premium	Discount	Par, Premium and Discount	Par, Premium and Discount
19	Share application account is a	Real Account	Nominal Account	Impersonal Account	Personal Account	Personal Account
20	The rate of discount on shares cannot exceed	10%	6%	5%	7%	10%
21	A newly established company cannot issue shares at	Par	Premium	Discount	Par, Premium and Discount	Discount
22	.....of total issued amount of capital is called minimum subscription.	75%	90%	95%	80%	90%
23	The rate of discount should not exceed ... of nominal value of shares.	10%	5%	6%	7%	10%

24	The minimum application money to be paid by an applicant must not be less than ...	10%	5%	15%	20%	5%
25	The excess price received on the par value of shares should be credited to	Calls in advance A/c	Reserve Capital A/c	Security Premium A/c	Par, Premium and Discount	Security Premium A/c
26	Underwriting commission is classified as	Capital Loss	Capital Expenditure	Revenue expenditure	Deferred revenue expenditure	Deferred revenue expenditure
27	Compulsory cancellation of shares by the company due to non-payment of allotment	Surrender of Shares	Buy back of shares	Forfeiture of shares	Rights issue	Forfeiture of shares
28	The profit on reissue of forfeited shares is transferred to	General reserve	Capital Redemption reserve	Capital reserve	Investment Allowance reserve	Capital reserve
29	Preference shareholders are.....	Debtors of the company	Creditors of the company	Owners of the company	Partner of the firm	Owners of the company
30	The shares firstly offered to the existing shareholders are called as	Right shares	Bonus shares	Ordinary shares	preference share	Right shares
31	The security premium account is shown in the balance sheet under the head.....	Share capital	Reserves & Surplus	Secured loans	Current liabilities	Reserves & Surplus
32	.....should be deducted from the share capital to determine the paid up capital.	Security premium	Calls in advance	Calls in arrears	Discount on issue	Calls in arrears
33	The share capital account is debited with .....while forfeiting shares	Calls in arrears	Paid up capital	Called capital	Issued capital	Called capital
34	On an equity share of Rs. 20, the company has called up Rs. 16 but Rs.14 has been received	Rs. 20	Rs. 16	Rs. 14	Rs. 6	Rs. 16
35	Balance of forfeited share is	Revenue Res	Capital Reserve	Secret Reserve	Security Premium	Capital Reserve
36	When shares are issued at a price higher than their face value, it is called issue at.....	Par	Premium	Discount	Par, Premium and Discount	Premium
37	The shares of a company only can be forfeited after giving a .....days notice	21	14	7	30	14

38	The forfeited shares can be reissued at	Par	Premium	Discount	Par, Premium and Discount	All of these
39	Discount on reissue of forfeited shares should not exceed	Amount forfeited	Face value	Issued price	Market price	Amount forfeited
40	Preference shares cannot be redeemed at	Par	Premium	Discount	Par, Premium and Discount	Discount
41	Preference shares can be redeemed by.....	Fresh issue of	Profit	Partly out of fresh issue and partly out of	All of these	All of these
42	..... preference shares can be redeemed	Fully paid	Partly paid	Fully and partly Paid	unpaid	Fully paid
43	Profit available for dividend distribution is called	Capital profit	Divisible profit	Capital Reserve	retained earnings	Divisible profit
44	Which of the following is an example for capital profit?	Capital Reserve	Security premium	Forfeited shares	Capital reserve, Security Premium	All of these
45	Which of the following is an example for divisible profit?	General Reserve	Security premium	Forfeited shares	Capital reserve, Security Premium	General Reserve
46	In case of redemption out of profit, an amount equal to face value of shares so redeemed	Security premium	Capital Redemption Reserve	Dividend Equalization Reserve	Redemption of shares	Capital Redemption Reserve
47	Capital Redemption Reserve Account can be utilized for.....	Writing off premium	Issuing partly paid bonus shares	Writing off capital losses	Issuing fully paid bonus shares	Issuing fully paid bonus shares
48	The allotment of shares in case of oversubscription is called.....	Pro-rata allotment	Private Placement	Offer for sale	Underwriting	Pro-rata allotment
49	Security premium account can also be utilized for	Issuing fully paid bonus shares	Private Placement	Offer for sale	Underwriting	Issuing fully paid bonus shares
50	.....is that portion of issued capital which is applied for by the public.	Issued capital	Subscribed capital	Nominal Capital	Paid up capital	Subscribed capital
51	.....is an instrument of acknowledgment of debt.	Equity share	Preference Share	Debenture	Both Equity and Preference share	Debenture

52	Debenture represents Of a company	Borrowed capital	Owned capital	Hybrid capital	Equity	Borrowed capital
53	Debenture holders will get	Dividend	Interest	Profit	Loss	Interest
54	Debenture holders are the .....of a company	Debtors	Owners	Creditors	Borrowers	Creditors
55	A charge created not on specific assets but generally on all assets is known as.....	Fixed charge	Floating charge	Mortgage	Hypothecation	Floating charge
56	.....debentures can be transferred only with the knowledge of the company.	Naked	Mortgage	Registered	Bearer	Registered
57	.....debentures are transferable by mere delivery.	Naked	Mortgage	Registered	Bearer	Bearer
58	.....debentures are secured by the assets of the company.	Naked	Mortgage	Registered	Bearer	Mortgage
59	Unsecured debentures are called as .....debentures	Naked	Mortgage	Registered	Bearer	Naked
60	FCD stands for	Fixed Charge	Floating Charge Debentures	Fully Convertible Debentures	non convertible debenture	Fully Convertible Debentures

UNIT-II

Final Accounts: Preparation of profit and loss account and balance sheet of corporate entities – excluding calculation of managerial remuneration - Disposal of company profits. **Valuation of Goodwill and Valuation of Shares:** Concepts and calculation: simple problem only

Introduction

A limited company must prepare every year the Profit and Loss Account and the Balance Sheet. Section 209 makes it compulsory for a company to keep certain books of account. Section 210 governs the preparation of the final accounts. The important portions of this section read as follows: -

- (1) At every annual general meeting of the company held in pursuance of section 166, the Board of Directors of the company shall lay before the company –
 - (a) The balance sheet as at the end of the period specified in sub-section (3); and
 - (b) A profit and loss account for the period
- (2) In case of a company not carrying on business for profit, an income and expenditure account shall be laid before the company at its annual general meeting instead of profit and loss account, and all references to ‘profit and loss account’, ‘profit’ and ‘loss’ in this section and elsewhere in this Act, shall be construed, in relation to such a company, as references respectively to the ‘income and expenditure account’, ‘the excess of income over expenditure’ and ‘the excess of expenditure over income’.
- (3) The profit and loss account shall relate –
 - (a) In the case of the first annual general meeting of the company, to the period beginning with the incorporation of the company and ending with a day which shall not precede the day of the meeting by more than nine months; and
 - (b) In the case of any subsequent annual general meeting of the company, to the period beginning with the day immediately after the period for which the account was last submitted and ending with a day which shall not precede the day of the meeting by more than six months, or in case where an extension of time has granted for holding the meeting under the second provision to sub-section (1) of section 166, by more than six months and the extension so granted.

- (4) The period to which the account aforesaid relates is referred in this Act as a 'financial year', and it may be less or more than a calendar year, but it shall not exceed fifteen months:

Legal Position Regarding Final Accounts of Companies

Section 210 to 220 of the Companies Act, 1956 deal with the legal position relating to the final accounts of joint stock companies. A brief mention of these legal provisions is given below:

Section 210. It deals with the preparation and presentation of the final accounts of a joint stock company.

Section 211. It deals with form of contents of the Balance Sheet and Profit and Loss Account.

Section 212. It deals with the disclosure of certain particulars in the Balance Sheet of a holding company in respect of its subsidiaries.

Section 213. It makes provision for extension of the financial year of the holding company and subsidiary.

Section 214. It makes provisions regarding rights of holding company's representatives and members to inspect books of accounts kept by any of its subsidiaries.

Section 215. As per this section, the Balance Sheet and Profit and Loss Account of a company shall be authenticated, (i.e., signed) on behalf of the Board of Directors by its manager or secretary, if any, and by not less than two directors of the company, one of whom shall be a managing director, where there is one.

Section 216. As per this section, the Profit and Loss Account shall be treated as an annexure to the Balance Sheet and the auditors' report as an enclosure thereto.

Section 217. The report of the Board of Directors shall be attached to every Balance Sheet laid before the shareholders in general meeting.

Section 218. It provides for penalty for improper issue, circulation or publication of Balance Sheet or Profit and Loss Account.

Section 219. It deals with the right of the member to copies of Balance Sheet and Profit and Loss Account, auditors' report and every other document required by law to be annexed or attached to the Balance Sheet, which is to be presented in the general meeting.

Section 220. According to this section, three copies of Balance Sheet and Profit and Loss Account be filed with the Registrar within 30 days after the annual general meeting.

Preparation and Presentation of the Final Accounts:

In respect of preparation and presentation of the final accounts the requirements of Section 210 of the Companies Act are quoted below:

- (1) At every annual general meeting of a company in pursuance of section 166, the Board of Directors of the company shall lay before the company :
 - (a) A balance sheet as at the end of the period specified in sub-section (3); and (b) a profit and loss account for that period.
- (2) In case of a company not carrying on business for profits, an income and expenditure account shall be laid before the company at its annual general meeting instead of profit and loss account and all references to “profit and loss account”, “profit” and “loss” in this and elsewhere in this Act shall be construed, in relation to such a company as references respectively to the “income and expenditure account”, “the excess of income over expenditure” and “the excess of expenditure over income”.
- (3) The profit and loss account shall relate :
 - (a) In the case of the first annual general meeting of the company to the period beginning with the incorporation of the company and ending with a day which shall not precede the day of the meeting by more than nine months; and
 - (b) In the case of any subsequent annual general meeting of the company, to the period beginning with the day immediately after the period for which the account was last submitted and ending with a day which shall not precede the day of the meeting by more than six months or in case where an extension of time has been granted for holding the meeting under the second provision to sub-section (1) of section 166, by more than six months and the extension so granted.
- (4) The period to which the account aforesaid relates is referred to in this Act as a financial year and it may be less or more than a calendar year, but it shall not exceed fifteen months.

Provided that it may extend to eighteen months where special permission has been granted in that behalf by the registrar.
- (5) If any person, being a director of a company, failure to take all reasonable steps to comply with the provisions of this section, he shall, in respect of each offence, be

punishable with imprisonment for a term which may extend to six months, or with fine which may extend to one thousand rupees or with both:

Provided that in case of any proceedings against a person in respect of an offence under this section, it shall be a defence to prove that a competent and realible person was charged with the duty of seeing that the provision of this section were complied with and was in a position to discharge that duty.

Provided further that no person shall be sentenced to imprisonment for any such offence unless it was committed wilfully.

- (6) If any person, not being a director of the company, having been charged by the Board of Directors with the duty of seeing that the provisions of this section be complied with, makes default in doing so, he shall, in respect of each offence, be punishable with imprisonment for a term which may extend to six months, or with fine which may extend to one thousand rupees or with both:

Provided that no person be sentenced to imprisonment for any such offence unless it was committed wilfully.

Form and Contents of Profit and Loss Account:

SCHEDULE VI, PART II

Form of Profit and Loss Account

Particulars	Rs.	Particulars	Rs.
To Opening Stock	xxx	By Sales	xxx
To Purchases		Less: Sales Returns	xxx
Less: Purchas Returns	xxx	By Closing Stock	
To Freight and Carriage	xxx		
To Wages	xxx		
To Coal & Coke	xxx		
To Gross Profit c/d	xxx		
	xxx		
	xxx		xxx
	xxx	By Gross Profit b/d	xxx
To Salaries	xxx	By Interest Received	xxx
To Rent	xxx	By Rent Received	xxx

To Discount	xxx	By Discount	xxx
To Commission	xxx	By Commission	xxx
To Advertisement	xxx	By Profit on sale of Assets	xxx
To General Expenses			
To Directors' Fees			
To Bad Debts			
To Loss on sale of assets			
To Depreciation			
To Preliminary Expenses			
To Provision for Income Tax			
To Net Profit c/d			
	xxx		xxx

PROFIT AND LOSS APPROPRIATION ACCOUNT OFCO. LTD.**(as on 31 March, 20.....)**

	Rs.		Rs.
To Transfer to Reserves	Xxx	By Last year's Balance b/d	Xxx
To Income Tax for previous	Xxx	By Net Profit for the year b/d	Xxx
year not provided for		By Amount withdrawn from General	Xxx
To Interim Dividend	Xxx	Reserve or any other reserve	
To Proposed dividend	Xxx	By Provision such as Income	Xxx
To Surplus (Balance figure)	Xxx	Tax provision no longer	
carried to Balance Sheet		required	
	xxx		xxx

SCHEDUL VI, PART I

(SECTION 211)

FORM OF BALANCE SHEET

A. HORIZONTAL FORM

Balance Sheet of (here enter the name of the company)

As on (here enter the date as at which the balance sheet is made out)

Figures for the previous year Rs. (1)	Liabilities (2)	Figures for the current year Rs. (3)	Figures for the previo us year Rs. (4)	Assets (5)	Figures for the current year Rs. (6)
	Share Capital: Authorized ... shares of Rs. ....each Issued: Shares of Rs. Each Subscribed: Shares of Rs. each. Less: Calls Unpaid: (i) By Directors (ii) By others Add: Forfeited Shares Reserves and Surplus: 1.Capital Reserve 2.Capital Redemption Reserve 3.Share premium A/c 4. Other Reserves 5. Surplus			Fixed Assets: (a)Goodwill (b)Land (c) Buildings (d) Leaseholds (e) Railway sidings (f) Plant and machinery (g) Furniture and Fittings (h) Development of Property (i) Patents, trade marks and designs (j) Livestock (k) Vehicles etc., Investments: 1. Investment in	

6. Proposed additions to Reserve 7. Sinking funds Secured Loans: 1. Debentures 2. Loans and advances from Banks 3. Loans and advances from subsidiaries 4. Other loans and advances Unsecured Loans: 1. Fixed Deposits 2. Loans and advances from subsidiaries 3. Short term Loans and Advances 4. Other loans and advances Current Liabilities and Provisions: A. Current Liabilities 1. Acceptances 2. Sundry Creditors 3. Subsidiary Companies 4. Advance payments 5. Unclaimed dividends 6. Other Liabilities 7. Interest accrued but not due on loans			Government or trust securities 2. Investments in shares, debentures and bonds 3. Immovable properties 4. Investments in the capital of partnership firms Current assets, Loans and Advances: (A) Current Assets 1. Interest accrued on investments 2. Stores and Spare Parts 3. Loose tools 4. stock in Trade 5. Work in progress 6. Sundry Debtors 7. Cash in hand and at bank (B) Loans and Advances: 8. Advances and loans to subsidiaries 9. Advances and loans to partnership 10. Bills of	
--	--	--	--	--

	B. Provisions 1.Provision for Taxation 2.Proposed Dividend 3.For Contingencies 4.For proposed fund scheme 5.For insurance, pension and similar staff benefit schemes 6.For Provident Fund scheme 7. Other Provisions			Exchange 11. Balances with customs, port trust etc., Miscellaneous Expenditure: 1.Preliminary Expenses 2.discount on issue of Shares 3. Underwriting Commission 4. Development Expenditure Profit and Loss Account	
--	--	--	--	---	--

VERTICAL FORM OF BALANCE SHEET

Vertical form of Balance sheet inserted as Part B of Part I of Schedule VI to the Companies Act, 1956 by GSRNo.220 (E) dated 12 – 03 – 1979 is as follows:

B. VERTICAL FORM

Name of the Company

Balance Sheet as at

	Schedule No.	Figures as at the end of current financial year	Figures as at the end of previous financial year
(1)	(2)	(3)	(4)
I.SOURCES OF FUNDS			
(1) Shareholders' Funds:			
(a) Capital			
(b) Reserves and Surplus			
(2) Loan funds:			
(a) Secured Loans			
(b) Unsecured Loans			
II. APPLICATION OF FUNDS			
(1) Fixed assets:			
(a) Gross block			
(b) Less Depreciation			
(c) Net block			
(d) Capital work-in-progress			
(2) Investments			
(3) Current Assets, Loans and Advances:			
(a) Inventories			
(b) Sundry Debtors			
(c) Cash and bank balance			
(d) Other current assets			
(e) Loans and advances			

Less: Current liabilities and Provisions			
(a) Liabilities			
(b) Provisions			
Net Current Assets			
(1) (a) Miscellaneous			
Expenditure to the extent			
Not written off or			
Adjusted			
(c) Profit and Loss Account			
Total			

Illustration 1 : Prepare a Balance Sheet in Vertical form as at 31st March, 2010 from the following information of Goodwill Company Limited as required under Part I B of Schedule VI of the Companies Act, 1956 :

	Rs.
Term loan	10,00,000
Sundry Creditors	11,45,000
Advances	3,72,000
Cash and Bank Balances	2,75,000
Staff Advances	55,000
Provision for Taxation	1,70,000
Securities Premium	4,75,000
Loose tools	50,000
Investments	2,25,200
Loss for the year	3,00,000
Sundry Debtors	12,25,000
Miscellaneous Expenses	58,000
Loans from debtors	2,00,000
Provision for doubtful debts	20,200
Stores	4,00,000

Fixed assets (WDV)	51,50,000
Finished goods	7,50,000
General Reserve	20,50,000
Capital work – in – progress	2,00,000

Additional Information:

(1) Share capital consists of :

(a) 3,000 Equity Shares of Rs. 100 each fully paid up.

(b) 10,000 – 10% Redeemable Preference Shares of Rs. 100 each fully paid up.

(2) Term loans are secured

(3) Depreciation on assets Rs. 5,00,000

(4) Schedule need not be given. However, groupings should form part of the answer.

Solution :

Goodwill Company Limited

BALANCE SHEET

As on 31st March, 2010

	As on 31-3-10	As on 31-3-10
Sources of Funds		
1. Shareholders' Funds :		
(a) Share Capital	13,00,000	
(b) Reserves and Surplus	25,25,000	38,25,000
2. Loans Funds :		
(a) Secured Loans	10,00,000	
(b) Unsecured Loans	Nil	10,00,000
3. Suspense Account (Balancing figure)		27,00,000
		75,25,000
Application of Funds		
1.Fixed Assets:		
(a) Gross Block	56,50,000	

(b) Less : Depreciation		5,00,000	
(c) Net Block		51,50,000	
(d) Capital work-in-progress		2,00,000	53,50,000
			2,25,200
2. Investments			
3. Current Assets, Loans & Advances			
(a) Inventories		12,00,000	
(b) Sundry Debtors		12,04,800	
(c) Cash and Bank Balances		2,75,000	
(d) Loans and Advances		4,27,000	
		31,06,800	
Less : Current Liabilities & Provisions :			
(a) Current Liabilities	13,45,000	15,15,000	
(b) Provisions	1,70,000		15,91,800
4. Miscellaneous Expenditure :		3,00,000	
(a) Profit and Loss Account		58,000	
(b) Miscellaneous Expenses			3,58,000
			75,25,000

Working Notes :

Rs.

1.Share Capital:

3,000 Equity Shares of Rs. 100 each	3,00,000
10,000 – 10% Redeemable Preference Shares of Rs. 100 each	10,00,000

	13,00,000

2. Reserves and Surplus:

Securities Premium	4,75,000
General Reserve	20,50,000

	25,25,000

3.Fixed assets:

Fixed Assets at WDV	51,50,000
Add : Depreciation	5,00,000

	56,50,000

4.Inventories:

Finished Goods	7,50,000
Stores	4,00,000
Loose Tools	50,000

	12,00,000

5.Sundry Debtors:

	12,25,000
Less : Provision for Doubtful Debts	20,200

	12,04,800

6.Loans and Advances:

Advances	3,72,000
Staff Advances	55,000

	4,27,000

7. Current Liabilities :

Sundry Creditors	11,45,000
Loans from Debtors	2,00,000

	13,45,000

Illustration 2: The Arun Manufacturing Company Limited was registered with a nominal capital of Rs. 60,00,000 in Equity Shares of Rs. 10 each. The following is the list of balances extracted from its books on 31st March 2009 :

	Rs.
Calls-in-arrear	75,000
Premises	30,00,000
Plant and Machinery	33,00,000
Interim dividend paid on 1 st November, 2008	3,92,500
Stock, 1 st April, 2008	7,50,000
Fixtures	72,000
Sundry Debtors	8,70,000
Goodwill	2,50,000
Cash in hand	7,500
Cash at Bank	3,99,000
Purchases	18,50,000
Preliminary Expenses	50,000
Wages	8,48,650
General Expenses	68,350
Freight and Carriage	1,31,150
Salaries	1,45,000
Directors' Fees	57,250
Bad Debts	21,100
Debenture interest paid	1,80,000
Share Capital	40,00,000

12% Debentures	30,00,000
Profit and Loss Account (Credit Balance)	2,62,500
Bills Payable	3,70,000
Sundry Creditors	4,00,000
Sales	41,50,000
General Reserve	2,50,000
Bad debts Provision 1 st April, 2008	35,000

Prepare Trading and Profit and Loss Account and Balance Sheet in proper form after making the following adjustments:

- Depreciate Plant and Machinery by 15%.
- Write off Rs. 5,000 from Preliminary Expenses.
- Provide for half year's debenture interest due.
- Leave Bad and Doubtful Debts Provision at 5% on Sundry Debtors.
- Provide for Income Tax @ 50%.
- Stock on 31st March, 2009 was Rs. 9,50,000.

Trading and Profit and Loss Account of Arun Manufacturing Company Limited
As on 31st March, 2009

	Rs.		Rs.
To Opening Stock	7,50,000	By Sales	41,50,000
To Purchases	18,50,000	By Closing Stock	9,50,000
To Wages	8,48,650		
To Freight and Carriage	1,31,150		
To Gross Profit c/d	15,20,200		
	51,00,000		51,00,000
To Salaries	1,45,000	By Gross Profit b/d	15,20,200
To General Expenses	68,350		
To Directors' Fees	57,250		

To Bad debts	21,100			
Add: New Provision	43,500			

	64,600			
Less: Old Provision	35,000	29,600		

To Debenture interest				
paid	1,80,000			
Add: Outstanding	1,80,000	3,60,000		

To Depreciation on Plant and Machinery		4,95,000		
To Preliminary Expenses		5,000		
To Provision for Income Tax		1,80,000		
To Net Profit c/d		1,80,000		
		15,20,200		15,20,200
		3,92,500		2,62,500
To Interim Dividend			By Balance b/d	1,80,000
To Profit Transferred to Balance Sheet		50,000	By Net Profit b/d	
		4,42,500		4,42,500

Balance Sheet of Arun Manufacturing Company Limited**As on 31st March, 2009**

Liabilities	Rs.	Assets	Rs.
Share Capital :		Fixed Assets:	
Authorised Capital :		Goodwill	2,50,000
6,00,000 Equity Shares of Rs. 10		Premises	30,00,000
Per share	60,00,000	Plant & Machinery	33,00,000
Issued Capital :		Less: Depreciation	4,95,000
4,00,000 Equity Shares of Rs.10			28,05,000
per share	40,00,000		
Subscribed & Paid up Capital:		Fixtures	72,000
4,00,000 Equity Shares		Investments:	Nil
Of Rs. 10 per share	40,00,000	Current Assets, Loans and	
Less: Calls in arrears	75,000	Advances :	
	39,25,000	A.Current Assets:	
Reserves and Surplus:		Cash in hand	7,500
General Reserve	2,50,000	Cash at Bank	3,99,000
Profit and Loss account	50,000	Sundry Debtors	8,70,000
Secured Loans:		Less: Provision for	
12% Debentures	30,00,000	Doubtful Debts	43,500
Add: Interest due	1,80,000		8,26,500
	31,80,000	Stock	9,50,000
Unsecured Loans:	Nil	B.Loans and Advances:	Nil
Current Liabilities &		Miscellaneous Expenditure:	
Provisions:		Preliminary Expenses	50,000
A. Current Liabilities:		Less: Written Off	5,000
Sundry Creditors	4,00,000		45,000
Bills Payable	3,70,000		
B.Provisions:		Profit and Loss Account:	Nil
Provision for Income Tax	1,80,000		
	83,55,000		83,55,000

Illustration 3 : From the following particulars furnished by **M/S VISHAL LIMITED.**, prepare the Balance Sheet as at 31st March, 2008, as required by Part I Schedule VI of the Companies Act.

Particulars	Dr. Rs.	Cr. Rs.
Equity Share Capital (Rs. 10 each, fully paid up)		10,00,000
Calls in Arrears	1,000	
Land	2,00,000	
Buildings	3,50,000	
Plant and Machinery	5,25,000	
Furniture	50,000	
General Reserve		2,10,000
Loan from State Financial Corporation		1,50,000
Stock :		
Finished Goods	2,00,000	
Raw Materials	50,000	

-		68,000
Provision for Taxation	2,00,000	
Sundry Debtors	42,700	
Advances		60,000
Proposed Dividend		1,00,000
Profit and loss Account	30,000	
Cash Balance	2,47,000	
Cash at Bank	13,000	
Preliminary Expenses		1,21,000
Loans (Unsecured)		2,00,000
Sundry Creditors (for Goods and Expenses)		
	19,09,000	19,09,000

The following additional information is also provided : -

- Miscellaneous Expenses included Rs. 5,000 audit fees and Rs. 700 for out of pocket expenses paid to the auditors.
- 2,000 Equity Shares were issued for consideration other than cash.
- Debtors of Rs. 52,000 are due for more than six months.
- The cost of assets :

Buildings	Rs. 4,00,000
Plant and Machinery	Rs. 7,00,000
Furniture	Rs. 62,500

- (e) The balance of Rs. 1,50,000 in the Loan from State Finance Corporation is inclusive of Rs. 7,500 for interest accrued but not due. The loan is secured by hypothecation of the Plant and Machinery.
- (f) Balance at Bank includes Rs. 2,000 with Perfect Bank Ltd., which is not a Scheduled Bank.
- (g) Bills receivable for Rs. 2,75,000 maturing on 30th June, 2008, have been discounted.
- (h) The company had contract for the erection of machinery at Rs. 1,50,000 which is still incomplete.

Solution:**BALANCE SHEET OF M/S VISHAL LIMITED****As on 31st March, 2008**

Liabilities	Rs.	Assets	Rs.
Share Capital :		Fixed Assets :	
Authorised :	?	Land at cost	2,00,000
Issued and Subscribed :		Buildings, at cost	4,00,000
1,00,000 Equity Shares of Rs. 10	10,00,000	Less: Depreciation	50,000
Each (of the above shares, 2,000 equity shares are allotted as fully paid up pursuant to a contract without payment being received in cash)			-----
Less; Calls-in-arrear	1,000	Plant & Machinery	7,00,000
	9,99,000	Less: Depreciation	1,75,000

Reserves and Surplus :		Furniture at cost	62,500
General Reserve	2,10,000	Less: Depreciation	12,500
Profit and Loss Account	1,00,000		-----
Secured Loans :		Investments :	Nil
Loan from State		Current Assets, Loans and	
Financial Corporation 1,42,500		Advances :	
		A. Current Assets:	
		Stock:	
		Finished goods	2,00,000

Add: Interest accrued 7,500	1,50,000	Raw materials 50,000	2,50,000
-----		-----	
Unsecured Loans :	1,21,000	Sundry Debtors	
Current Liabilities and		(a) Debtors outstanding	
Provisions :		For more than six	
A. Current Liabilities :		Months 52,000	
Sundry Creditors for goods and		(b) Other Debtors 1,48,000	2,00,000
Expenses	2,00,000	-----	
B. Provisions :		Cash Balance	30,000
Provision for Tax	68,000	Cash at Bank :	
Proposed Dividend	60,000	(a) Scheduled Banks 2,45,000	
Contingent Liabilities not		(b) Others 2,000	2,47,000
Provided for:		-----	
1. Bills receivable for Rs. 2,75,000		B. Loans and Advances:	
maturing on 30 th June, 2008 have		Advances	42,700
been discounted.		Miscellaneous Expenditure :	
2. The company had contract for		Preliminary Expenses	13,300
the erection of machinery at Rs.			
1,50,000 which is still incomplete.			
	19,08,000		19,08,000

Illustration 5 : The following is the balance sheet of Sri Kannan Department Stores Ltd., as at 31st March, 2009 :

Particulars	Rs.	Rs.
Stock, 1 st April, 2008	7,50,000	
Purchases Returns		1,00,000
Purchases and Sales	24,50,000	34,00,000
Wages	3,00,000	
Discount		30,000

Carriage Inward	9,500	
Furniture and Fittings	1,70,000	
Salaries	75,000	
Rent	40,000	
Sundry Expenses	70,500	
Profit and Loss Appropriation Account, 31 st March, 2008		1,50,000
Dividend paid for 2007 – 08		
Share Capital	90,000	
Debtors and Creditors		10,00,000
Plant and Machinery	2,75,000	1,75,000
Cash at Bank	2,90,000	
General Reserve	4,62,000	
Patents and Trade Mark	48,000	1,55,000
Bills Receivable and Bills Payable	50,000	70,000
	50,80,000	50,80,000

Prepare Trading Account, Profit and Loss Account, and Profit and Loss Appropriation Account for the year ended 31st March, 2009 and Balance Sheet at that date. Take into consideration the following adjustments:

- Stock on 31st March, 2009 was valued at Rs. 8,80,000.
- Make a provision for income tax @ 50%.
- Depreciate Plant and Machinery @ 15%, Furniture and Fittings @ 10% and Patents and Trade marks @ 5%.
- On 31st March, 2009, outstanding rent amounted to Rs. 8,000 while outstanding salaries totalled Rs. 9,000.
- The Board Directors propose a dividend @ 15% per annum for the year ended 31st March, 2009 after the minimum transfer to General Reserve as required by law.
- Make a provision for doubtful debts amounting to Rs. 5,100.
- Provide for managerial remuneration @ 10% of the net profits before tax.

Solution**Trading and Profit & Loss Account of Sri Kannan Department Stores Ltd.****As on 31st March, 2009**

Dr.		Rs.		Cr.
				Rs.
To Stock, 1 st April, 2008		7,50,000	By Sales	34,00,000
To Purchases	24,50,000		By Stock, 31 st March, 2009	8,80,000
Less: Returns	1,00,000			
	-----	23,50,000		
To Wages		3,00,000		
To Carriage Inward		9,500		
To Gross Profit c/d		8,70,500		
		<u>42,80,000</u>		<u>42,80,000</u>
To Salaries	75,000		By Gross Profit b/d	8,70,500
Add: Outstanding	9,000	84,000	Ny Discount	30,000

To Rent	40,000			
Add: Outstanding	8,000	48,000		

To Sundry Expenses		70,500		
To Provision for Doubtful Debts		5,100		
To Depreciation On:				
Plant & Machinery @ 15%		43,500		
Furniture & Fittings @ 10%		17,000		
Patents & Trade Mark @ 5%		2,400		
To Outstanding Managerial				
Remuneration @ 10% of net				
Profit before tax		63,000		
To Provision for Income Tax		2,83,500		
To Net Profit c/d		2,83,500		

	9,00,500		9,00,500
To Dividend paid for 2007 – 08	90,000	By Balance b/d	1,50,000
To Transfer to General Reserve 5% of Net Profit	14,180	By Net Profit for the year b/d	2,83,500
To Proposed Dividend @ 15%	1,50,000		
To Balance carried to Balance sheet	1,79,320		
	4,33,500		4,33,500

Balance Sheet of Sri Kannan Department store Ltd.**As on 31st March, 2009**

Liabilities	Rs.	Assets	Rs.
Share Capital		Fixed Assets	
Authorised	?	Plant & Machinery 2,90,000	
Issued & Subscribed	10,00,000	Less: Depreciation 43,500	2,46,500
Reserves and Surplus		-----	
General Reserve		Furniture & Fittings	
Balance as on 1 st		1,70,000	1,53,000
April, 2008 1,55,000		Less: Depreciation 17,000	
Add: Additions		-----	
Made during the		Patents & Trade Mark 48,000	45,600
Year 14,180	1,69,180	Less: Depreciation 2,400	
-----		-----	Nil
Profit & Loss Account	1,79,320	Investments	
Current Liabilities and Provisions:		Current Assets, Loans and Advances	
(A).Current Liabilities		(A)Current Assets	8,80,000
Acceptances	70,000	Stock	
Creditors	1,75,000	Debtors 2,75,000	

Outstanding Rent	8,000	Less: Provision	2,69,900
Outstanding Salaries	9,000	For doubtful Debts 5,100	
Outstanding Managerial		-----	4,62,000
Remuneration	63,000	-	
(B).Provisions		Cash at Bank	50,000
Provision for Taxation	2,83,500	(B)Loans and Advances	Nil
Proposed Dividend	1,50,000	Bills of Exchange	Nil
		Miscellaneous Expenditure	
		Profit and Loss Account	
	21,07,000		21,07,000

Valuation of Goodwill

Goodwill is the name, fame or reputation earned in business by the company or any form of the business over a period of time. Acquiring goodwill makes the business to attract more and more customers and with passage of time it ultimately results in increase of profits generally. Thus, goodwill fetches some extra salable value to a prosperous business over and above the intrinsic value of net assets. In fact, it is very easy to describe goodwill but very difficult to define. Despite the above limitation there are some very good definitions given below. In the words of ‘Spicer and Regler’ goodwill may be said to be that element arising from the reputation, connection or other advantages possessed by a business, which enables on the capital represented by the net tangible assets employed in the business.

According to J O Magee ‘The capacity of a business to earn profit is basically what is meant by the term goodwill’.

As per Dr. Cannings ‘Goodwill is the present value of the firm’s anticipated excess earnings’.

According to A V Adamson, 'Just as cement binds together the bricks and other building material into walls, similarly goodwill binds together or unites the other assets and aspects of the business into cohesive whole'.

According to the Institute of Chartered Accountants of India, goodwill is 'an intangible asset arising from business connections or trade name or reputation of an enterprise'.

Nature of Goodwill

Goodwill consists of the advantages a business has in connection with its customers, employees and outside parties with whom it has to contact. That is why it was defined as the probability that the old customers will revert back. Goodwill has been said to be an attractive force which brings in customers. Thus, to determine the nature of goodwill in a particular case, it is necessary to consider the type of business and the type of customers which such a business is inherently likely to attract as well as the particular circumstances of each case. Goodwill of a business is an aggregation of the strength of management, product central policies and attitude toward competition.

Features of Goodwill:

- (1) Goodwill may have positive value or negative value. It is positive when the value of business is more than the value of its net identifiable assets and negative when the value of the business is less than the value of its net identifiable assets.
- (2) The value of goodwill has no relation to the amount invested and costs incurred in order to build it.
- (3) The value of goodwill fluctuates from time to time due to changing circumstances which are internal and external to business.
- (4) It is not possible to separately evaluate each of the intangible factors contributing to goodwill.
- (5) Goodwill may be purchased or inherent in the business. When a business concern is purchased and the purchase consideration is in excess of the fair value of the identifiable net assets acquired, such excess is recorded as goodwill. However, goodwill is recorded only when an amalgamation is in the nature of purchase and

is not a merger, pooling of interests method is followed and goodwill is not recorded.

- (6) An objective valuation of goodwill is difficult. Being subjective it differs from estimate to estimate.

Sources of Goodwill: The following are the main sources which generally give rise to goodwill.

- (i) The location of the business e.g., a retail shop located in a busy market centre.
- (ii) The reputation of the articles sold arising from the high standard or quality of the goods themselves.
- (iii) Possession of trademarks patents or copyrights.
- (iv) Possession of advantageous contracts or complete or partial monopoly.
- (v) The personality and reputation of the owner or management, arising through his/its skill and influence, as in the case of a professional man. For example, a Chartered Accountant.
- (vi) Any special advantage like government legislative or other enjoyed by the firm, e.g., inclusion in the list of approved suppliers to Government, Municipal Corporation or C.P.W.D. etc.
- (vii) Development of the business and shopping facilities with the changing conditions of the market e.g., provision for the visitor's rest room.

METHODS FOR VALUING THEGOODWILL

It is not very easy to value and account for goodwill unless there is a particular method accepted by all. However there are five methods for valuing goodwill depending upon the situation.

- I. Arbitrary Statement
- II. Average Profit Method
- III. Super Profit Method
- IV. Capitalization Method

ARBITRARY STATEMENT

The valuation of goodwill is arrived at by making a valuation by one of the parties i.e., vendor or purchaser to which the other agrees. The parties may together estimate the value to be placed on the goodwill or an independent party may be called in to give his opinion as to the value, it being left to the parties to decide whether they will accept or reject the valuation.

This method can be used only when information relating to earning capacity is available. If this information is not available because of non-availability of the profit immediately prior to sale or if the profits are abnormal or unreliable then such data cannot be used as a guide to further profits. Similarly information relating to earning capacity may not be available if the business being acquired may be converted into one of a different nature from that existing prior to date of purchase as in the case of a retail shop dealing in garments is purchased with a view to converting it to a pharmacy. Consideration should also be given to the question of trading advantages (e.g. quotas) made available to the purchaser by the vendor and licences to import goods up to authorized values. There are really no inter obtainable from the accounting data as to the valuation of such benefits passed on to the purchaser and their worth remain a matter of assessment to be agreed upon by the parties.

AVERAGE PROFIT METHOD

In general all businesses aim for profit and are expected to grow in the future. The buyer of business is also interested to know the present earnings, whether the business will maintain the same profit in the future and if there is scope to increase profit in the future also. If it is not, then the buyer will not pay for goodwill as it would mean purchasing a loss making company. Goodwill is paid for obtaining a future advantage. However, the future is uncertain and is usually estimated on the basis of past. Therefore, in a business what profits are likely to accrue in the future depends upon its average performance in the past and hence the average profits. Therefore, while valuing the goodwill, the buyer always takes the assurance of future, maintainable profits in his

mind. Ultimately it results in the earning capacity of the business. Earning capacity of the business depends upon the following factors:

- (a) **Nature of Goods.** Profits depend upon nature of goods. If business deals in articles of daily use, profits are likely to be constant. More than constant profits, the more is the goodwill or vice versa.
- (b) **Monopolised Business.** A monopolized business will have more goodwill as compared to a business in which many rivals can enter the business.
- (c) **Trade Name.**
- (d) **Risk Involved.** Greater the risks involved higher are the profits.
- (e) **Favorable Location and Site.**
- (f) **Possession of Trademarks, Patents and Copyrights.**
- (g) **Access to Suppliers.**
- (h) **Capital Required.** If two business units earn the same profits with different amounts of capital, the business unit with lesser amount of capital requirements will enjoy more goodwill.

The profit earned by the company may be subscribed to certain adjustments like abnormal loss, abnormal gain, recurring and non recurring income and expenses.

Simple Average Profit.

Illustration 1: The following particulars are available in respect of business carried on by Mr. Vishal

Profits earned :	2005 – Rs. 6,00,000
	2006 – Rs. 4,80,000
	2007 – Rs. 5,70,000

You are required to calculate the value of goodwill on the basis of 2 years purchase of average profit of last 3 years.

Solution :

$$6,00,000 + 4,80,000 + 5,70,000$$

$$(i) \text{ Average Profits} = \frac{\text{Sum of Profits}}{\text{Number of Years}} = \frac{6,00,000 + 4,80,000 + 5,70,000}{3} = 5,50,000$$

3

(i) Goodwill is based on the number of years purchase on average profit =

$$\text{Average Profit} \times \text{Number of years of Purchase}$$

$$= 5,50,000 \times 2 = \text{Rs. } 11,00,000$$

Illustration 2 : From the following calculate the value of goodwill on the basis of 5 years purchase of the average profits of the preceding 7 years:

2003	Profit Rs.	80,000
2004	Profit Rs.	90,000
2005	Profit Rs.	1,10,000
2006	Loss Rs.	50,000
2007	Profit Rs.	1,00,000
2008	Loss Rs.	60,000
2009	Profit Rs.	85,000

Solution :

Year	Profit or Loss
2003	(+) 80,000
2004	(+) 90,000
2005	(+) 1,10,000
2006	(-) 50,000
2007	(+) 1,00,000
2008	(-) 60,000
2009	(+) 85,000
Total Profit	(+) 3,55,000

Total profits after reducing loss

Average Profits = -----

Total No. of years including loss

3,55,000

= ----- = Rs. 50,714.2857

7

Rounded off to Rs. 50714

Goodwill is based on Number of years of purchase of Average Profit =

Average Profit X Number of years of purchase

50,714 X 5 = Rs. 2,53,570

Illustration 3 : Gurukalam and Co. decided to purchase a business for Rs. 24,00,000. Its profits for the last four years were 2005 – Rs. 6,00,000; 2006 – Rs. 7,50,000; 2007 – Rs. 7,20,000 and 2008 – Rs. 6,90,000. The owner of the business was personally managing it. A manager to replace him has to be paid Rs. 90,000 p.a.

Calculate the value of goodwill if it is valued on the basis of three year's purchase of the average net profit for the last four years.

Solution :

6,00,000 + 7,50,000 + 7,20,000 + 6,90,000

Average Profits = ----- = 6,90,000

4

Average Profit	Rs. 6,90,000
----------------	--------------

Less: Manager salary paid	Rs. 90,000
---------------------------	------------

Average future maintainable profit	Rs. 6,00,000
------------------------------------	--------------

Goodwill is based on number of years of average profit =

Average profit X Number of years of purchase

$$= 6,00,000 \times 3 = \text{Rs. } 18,00,000$$

Illustration 4 : The following information is presented for five years ending 31st March, 2010.

Year ending 31 st March	Profit After Tax	Taxation	Transfer to Reserve	Director's Remuneration
2006	6,00,000	2,16,000	1,20,000	48,000
2007	6,60,000	2,40,000	1,44,000	54,000
2008	5,76,000	1,80,000	96,000	54,000
2009	7,80,000	3,00,000	1,80,000	60,000
2010	8,64,000	4,20,000	1,80,000	72,000

Fixed assets revalued and same showed an appreciation of Rs. 60,00,000 (depreciation to be provided for @ 10 per cent). The company has 8 per cent preference share capital of Rs. 12,00,000. The current rate of taxation may be taken @ 50 per cent. Calculate the value of goodwill on the basis of four year's purchase of the last five years average profits.

Solution : Calculation of future average maintainable profits.

Year	Profit after Tax	Taxation	Director's Remuneration	Profits before Tax and Director's Remuneration
2006	6,00,000	2,16,000	48,000	8,64,000
2007	6,60,000	2,40,000	54,000	9,54,000
2008	5,76,000	1,80,000	54,000	8,10,000
2009	7,80,000	3,00,000	60,000	11,40,000
2010	8,64,000	4,20,000	72,000	13,56,000
Total Profit				51,24,000

Total Profit 51,24,000

Average Profit = ----- = ----- = 10,24,800

No. of Years 5

	Rs.	Rs.
Profit		10,24,800
Less: Common adjustment		
(a) Depreciation @ 10% on 60,00,000	6,00,000	
(b) Director's Remuneration	72,000	
	<u>6,72,000</u>	
Profit before Tax	<u>3,52,800</u>	
Less: Income Tax @ 50%	1,76,400	
Profit after Tax	<u>1,76,400</u>	
Less: Preference Dividend @ 8% on Rs. 12,00,000	96,000	
	<u> </u>	
Future Average Maintainable Profit		<u>80,400</u>

Goodwill is based on number of years of average profit =

Average profit X Number of years of purchase

80,400 X 4 = Rs. 3,21,600

Note: Director's remuneration has been taken as Rs. 72,000 because hereafter it would not be less than this amount in the future.

III. SUPER PROFIT METHOD

Goodwill, no matter how determined, represents a valuation of future earnings. As per the first definition of goodwill, it presents the value of firm's anticipated 'excess' earnings. If there are no anticipated excess earnings over normal earnings, there can be no goodwill. Thus goodwill is paid by the buyer only if the business that is being purchased is earning profits in excess of normal rate of earnings. So the excess of average profit over normal profit is known as super profit.

Defined in another way, super profit is the excess of profit which can be expected in future years over and above what is necessary for paying a fair return on capital employed, considering the risk involved in that class of business and fair managerial remuneration.

It is such excess profit that is referred to as super profit and represents the difference between the average profit earned by the business and the normal profit based on the normal rate of return for representative firms in the industry. Hence, this method of valuing goodwill will require the following information :

- (1) A normal rate of return for representative firm in the industry;
- (2) The fair value of capital employed; and
- (3) The estimated future earning of the firm, i.e., average of the profits earned in the past three or four years. Each has been discussed below :

(A) Normal Rate of Return. The normal earning is that rate of earning which investors in general expect on their investments in a particular type of industry. This rate of earning differs from industry to industry. The normal rate of earnings is required to be adjusted in the light of certain circumstances such as :

- (1) **Higher bank rate.** Any increase in the bank rate increases the expectation of investors and they start hoping higher rate of return.
- (2) **General boom.** When there is a boom in industry the investors start expecting More and normal rate of return is to be increased.

(3) **Risk attached to the investment.** The more the risk, more is the rate of return.

Risk may also be due to high amount of borrowing made by the business or nature of business.

(4) **Period of investment.** The longer the period of investment, higher is the rate of return.

(B) Capital Employed. The capital invested in the business brings return as in terms of profit. If there is more capital employed one can expect more return since the profit of a firm can be justified in terms of capital employed only

	Rs.
Assets (other than goodwill and deferred expenditures like Preliminary expenses, discount, etc.) at market value	XXX
Less: Liabilities due to outside parties (i.e., creditors, bills payable, debentures, taxation, outstanding bills, etc.) at revised values, if any	XXX

Capital Employed	XXX

Calculation of Super profit. Super profit is a simple difference between average profit and normal profit. Suppose Rs. 5,00,000 is the average profit and normal profit is Rs. 2,80,000. So Super profit = Average profit minus Normal profit = Rs. 2,20,000.

Illustration 5 : The following particulars are available in respect of the business carried on by a trader :

(1) Profits earned :

2007 Rs. 5,00,000; 2007 Rs. 6,00,000; 2008 Rs. 5,50,000

(2) Normal rate of profit 10%

(3) Capital Employed Rs. 30,00,000

(4) Present value of an annuity of one rupee for five years at 10% Rs. 3.78

- (5) The profits included non-recurring profits on an average basis of Rs. 40,000 out of which it was deemed that even non-recurring profits had a tendency of appearing at the rate of Rs. 10,000 p.a.

You are required to calculate goodwill : (a) as per five years purchase of super profits, (b) as per capitalization of super profit method, and (c) as per annuity method.

Solution :

Calculation of Average profit :

	Rs.
Profits : 2007	5,00,000
2008	6,00,000
2009	5,50,000

	16,50,000

Average Profits (16,50,000 / 3)	5,50,000
Less: Non-recurring profit	40,000

	5,10,000
Add: Non-recurring profit having tendency of Recurring profit	10,000

Average Expected Profits	5,20,000

Calculation of Super Profit:

	Rs.
Average Expected Profits	5,20,000
Less: 10% Normal Profit on Rs. 30,00,000	
Capital Employed	3,00,000

Super Profit	2,20,000

(a) Goodwill as per five years purchase of Super Profit (2,20,000 X 5) 11,00,000

(b) Goodwill as per capitalization of Super Profit method

$$\frac{2,20,000}{10} \times \frac{100}{10} = 22,00,000$$

(c) Goodwill as per Annuity Method (2,20,000 X 3.78) 8,31,600

IV CAPITALIZATION METHOD

The following are the main steps to be taken in computing goodwill by this method:

- Ascertain the average net profit which it is expected will be earned in future;
- Capitalise this net profit at the rate which is considered a suitable return on capital invested in a business of the type under consideration;
- Find the value of the net tangible assets used in the business, i.e., assets less outside liabilities; and
- Deduct the net tangible assets as per (c) from the capitalised profit obtained in (b) and the difference is goodwill.

VALUATION OF SHARES

Illustration : On 31st March, 2007, the Balance Sheet of a Limited Company disclosed the following position :

Liabilities	Rs.	Assets	Rs.
Issued Capital in Rs. 10		Fixed Assets	5,00,000
Shares	4,00,000	Goodwill	40,000
Reserves	90,000	Current Assets	2,00,000
Profit & Loss Account	20,000		
5% Debentures	1,00,000		
Current Liabilities	1,30,000		
	7,40,000		7,40,000

On 31st March, 2007 the fixed assets were independently valued at Rs. 3,50,000 and goodwill at Rs. 50,000. The net profits for the three years were :

2005 Rs. 51,600; 2006 Rs. 52,000; 2007 Rs. 51,650.

Of which 20% was placed to reserve this proportion being considered reasonable in the industry in which the company is engaged and where a fair investment return may be taken at 10%.

Compute, the value of the company's shares by (a) the assets method, and (b) the yield method.

Solution :

(a) Value of Shares according to the Assets Method:		Rs.
Market value of Fixed Assets		3,50,000
Goodwill (as per valuation)		50,000
Current Assets		2,00,000

Total Value of Assets		6,00,000
Less : Liabilities : 5% Debentures	1,00,000	
Current Liabilities	1,30,000	
	-----	2,30,000

Net Assets		3,70,000

Net Assets

Intrinsic Value per share = -----

Number of Equity Shares

Rs. 3,70,000

= ----- = Rs. 9.25.

40,000

(b) Value of Shares according to Yield Method :**1. Calculation of Average Expected Future Profits :** Rs.

Profits : 2005	51,600
2006	52,000
2007	51,650

Total Profits for three years	1,55,250

Average Profits (1,55,250 / 3)	51,750
Less : 20% transferred to reserves (51,750 X 20/100)	10,350

Average Profits after Reserves	41,400

2. Calculation of Expected Return :

$$\begin{aligned} \text{Expected Return} &= \frac{\text{Expected Profits}}{\text{Equity Capital}} \times 100 \\ &= \frac{41,400}{4,00,000} \times 100 = 10.35\% \end{aligned}$$

3. Calculation of Yield Value of Share :

$$\begin{aligned} \text{Yield Value of Share} &= \frac{\text{Expected Rate}}{\text{Normal Rate}} \times \text{Paid up Value of share} \\ &= \frac{10.35}{10} \times 10 \\ &= \text{Rs. 10.35.} \end{aligned}$$

Illustration : The following particulars are available in relation to Akshaya Ltd. :

- (1) Capital : 450 6% preference shares of Rs. 100 each fully paid ; and 4,500 equity shares of Rs. 10 each fully paid.
- (2) External liabilities : Rs. 7,500.
- (3) Reserves and surplus : Rs. 3,500
- (4) The average expected profit (after taxation) earned by the company : Rs. 8,500
- (5) The normal profit earned on the market value of equity shares (fully paid) of the same time of companies is 95.
- (6) 10% of the profits after tax each year is transferred to reserves.

Calculate the intrinsic value per equity share and the value per equity share according to dividend yield basis. Assume that out of total assets worth Rs. 350 are fictitious.

Solution :

Calculation of Intrinsic Value per Equity Shares		Rs.
Preference Share Capital		45,000
Equity Share Capital		45,000
Reserves and Surplus		3,500
External Liabilities		7,500

Gross Assets (Equal to total liabilities)		1,01,000
Less : Fictitious Assets	Rs. 350	
External Liabilities	Rs. 7,500	
	-----	7,850

Assets available for Shareholders		93,150
Less : Preference Share Capital		45,000

Assets available for Equity Shareholders		48,150

Number of Equity Shares		4,500

Rs. 48,150

Therefore, Intrinsic Value per Equity Share = ----- = Rs. 10.70

4,500

Calculation of value per Equity Share on Dividend Yield Basis Rs.

Average Expected Profit (after tax) 8,500

Less : Transfer to Reserve 10% 850

7,650

Less : Preference Share Dividend @ 6% on Rs. 45,000 2,700

Expected Profit for Equity Shareholders 4,950

Expected Profit

Expected Rate of Dividend = ----- x 100

Equity Share Capital

Rs. 4,950

= ----- x 100 = 11%

Rs. 45,000

Expected Rate of Dividend

Value per Equity Share = ----- x Paid up Value of share

Normal Rate of Profit

11%

= ----- x Rs. 10 = Rs. 12.22

9%

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3	company's balance sheet under the heading of	Fixed assets	Current asset	Miscellaneous expenditure	Investment	Miscellaneous expenditure
4	Advance payment of tax is in the nature of	Capital expense	Revenue expenses	Prepaid expenses	Outstanding expenses	Prepaid expenses
5	In the liability side of the company's balance sheet calls in arrears in shown	Under the leading reserves and surplus	Under the leading current liabilities	Under the leading secured loans	By subtracting the amount from the called up capital	Under the leading current liabilities
6	sheet fictitious asset like discount on issue of debenture are shown under the heading	Fixed asset	Investments	Current assets	Miscellaneous expenses	Miscellaneous expenses
7	Preliminary expenses are an example of	Fixed asset	Current asset	Fictitious asset	Investment	Fictitious asset
8	In the liabilities side of companies balance sheet forfeited shares a/c balance is shown	Under the heading current liabilities	Under the heading unsecured loans	Under the heading reserves 2c	By adding to the paid up capital	By adding to the paid up capital
9	Divisible profits do not include	Reserve fund	P/L a/c balance	Revaluation reserve	Insurance fund	Revaluation reserve
10	balance sheet unclaimed dividend shown under the leading	Share capital	Current liabilities and provisions	Secured loans	Unsecured loans	Current liabilities and provisions
11	The amount set aside to meet the loss of bad debts is a	Reserve	Liability	Contingent liability	Provision	Provision

12	of the paid up capital in the percentage of profits to be transferred to reserves	10%	7.50%	5%	2.50%	10%
13	Interim dividend is always shown	In P/L a/c	In P/L appropriation a/c	On the asset side of the balance sheet	On the liabilities side	In P/L appropriation a/c
14	Debentures are shown in the balance sheet under the heading	Unsecured loans	Current liabilities	Secured loans	Share capital	Secured loans
15	part time director (with out managing director(s) or whole time director (s) or	1% of the annual profits	3% of the annual profits	5% of the annual profits	10% of the annual profits	3% of the annual profits
16	Final accounts of a company consist of two statements namely _____ and _____	P/L a/c and balance sheet	Trading P/L a/c	Balance sheet and P/L a/c	Trading, P/L a/c and Balance sheet	Trading, P/L a/c and Balance sheet
17	The balance sheet of a company can be presented in two alternative form i.e and	Horizontal and vertical	Vertical and horizontal	Slop down words	Concave and convex	Horizontal and vertical
18	Loose tools shown in the balance sheet under the head	Current liabilities	Current asset	Fixed asset	Miscellaneous expenses	Fixed asset
19	P/L a/c & P/L appropriation a/c the items which are shown in the P/L a/c are termed as	Below the line	Above the line	Up line	Lower side	Above the line
20	a/c of P/L app a/c the item which are appearing on the P/L app a/c are termed as	Below the line	Above the line	Up line	Lower side	Below the line
21	The account showing the dispose of the net profit is disclosed by the P/L a/c is called	P/L appropriation a/c	P/L a/c	Trading a/c	Balance sheet	P/L appropriation a/c
22	The surplus found in P/L app a/c is shown in the balance sheet under head	Surplus and reserve	Reserve and surplus	Reserve fund	Dividend receive	Surplus and reserve
23	A reserve which is represented by investments outside the business is known as	Reserve fund	Dividend	Interim dividend	Income tax	Reserve fund
24	act 1956 the maximum total Managerial remuneration should not exceed of the net	11%	7.50%	12.20%	5%	11%
25	not 20% of the paid u capital the percentage of profit to be P/L to reserve is	11%	7.50%	12.20%	5%	7.50%

26	½% and 15% the percents of profits to be P/L to general reserve is	5%	6%	11%	25%	5%
27	but not 12 ½% of the paid up capital the amount to be to the reserves shall not be less	2 ½%	1 ½%	3 ½%	4 ½%	2 ½%
28	dividend by the company amount its share holder by way return on share holding is	Dividend	Interim dividend	Income tax	Dividend	Dividend
29	between two annual general body meetings is termed as	Dividend	Interim dividend	Share capital	Provision	Interim dividend
30	The difference between gross interest receivable and interest received is debited to	208	108	5	6	208
31	There is no need to b/f to reserves if the proposed dividend does not exceed	reserve deducted at source a/c 20.10 %	Tax deducted at source a/c 20.10 %	Tax deducted at source a/c 20.10 %	Reserve deducted at source a/c 10.10%	reserve deducted at source a/c 20.10 %
32	Maximum remuneration to all the managerial personnel	25%	11%	3%	1%	11%
33	Managing director or whole time director when there is one	11%	2%	3%	5%	5%
34	All the directors assisted by managing director whole time director on manager	5%	10%	3%	1%	1%
35	having managing director of whole time director or manager	3%	5%	1%	10%	3%
36	Profit & loss appropriation a/c is also known as	Personal a/c	Real a/c	Nominal a/c	Representative personal a/c	Nominal a/c
37	Depreciation provide on the company's	Fixed asset	Current asset	Current liability	Investment	Fixed asset
38	The value of imports calculated on the basis of the company in respect of	Raw material	Components and spare parts	Capital goods	Raw material, Component & spare parts and capital	Raw material, Component & spare parts and capital goods
39	Dividend must be paid within days of declaration	Asset side	Liability side	Debit side	Credit side	Asset side

40	Dividend must be paid within _____ days of declaration	42	52	32	15	42
41	_____ should not be considered for dividend purpose	Calls in arrear	Calls in advance	Prepaid expenses	Outstanding expenses	Calls in advance
42	Interim dividend paid between _____ general meeting	One	Two	Five	Three	Two
43	to arrive at the paid up capital on which dividend to be paid	Calls in advance	Calls in arrears	Paid up	Called up	Calls in arrears
44	collected by the shareholder from the company	Interim dividend	Dividend tax	Unclaimed dividend	Interest dividend	Unclaimed dividend
45	Securities premium is shown on the _____ side of the balance sheet	Asset	Liabilities	Debit	Credit	Liabilities
46	Interim dividend is generally paid for _____ months	One	Seven	Six	Eight	Six
47	Final dividend should be recorded in the debit side of the _____	Profit and loss	Profit and loss appropriation a/c	Trading a/c	Balance sheet	Profit and loss appropriation a/c
48	_____ of the company does not forbid such distribution	Board of director	Articles of association	Share holder	Share capital	Articles of association
49	Political contribution is shown as a separate item in the _____ account	Trading account	Profit and loss	Profit and loss appropriation a/c	Balance sheet	Profit and loss
50	Diminishing value method is also known as _____	Annuity method	Straight line method	Written down value method	Depletion method	Written down value method
51	All production expenses and income is a _____ a/c	Trading a/c	Profit and loss a/c	Profit and loss appropriation a/c	Suspense a/c	Trading a/c
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55	Super profit is the difference between _____	capital employed and average capital	average profit and normal profit	profit and last year profit	capital	average profit and normal profit
56	The average return of similar concerns should be considered is _____	average profit	expected rate of return	normal rate of return	yield return	normal rate of return
57	will , the term 'capital employed means the fund provided by _____	Shareholders only	Debentures holders only	both shareholders and _____	shareholders, debenture holders and creditors	Shareholders only
58	The average capital employed can be ascertained _____	by deducting half of current year's profit	by deducting 1/2 of current year profit from _____	by adding 1/2 of current year profit to closing _____	adding the profit	by adding 1/2 of current year profit to closing capital employed
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58	The average capital employed can be ascertained _____	by deducting half of current year's profit	by deducting 1/2 of current year profit from _____	by adding 1/2 of current year profit to closing _____	adding the profit	by adding 1/2 of current year profit to closing capital employed
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CLASS : II B.Com. (CA)

COURSE NAME : CORPORATE ACCOUNTING

COURSE CODE : 17CCU301 UNIT: III(Amalgamation of Companies)

BATCH- 2017-2020

UNIT - III
SYLLABUS

UNIT - III

Amalgamation of Companies: Concepts and accounting treatment as per Accounting Standard: 14 (ICAI) (excluding inter- company holdings). Internal reconstruction - concepts and accounting treatment (excluding scheme of reconstruction)

Accounting for Amalgamation, Absorption and External Reconstruction

Introduction

Sometimes companies carrying on similar business combine with each other to obtain the economies of large scale production or to avoid the disastrous results of cut throat competition. It is being done by Amalgamation and Absorption. The term amalgamation is used when two or more companies carrying on similar business go into liquidation and a new company is formed to take over their business. The term absorption is also used when an existing company takes over the business of one or more existing companies. These concepts have been modified by the Accounting Standard 14 (AS - 14) - "Accounting for Amalgamation", issued by the Institute of Chartered Accountants of India. This standard is applicable in respect of accounting periods commencing on or after 1st April, 1995 and is mandatory in nature. This standard specifies the procedure of accounting for amalgamation and the treatment of any resultant goodwill or reserve.

Purchase Consideration

Purchase consideration is the amount which is paid by the purchasing (transferee) company for the purchase of the business of the vendor (transferor) company. The purchasing company agrees to pay certain sum of payments to the vendor company called purchase consideration. While determining the amount of purchase consideration special care should be given to the valuation of assets and liabilities of the vendor (transferor) company. The calculation of purchase consideration is very important and may be calculated in the following ways:

- (1) **Lump Sum Method.** When the transferee company agrees to pay a fixed sum to the transferor company, it is called a lump sum payment of purchase consideration. For example, if A Ltd., purchases the business of B Ltd., and agrees to pay Rs. 50,00,000 in all, it is an example of lump sum payment.
- (2) **Net Worth (or Net Assets) Method.** According to this method, the purchase consideration is calculated by calculating the net worth of the assets taken over by the transferee company. The net worth is arrived at by adding the agreed value of assets taken over by the transferee company minus agreed value of liabilities to be assumed by the transferee company. While calculating purchase consideration under this method the following points merit attention:
 - (a) The term 'Assets' will always include cash in hand and cash at bank unless otherwise specified but shall not include fictitious assets as preliminary expenses, discount on the issue of shares or debentures, underwriting commission, debit balance of Profit & Loss Account, etc.
 - (b) If the particular asset is not taken over by the transferee company, it should not be included in the purchase consideration.
 - (c) The term 'Liabilities' will mean all liabilities to third parties (i.e., excluding company and shareholders).

- (d) The term 'trade liabilities' will include trade creditors and bills payable. It will exclude other liabilities to third party as bank overdraft, debentures, outstanding expenses, tax liability etc.
- (e) If a fund or portion of a fund denotes liability to third parties, the sum must be included in the liability as staff provident fund, workmen's' savings bank account, workmen's' profit profit sharing fund, workmen's' compensation fund (up to the amount of claim, if any).
- (f) The 'term liability' will not include past accumulated profits or reserves such as general reserve, dividend equalisation fund, reserve fund, sinking fund, capital reserve, securities premium account, capital redemption reserve account, profit and loss account etc., as these are payable to shareholders and not to third parties.
- (g) The term 'business' will always mean both the assets and the liabilities.
- (h) If any liability is not taken over by the transferee company, the same should not be included in the purchase consideration.
- (i) Goodwill (being an intangible asset) value agreed to be paid by the transferee company is added in the purchase consideration.
- (j) The consideration for the amalgamation should include any non-cash element at fair value. In case of issue of securities, the value fixed by the statutory authorities may be taken to be the fair value. In case of other assets, the fair value may be determined by reference to the market value of the assets given up. Where the market value of the assets given up cannot be reliably assessed, such assets may be valued at their respective net book values.
- (k) Where the scheme of amalgamation provides for an adjustment to the consideration contingent on one or more future events, the amount of the

additional payment should be included in the consideration if payment is probable and a reasonable estimate of the amount can be made. In all other cases, the adjustment should be recognised as soon as the amount is determinable [see Accounting Standard (AS) 4, Contingencies and Events Occurring After the Balance Sheet Date].

- (l) Treatment of Reserves Specified in a Scheme of Amalgamation. Where the scheme of amalgamation sanctioned under a statute prescribes the treatment to be given to the reserves of the transferor company after amalgamation, the same should be followed.

Net worth or net assets method of purchase consideration may be made clear by the following example :

BALANCE SHEET OF KARPAGAM CO. LTD.
As at 31st March, 2005

Liabilities	Rs.	Assets	Rs.
Share Capital		Goodwill	2,80,000
60,000 Equity Shares of	6,00,000	Land and Buildings	1,60,000
Rs.10	1,00,000	Plant and Machinery	2,80,000
5% Debentures	60,000	Stock	1,60,000
Sundry Creditors	40,000	Debtors	80,000
General Reserve	2,00,000	Cash	20,000
Profit and Loss account		Preliminary Expenses	20,000
	10,00,000		10,00,000

Suppose (i) Company **Providence Ltd.**, takes over the business of Company Karpagam Ltd.;; (ii) The value agreed for various assets is : Land and Buildings Rs. 2,50,000, Plant and Machinery Rs. 2,40,000, Goodwill Rs, 2,20,000, Stock Rs. 1,30,000 and

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Debtors Rs. 80,000; Providence Company does not take over cash but agrees to assume the liability of Sundry Creditors at Rs. 50,000.

The calculation of purchase consideration will be as follows :

Value of assets taken over by Providence Company Ltd., :	Rs.
Land and Buildings	2,50,000
Plant and Machinery	2,40,000
Goodwill	2,20,000
Stock	1,30,000
Debtors	80,000

	9, 20,000
Less : Sundry Creditors taken over by Providence Co. Ltd.	50,000

Purchase Consideration	8,70,000

(3) **Net Payment Method.** Under this method purchase consideration is calculated by adding the various payments in the form of shares, securities, cash etc. made by the transferee company. No amount of liabilities is deducted even if these are assumed by the purchasing company. Thus purchase consideration is the total of all the payments whether in shares, securities or cash. Suppose, in the example given above Providence Ltd., agrees to give for every 10 shares in Karpagam Ltd., 15 shares of Rs10 each, Rs.8 paid up; Providence Ltd., also agrees to pay Rs 1,50,000 cash to discharge the creditors.

The Purchase Consideration will be calculated as under :

Shareholders of Karpagam Ltd. will get :

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15	
60,000 X -----	= 90,000 shares of Rs. 10 each, Rs. 8 paid up 7,20,000
10	
Cash paid to discharge creditors	1,50,000

Purchase Consideration	8,70,000

(4) **Shares Exchange Method.** Under this method purchase consideration is required to be calculated on the basis of intrinsic value of shares. The intrinsic value of a share is calculated by dividing the net assets available for equity shareholders by the number of equity shares. This value determines the ratio of exchange of the shares between the transferee and transferor companies. In some cases the agreed values of the shares of both the companies are given. In that case the purchase consideration is calculated with reference to the value of shares of two companies involved. Suppose X Ltd. and Y Ltd. are two companies carrying on business in the same line of activity. Their capital is Rs. 60,00,000 and Rs. 20,00,000 (value of each share , Rs. 100). The two companies decided to amalgamate in XY Ltd. If each share of X Ltd. and Y Ltd. is valued at Rs. 150 and Rs. 250 respectively for the purpose of amalgamation, then purchase consideration will be as under :

	X Ltd.	Y Ltd.
	Rs.	Rs.
60,000 shares of Rs. 150 each	90,00,000	---
20,000 shares of Rs. 250 each	---	50,00,000

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Note : While issuing shares to individual shareholders of the selling company, these may be in fractions. A company cannot issue shares in fractions but it can issue fractional certificates or coupons or pay cash for the fractions.

RECONSTRUCTION

It means reconstruction of a company's financial structure. It may take place either with or without the liquidation of the company.

Internal Reconstruction: This is generally resorted to by a company which is being reorganized internally. A scheme of re-organization is prepared in which all parties sacrifice. The sacrifices are made in this order – equity shareholders, preference shareholders, unsecured creditors and partially secured creditors. Under this scheme the existing company continues in its legal entity from and can take advantage of carry forward and set off of the past losses.

AMALGAMATION AND EXTERNAL RECONSTRUCTION

ACCOUNTING ENTRIES IN THE BOOKS OF THE TRANSFEROR COMPANY:

The books of the transferor company being wound up will be closed in the same way as the books of a partnership firm being dissolved. The following entries are made:

- (1) For transferring assets taken over by the transferee company

Realisation Account

To Various Assets (individually at book value)

Note. Assets which are not taken over by the purchasing company as cash, bank balance will not be transferred to Realisation Accounts. Fictitious assets like preliminary expenses, discount or commission or expenses on issue of shares or debentures, debit balance of profit and loss account are not to be transferred to realisation account. Assets on which some provision has been made are to be transferred to realisation account at

their gross figures and provisions has been made should be transferred along with liabilities.

(2) For transferring liabilities taken over by the transferee company

Various Liabilities (Individually) Dr. (at book value)

To Realisation Account

Note. Only those liabilities are to be transferred which have been assumed by the transferee company. Accumulated profits like credit balance of profit and loss account, general reserve, dividend equalisation reserve, sinking fund, capital reserve are not transferred to realisation account. If there is any fund which partially represents liability and partially undistributed profit, then that portion which represents liability should be transferred to to realisation account. Trade liabilities include sundry creditors and bills payable but not outstanding bills.

(3) For purchase consideration

Transferee Company's Account Dr.

To Realisation Account

(4) For receiving purchase consideration from the transferee company

Bank Account Dr.

Shares in Transferee Company A/c Dr.

To Transferee Company a/c

(5) For assets sold by the transferor company not taken over by the transferee company

Bank Account Dr.

Realisation A/c (if loss on sale of assets) Dr.

To Assets Account

To Realisation A/c (if profit on sale of assets)

Realisation Account Dr.
To Bank Account

(b) If the expenses are to be met by the transferee company, there are two alternatives:

First Alternative – no entry.

Second Alternative - the following two entries will be passed:

(i) Transferee Co.'s A/c Dr.
To Bank Account

(ii) Bank Account	Dr.
To Transferee Co.'s A/c	

(c) If liquidation expenses are included in the purchase consideration and not paid separately by the purchasing company

Realisation Account Dr.
To Bank Account

(7) For liabilities not taken over by the transferee company when paid by the transferor company

Various Liabilities A/c Dr.
Realisation A/c (if excess payment is made) Dr.
To Bank Account

Or Shares in Transferee co. A/c

To Realisation A/c (if less payment is made)

(8) For Closing Realisation Account

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(a) If Profit

Realisation A/c Dr.

To Equity shareholders A/c

(b) If Loss

Equity Shareholders A/c Dr.

To Realisation A/c

(9) For transferring Preference Share Capital

Preference Share Capital A/c Dr.

To Preference Shareholders A/c

Note. If arrears of dividend are to be paid to preference shareholders, then such excess amount should be debited to realisation account and credit to Preference Shareholders Account. If the preference shareholders have agreed to get less than the amount of capital, then reverse entry is to be passed.

(10) For transferring equity share capital and accumulated profit:

Equity Share Capital A/c Dr.

General Reserve A/c Dr.

Debenture Redemption Reserve A/c Dr.

Dividend Equalisation Reserve A/c Dr.

Share Premium A/c Dr.

Profit and Loss A/c Dr.

Accident Compensation Fund Dr

Share Forfeited A/c Dr.

Profit Prior to Incorporation A/c Dr.

Any Other Reserve or Fund A/c Dr.

To Equity Shareholders A/c

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- (11) For transferring accumulated loss and expenses not written off

Equity Shareholders A/c	Dr.
To Profit and Loss A/c	
To Discount or Expenses on issue of shares or debentures	
To Preliminary Expenses	
To Underwriting Commission	

- (12) For paying shareholders

Preference Shareholders A/c	Dr.
Equity Shareholders A/c	Dr.
To Bank or Shares in transferee company	

ACCOUNTING ENTRIES IN THE BOOKS OF THE TRANSFeree COMPANY

- (1) On amalgamation of business

Business Purchase Account	Dr. (with the amount of
To Liquidators of Transferee Co	purchase
consideration)	

- (2) For recording assets and liabilities taken over

Sundry Assets (Individually) Account	Dr. (with book value)
To Sundry Liabilities A/C (Individually)	(with book value)
To Reserve Account	(with book value)
To Business Purchase Account	(with book
value)	

The difference between debits and credits is adjusted in the reserves of the transferee company.

Note. As per AS - 14, the balance of the Profit and Loss A/C of the transferor company is transferred to General Reserve. If any.

Instead of passing two entries one combined entry can be passed :

Sundry Assets Account	Dr.
To Sundry Liabilities	
To Profit and Loss Account	
To Reserve Account	
To Liquidators of the Transferee Co. A/C	

The difference between the above mentioned debits and credits is adjusted against the reserve in the books of transferee company.

(3) For making payment to the liquidator of the transferor company.

Liquidator of the Transferor Co. A/C	Dr.
To Bank / Share Capital / Securities Premium (if any)	

(4) If liquidation expenses are paid by the transferee company

Profit and Loss Account	Dr.
To Bank Account	

(5) For the formation expenses of the transferee company

Preliminary Expenses Account	Dr.
To Bank Account	

Illustration 1 : On 31st March, 2008, White Ltd. was absorbed by Black Ltd., the later taking over all the assets and liabilities of the former at book values. The consideration for the business was fixed at Rs. 40,00,000 to be discharged by the transferee company in the form of its fully paid equity shares of Rs. 10 each, to be distributed among the shareholders of the transferor company, each shareholder getting two shares for every share held in the transferor company. The balance sheet of the two companies as on 31st March, 2008 stood as under :

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Liabilities	White Ltd.	Black Ltd.	Assets	White Ltd.	BlackLtd.
Share Capital : Authorised Issued & Subscribed Equity Shares of Rs. 10 each General Reserve Profit & Loss A/C Workmen's Compensation Fund Sundry Creditors Staff Provident Fund Provision for Taxation					

Example-1

1. A company having 500000 8% preference shares of Rs10 each decides to consolidate the shares into shares of Rs100 each .the required journal entry is as follows

8% preference share capital (Rs. 10)A/c Dr	50,00,000
To 8% preference share capital (Rs100) A/c	50,00,000

Example 2

2.conversion of stock into shares

A company decides to convert its Rs10 equity shares capital of Rs8,00,000 into stock.

The following is the journal entry to be passed

Equity capital A/c	Dr	8,00,000	
	To equity capital stock A/c		8,00,000

Example 3

3. Refunding surplus capital which is found to be in excess of the needs of the company

A company whose paid up capital includes 10,000 shares equity shares of Rs100 each

fully paid decides to return Rs.20 per share to the members , thus reducing each shres to Rs. 802 each. Fully paid.

Particulars	Debit	Credit
Equity share capital (Rs.100) A/c Dr	10,00,000	
To equity share capital (Rs.80) A/c		8,00,000
To sundry shareholders A/cc		2,00,000
Sundry shareholders A/c Dr	2,00,000	
To bank A/c		2,00,000

Example 4

Cancelling or writing off lost of capital, not represented by assets

5,000 equity shares of Rs. 10 each are reduced to fully paid shares of Rs.6 each .

Particulars	Debit	Credit
Equity share capital (Rs10)A/c Dr	50,000	
To equity share capital (Rs6) A/c		30,000
To capital reduction A/cc		20,000

Example 5

When there is appreciation in the value of any of the assets

On the date of capital reduction a company finds that its buildings have appreciated by Rs.40,000 and the value of stock has gone up by Rs.30,000

Particulars	Debit	Credit
Buildings A/c	40,000	
Stock A/c	30,000	
To capital reduction A/c		70,000

Example 6

when debenture holders or creditors make some sacrifice as a part of capital reduction scheme

As per the capital reduction scheme adopted by a company 5,000 7% debenture of Rs.100 each are to be reduced to Rs80each and trade creditors have agreed to reduce their claims by Rs.50,000

Particulars	Debit	Credit
7% debentures A/c Dr	1,00,000	
Creditors A/c	50,000	
To capital reduction A/c		1,50,000

Example 7

X co ltd has the following shares as a part of its share capital

- 10,000 *% preferences shares of Rs.100 each fully paid
- 50,000 equity shares of Rs.5 each fully paid

- 20,000 equity shares of Rs. 10 each . Rs. 8 called up and paid up
- The company has decided to alter the share capital of Rs.10 each.
- To sub divide the preference share in to shares of Rs.10h.
- To consolidate the equity shares of Rs. 5 each in to shares of Rs.10 each

To convert the partly paid up equity shares in to fully paid up shares of Rs8 each with necessary legal sanctions.

Journal the following

Particulars	Debit	Credit
Preference share capital (Rs100 each) A/c Dr To preference shares capital (Rs10) A/c	10,00,000	10,00,000
Equity share capital (Rs 5)A/ c Dr To equity shares capital (Rs10) A/c	2,50,000	2,50,000
Equity share capital (partly paid)A/c Equity share capital (fully paid) A/c	1,60,000	1,60,000

Example 8

(Surplus in Capital Reduction Account)

ABC Ltd passed resolution and got court permission for the reduction of its share capital by Rs.5,00,000 for the purpose mentioned as under:

- To write off the debit balance of P& L a/c of Rs.2,10,000
- To reduce the value of plant and machinery by Rs.90,000 and goodwill by Rs.40,000
- To reduce the value of investments by Rs.80,000

The reduction was made by converting 50,000 preference shares of Rs.20 each fully paid to the same number of preference shares of Rs15 each fully paid and by converting

50,000 equity shares of Rs.20 each on which Rs.15 is paid up into 50,000 equity shares of Rs.10 each fully paid up.

Particulars	Debit	credit
Preference share capital A/c(Rs20) Dr	10,00,000	
To preference share capital A/c		7,50,000
To capital reduction A/c		2,50,000
Equity share capital A/c (partly paid) A/c Dr	7,50,000	5,00,000
To equity share capital (fully paid) A/c		2,50,000
To capital reduction A/c		
Capital reduction A/c D r	5,00,000	
To profit and loss A/c		2,10,000
To plant and machinery A/c		90,000
To good will A/c		40,000
To investment A/c		80,000
To capital reserves A/c (bal figure)		80,000

Example 9

Following a series of losses. XYZ co Ltd resolved to reduce its capital to 50,000 fully paid Rs.5 shares and to eliminate share premium account. The company's balance sheet prior to implementation of the scheme was:

Liabilities	Amount	Assets	Amount
Share capital :		Good will	1,00,000
50000 fully paid shares of RS10	5,00,000		

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each			
Securities premium A/c	50,000	Land and building s	1,62,000
Creditors	62000	Plant and machinery	2,07,000
Bank overdraft	73,000	Stock	92,000
		Debtors	74,000
		Profit and loss a/c	50,000
	6,85,000		6,85,000

It was resolved to apply the sum available under the scheme:

- To write off the good will account
- to write off the debit balance of the profit and loss account
- To reduce the book values of the assets by the following amounts:
 - ✓ Land and buildings Rs.42,000
 - ✓ Plant and machinery Rs.67,000
 - ✓ Stock Rs.33,600

To provide a bad debts reserve of 10 % of the book value of debtors

Show the journal entries to give effect to the scheme and prepare the revised balance sheet after its implementation.

Particulars	Debit	Credit
Share capital A/c Dr	2,50,000	
To capital reduction A/c		2,50,000
Securities premium A/c Dr	50,000	
To capital reduction A/c		50,000
Capital reduction A/c Dr	3,00,000	
To good will A/c		1,00,000

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To profit and loss A/c		50,000
To land and building A/c		42,000
To stock A/c		33,600
To provision for bad debts A/c		7,400
To plant and machinery A/c		67,000

Balance sheet of XYZ Ltd as on

Liabilities	Amount	Assets	Amount
Share capital : 50,000 fully paid shares of Rs.5 each	2,50,000	Land and buildings	1,20,000
Creditors	62,000	Plant and machinery	1,40,000
Bank overdraft	73,000	Stock	58,400
		Debtors 74,000 (LESS) provision for debts 7,400	56,600
	3,85,000		3,85,000

Amalgamation in the nature of purchase

Amalgamation – lump sum method of purchase

1. Raman Ltd and Sivan Ltd have agreed to amalgamate. A new company Sivan Ltd has been formed to take over the running concern as on 31.12.1993 the following balance sheets show the position of the companies amalgamation

	Raman Ltd	Sivan Ltd	Assets	Raman Ltd	Sivan Ltd
Liabilities					
Share capital	20,000	50,000	Good will	-	6,000

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Rs10 each					
General reserve	16,000	-	Furniture	8,000	12,000
Capital reserve	-	4,000	Stock	16,000	8,000
P& L a/c	4,000	-	Sundry debtors	10,000	17,000
Creditors	10,000	6,000	Cash at bank	12,000	7,000
Loan from bank	10,000	16,000	P & L a/c	-	6,000

Siva ram Ltd took over all the assets and liabilities of both the transferor companies at book values except cash at bank , creditors and the good will of Sivan ltd which was considered worthless .

The purchase consideration was agreed at Rs.60,000 for Raman Ltd and Rs.40,000 for Sivan Ltd fully paid equity shares of Rs.10 each were issued settle the purchase price for both the companies

Cash at bank of both companies was exactly sufficient to settle their creditors at 10% discount and pay the liquidation expenses .

You are required to give important ledger in the books of transferor companies and the journal entries and balance sheet in the book of transferee company.

Solution:

Books of Raman Ltd (transferor company)

Realisation account

Particulars	Amount	Particulars	Amount
To plant	14,000	By loan from bank	10,000
To furniture	8,000	By Siva ram Ltd	60,000
To stock	16,000	By creditors (10,000*10/100)	1,000
To sundry debtors	10,000		
To bank (exp)12,000-9,000	3,000		
To share holders (profit)	20,000		
	71,000		71,000

Bank account

Particulars	Amount	Particulars	Amount
To balance b/d	12,000	By creditors(10,000- 1,000)	9,000
		By realisation (expenses)	3,000
	12,000		12,000

Shareholders A/c

Particulars	Amount	Particulars	Amount
To shares in Siva ram Ltd	60,000	By share capital A/c	20,000
		By general reserve A/c	16,000

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		By P& L a/c	4,000
		By realisation a/c	20,000
	60,000		60,000

Books of Sivan Ltd (transferor company)

Realisation account

Particulars	Amount	Particulars	Amount
To plant	20000	By loan from bank	16000
To furniture	12000	By Siva ram ltd	40000
To stock	8000	By creditors(6000*10/100)	600
To sundry debtors	17000	By shareholders (loss)	2000
To bank (expenses) (7000-5400)	1600		
	58,600		58,600

Bank account

Particulars	Amount	Particulars	Amount
To balance b/d	7,000	By creditors(6000-600)	5,400
		By realisation (expenses)	1,600
	7,000		7,000

Shareholders A/c

Particulars	Amount	Particulars	Amount
To P & L A/c	6,000	By share capital A/c	50,000
To realisation	2,000	By capital reserve A/c	4,000
To good will	6,000		

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To share in Siva ram Ltd	40,000		
	54,000		54,000

Note: since good will of Sivan Ltd is considered worthless there is no need to transfer it to realisation account. Like any other loss it is transferred to shareholders directly.

Books of siva ram Ltd (transferee company)

Particulars	Debit	Credit
Business purchase A./c Dr	1,00,000	
To Raman Ltd A/c		60,000
To Sivan Ltd A/c		40,000
Plant A/c Dr	34,000	
Furniture A/c Dr	20,000	
Stock A/c Dr	24,000	
Sundry debtors A/c Dr	27,000	
Good will A/c Dr	21,000	
To business purchase A/c		1,00,000
To loan from bank		26,000
Liquidator of Raman Ltd A/c	60,000	
Liquidator Sivan Ltd A/c	40,000	
TO share capital A/c		1,00,000

Liabilities	Amount	Assets	Amount
Capital : 10000 shares of Rs.10 each	1,00,000	Fixed assets:	
		Goodwill	21,000
Loan from bank	26,000	Plant	34,000

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		Furniture	20,000
		Current assets:	
		Stock	24,000
		Sundry debtors	27,000
	1,26,000		1,26,000

Absorption –Net payment method

- The following is the balance sheet of X Ltd as on 31.3.1996

Liabilities	Amount	Assets	Amount
Share capital : 2,00,000 shares of Rs.10each	20,00,000	Land and building	10,00,000
General reserve	2,50,000	Plant and machinery	15,00,000
Dividend equalisation reserve	2,00,000	Furniture	25,000
Profit and loss a/c	51,000	Stock	6,00,000
12 % debenture	10,00,000	Work in progress	3,00,000
Sundry creditors	3,00,000	Sundry debtors	2,50,000
		Cash at bank	1,26,000
	38,01,000		38,01,000

The company was absorbed by A Ltd on the above date. The consideration for the absorption is the discharge of the debentures at a premium of 5% taking over the liability in respect of sundry creditors and a payment of Rs7 in cash and one share of Rs.5 in A Ltd at the market value of Rs.8 per share for every share in X Ltd. The cost of liquidation of Rs.15,000 is to be met by the purchasing company. pass journal entries in the books of A Ltd

Statement showing purchase consideration

Particulars	Cash	Shares	Total
for shareholders:			
CASH 2,00,000*7	14,00,000		14,00,000
Shares in A Ltd 2,00,000*1*8		16,00,000	16,00,000
Purchase consideration	14,00,000	16,00,000	30,00,000

Note: As per As-14 Purchase price should include payment to shareholders alone .So debenture have to be shown as taken over by A Ltd and then settled .Cost of liquidation paid by purchasing Co should be shown as reimbursement.

Books of X ltd (transferor company)

Journal entries

Particulars	Debit	credit
Realisation A/c Dr To sundry assets	38,01,000	38,01,000
Sundry creditors A/c Dr 12 % debenture A/c To realisation A/c	3,00,000 10,00,000	13,00,000
A Ltd A/c Dr To realisation A/c	30,00,000	30,00,000
Bank A/c Dr Share in A ltd Dr To A ltd A/c	14,00,000 16,00,000	30,00,000
A Ltd A/c Dr To bank A/c	15,000	15,000
Bank A/c Dr	15,000	

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To A ltd A/c		15,000
Share capital A/c Dr	20,00,000	
General reserve A/c Dr	2,50,000	
Dividend equalisation reserve A/c Dr	2,00,000	
Profit and loss A/c Dr	51,000	
To share holders A/c		25,01,000
Realisation A/c Dr	4,99,000	
To shareholders A/c		4,99,000
Shareholders A/c Dr	30,00,000	
To bank A/c		14,00,000
To shares in A ltd		16,00,000

External construction : Net payment method

The book of S ltd contained the following balance as on May 31.1994

Particulars	Debit	Credit
Equity share capital (Rs10 Each)	-	12,00,000
Creditors		14,00,000
Patents and trade marks	12,00,000	
Plant and machinery	4,00,000	
Stock	3,00,000	
Debtors	5,00,000	
Cash	12,500	
Preliminary expenses	72,500	
Profit and loss a/c	1,15,000	
	26,00,000	26,00,000

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The patents and trade marks are considerably over valued . the company is also not in a position to raise any further capital. The following scheme of reconstruction has therefore been framed.

The company will go into voluntary liquidation. A new company S.S Ltd will be formed with an authorised capital of Rs.20,00,000 to take over the assets.

Liability will be discharged by the new company to the creditors by payment of 25 paise in a rupee in cash and 50 paise in a rupee by issue of 9% debenture

1,20,000 shares of Rs.10 each (Rs.5 per share paid) will be issued to the shareholders of S ltd the balance Rs.5 per share to be paid on allotment

Expenses of liquidation amounting to Rs.17,500 will be paid by S.S Ltd the scheme was approved by all concerned. You are required to

Close the ledger of S ltd

Give entries to open the book of S ltd

Prepare the opening balance sheet of S.S Ltd

Books of 'S' Ltd (transferor company)

Realisation A/c

Particulars	Amount	Particulars	Amount
To patents and trade marks	12,00,000	By S.S Ltd	6,00,000
To plant and machinery	4,00,000	By creditors	14,00,000
To stock	3,00,000	By share holders (loss)	4,12,500
To debtors	5,00,000		
To cash	12,500		
	24,12,500		24,12,500

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Creditors A/c

Particulars	Amount	Particulars	Amount
To realisation A/c (transfer)	14,00,000	By balanced b/d	14,00,000
	14,00,000		14,00,000

S.S Ltd A/c

Particulars	Amount	Particulars	Amount
To realisation a/c	6,00,000	By shares in S.S.Ltd	6,00,000
	6,00,000		6,00,000

Bank A/c

Particulars	Amount	Particulars	Amount
To S.S Ltd(expenses)	17,500	By S.S Ltd (expenses)17500	17,500
	17,500		17500

Share holders A/c

Particulars	Amount	Particulars	Amount
To preliminary expenses	72,500	By share capital A/c	1,200,000
To profit and loss a/c	1,15,000		
To realisation A/c	4,12,500		
To shares in S.S ltd	6,00,000		
	12,00,000		12,00,000

Share in S.S Ltd A/c

Particulars	Amount	Particulars	Amount
To S Ltd A/c	6,00,000	By shareholders A/c	6,00,000
	6,00,000		6,00,000

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Books of S.S Ltd (transferee company)

Particulars	Debit	Credit
Business purchase A/c Dr To Liquidator of s ltd A/c	6,00,000	6,00,000
Patents and trade marks A/c Dr Machinery A/c Dr Stock A/c Dr Debtors A/c Dr Cash A/c Dr To business purchase A/c To creditors (14,00,000*75/100) To capital reserve A/c	12,00,000 4,00,000 3,00,000 5,00,000 12,500	6,00,000 10,50,000 7,,62,500
Capital reserve A/c Dr To bank (expenses) To patents and trade marks A/c	7,62,500	17,500 7,45,000
Liquidators of S.S Ltd A/c Dr To equity share capital A/c (Rs5Paid)	6,00,000	6,00,000
Bank A/C Dr To equity share capital A/c	6,00,000	6,00,000
Creditors A/c Dr To bank A/c To 9% debenture A/c	10,50,000	3,50,000 7,00,000

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Balance sheet of S.S Ltd as on 31st may 1994

Liabilities	Amount	Assets	Amount
Share capital :authorised 2,00,000 shares of Rs.10each	<u>20,00,000</u>	Patents and trade marks(12,00,000- 7,45,000)	4,55,000
Issued and paid up capital 120000 shares of Rs10each fully paid	12,00,000	Plant and machinery	4,00,000
9% debentures	7,00,000	Stock	3,00,000
		Debtors	5,00,000
		Cash	12,500
		Bank (600000-367500)	2,32,500
	19,00,000		19,00,000

Inter company holdings

Inter company Owings and unrealized profit in stock also

Following are the balance sheets of two companies W Ltd and Z ltd as at march 31 1999

Liabilities	W Ltd	Z Ltd	Assets	W Ltd	Z Ltd
Equity shares of Rs100 each	500000	300000	Sundry assets	750000	350000
Reserves	100000	60000	1000 shares in W ltd at cost	-	100000
Creditors	150000	90000			
	750000	450000		750000	450000

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W ltd was to absorb Z Ltd agreeing that the shares of both the companies are worth Rs120 each . the purchase consideration was to be discharged in the form of fully paid shares.

A sum of Rs20000 is owed by W ltd to Z Ltd .also included in the stock of W Ltd is RS30000 goods supplied by Z Ltd .also included in the stock at cost plus 20%.

Give entries in the books of both the companies and balance sheet in the books of W ltd

Solution:

In the books "Z Ltd (transferor company)

Particulars	Debit	Credit
Realization A/c Dr To sundry assets	3,50,000	3,50,000
Creditors A/c Dr To realization A/c	90,000	90,000
W Ltd A/c Dr To Realization A/c	2,40,000	2,40,000
Shares in W ltd A/c Dr To W Ltd A/c	2,40,000	2,40,000
Shares in W Ltd A/c Dr To realizations A/c	20,000	20,000
Share capital A/c Dr Reserve A/c Dr To shareholders A/c	3,00,000 60,000	3,60,000
Share holders account A/c Dr To share In W ltd	3,60,000	3,60,000

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Investment in shares of W Ltd should be re-valued on the same basis as agreed value for the shares for the purpose of absorption so $1000 \times 120 - 100000 = \text{Rs}20000$ is the profit on the investment made in W Ltd 's shares by Z Ltd

Working note 1

Realisation A/c

Particulars	Amount	Particulars	Amount
To sundry assets	3,50,000	By creditors	90,000
		by W Ltd	2,40,000
		By shares in W Ltd A/c (profit on revaluation of investment in shares)	20,000
	3,50,000		3,50,000

Working note 2

Shares in W ltd account A/c

Particulars	Amount	Particulars	Amount
To balance b/d	1,00,000	By shareholders	3,60,000
To realisation A/c ($1000 \times 120 - 100000$)	20,000		
To W ltd	2,40,000		
	3,60,000		3,60,000

Working note 3

Shares holders A/c

Particulars	Amount	Particulars	Amount
To shares in W ltd	3,60,000	By share capital a/c	3,00,000

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		By reserves	60,000
	3,60,000		3,60,000

Working note 4

Purchase consideration

Total value of Z LTd shares $3,00,000/100 * 120$ 3,60,000

No of shares to be issued by W ltd on the basis of agreed value of its own shares

At Rs120 each

$$3,00,000/120 = 3,000 \text{ shares}$$

Less: Shares already held by Z Ltd 1,000shares

Fresh shares to be issued by W ltd to Z Ltd 2,000 shares

Purchase consideration = $2,000 * 120 = \text{Rs.}2,40,000$

In the books of W Ltd (transferee company)

Particulars	Debit	Credit
Business purchase A/c Dr To liquidator of Z Ltd	2,40,000	2,40,000
Sundry assets A/c Dr To creditors To business purchase A/c To capital reserve A/c	3,50,000	90,000 2,40,000 20,000
Liquidator of Z Ltd A/c Dr To share capital A/c (2000 *100) To securities premium A/c (2000 *20)	2,40,000	2,00,000 40000
Creditors A/c Dr To sundry Assets a/c	20000	20000
Capital Reserve A/c Dr	5000	

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To sundry assets A/c		5000
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Balance sheet of W Ltd (after amalgamation)

Liabilities	Amount	Assets	Amount
Share capital: 7000 shares of Rs100 each)of above 2000 shares are issued for consideration other than cash)	7,00,000	Sundry assets: (750000+350000) 11,00,000 Less: Mutual owing 20,000 10,80,000 Less: unrealised profit 5,000 in stock	10,75,000
	1,00,000		
Capital reserve (20000-5000)	15,000		
Securities premium	40,000		
Creditors (150000+90000) 240000 Less: Mutual owing 20000	2,20,000		
	10,75,000		10,75,000

UNIT - III

POSSIBLE QUESTIONS

PART A (1 mark)

(Online examinations)

PART B (2 Marks)

1. What is Amalgamation?
2. Explain 'Capital Reduction'.
3. Mention various types of Amalgamation.
4. What do you understand by the term Capital Profits?
5. List out the methods for computing Purchase Consideration.

PART B (2 Marks)

1. M Ltd. And N Ltd. Agreed to amalgamate on the basis of the following Balance Sheet as
on 31-3-1997.

Liabilities	M Ltd. Rs.	N Ltd. Rs.	Assets	M Ltd. Rs.	N Ltd. Rs.
Share capital Rs.25 each	75,000	50,000	Goodwill	30,000	-
P&L A/C	7,500	2,500	Fixed assets	31,500	38,800
Creditors	3,500	3,500	Stock	15,000	12,000
Depreciation fund	-	2,500	Debtors	8,000	5,200
			Bank	1,500	2,500

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TOTAL	86,000	58,500	TOTAL	86,000	58,500
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The assets and liabilities are to be taken over by a new company formed called 'P Ltd', at book values. P Ltd's capital is Rs. 2,00,000 divided into 10,000 equity shares of Rs.10 each and 10,000 9% preference shares of Rs.10 each.

P Ltd. Issued the equity shares equally to the vendor companies and preference shares were issued for any balance of purchase price.

Pass journal entries in the books of P Ltd. And prepare its balance sheet.

2. The following scheme of reconstruction has been approved for Divya Ltd

- (A) The shareholders to receive in lieu of their present holding of 60,000 shares of Rs.10 each fully paid the following.
 - (I) Fully paid new equity shares equal to $\frac{1}{3}$ rd of their holding
 - (II) 8% preference shares fully paid, to the extent of $\frac{1}{5}$ th of the above new equity shares
 - (III) Rs.60,000 8% secured debentures
- (B) The debenture holders' total claim of Rs.75,000 to be reduced to Rs.25,000. This will be satisfied by the issue of 2,5000 8% preference shares of Rs.10 each fully paid
- (C) An issue of 50,000 6% first debentures was made and allotted, payment for the same having been received in cash.
- (D) The goodwill which stood an Rs.3,00,000 was written down to Rs.50,000. Plant & Machinery which stood at Rs.1,00,000 was written down to Rs.75,000
- (E) The freehold premises which stood at Rs.1,75,000 was written down by Rs.75,000

Give Journal entries in the books of Divya Ltd. for the above Reconstruction.

3. Raman Ltd., and Sivam Ltd., have agreed to amalgamate. A new Company, Sivaraman Ltd., has been formed to take over the running concern as on 31.12.2005.

The following

Balance Sheets show the position of the companies amalgamating

Liabilities	Raman Ltd. Rs.	Sivam Ltd. Rs.	Assets	Raman Ltd. Rs.	Sivam Ltd. Rs.
Share Capital Rs. 10 each	20,000	50,000	Goodwill	-	6,000
General Reserve	16,000	-	Plant	14,000	20,000
Capital Reserve	-	4,000	Furniture	8,000	12,000
P& L A/c	4,000	-	Stock	16,000	8,000
Loan from Bank	10,000	6,000	Sundry Debtors	10,000	17,000
Creditors	10,000	6,000	Cash at bank	12,000	7,000
			P & L A/c	-	6,000
	60,000	46,000		60,000	46,000

Sivaram Ltd. Took over all the assets and liabilities of both the transferor companies at book values except cash at bank, creditors and the goodwill of Sivan Ltd. which was considered worthless.

The Purchase Consideration was agreed at Rs. 60,000 for Raman Ltd., and Rs. 40,000 for Sivan Ltd., Fully paid Equity Shares of Rs. 10 each were issued to settle the purchase price for both the companies.

Cash at bank of both the companies was exactly sufficient to settle their creditors at 10 % discount and pay the liquidation expenses.

You are required to give important ledger accounts to close the books of the transferor companies and the Journal and Balance Sheet in the books of the transferee company, assuming that the amalgamation is in the nature of Purchase.

4. The summarised Balance Sheet of Ambrose Co. Ltd., as at 31st December, 2008 was as follows :

Liabilities	Amount Rs.	Assets	Amount Rs.
Authorised & Issued Capital : 2,00,000 Equity Shares of Rs. 10 each Fully Paid	20,00,000	Land and Buildings	15,00,000
10,000, 6 % Cumulative Preference Shares of Rs. 100 each fully paid	10,00,000	Plant and Machinery	10,00,000
Bank Overdraft	7,00,000	Goodwill	2,00,000
Sundry Creditors	5,00,000	Patents and Trade Marks	1,00,000
(Note : the Cumulative Preference dividend is in arrear for three years)		Stock	4,00,000
		Sundry Debtors	3,00,000
		Preliminary Expenses	1,00,000
		Profit and Loss A/c	6,00,000
	42,00,000		42,00,000

A Scheme of Capital reduction was approved on the following terms:

- The Preference Shareholders agreed that their Shares be reduced to fully paid Shares of Rs. 50 each and to accept Equity Shares of Rs. 5 each fully paid in lieu of Dividend Arrears
- The Equity Shareholders agree that their shares be reduced to a fully paid value of Rs. 5 each

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- (iii) The Authorised Capital of the company is to remain at Rs. 30,00,000 divided into 4,00,000 Equity Shares of Rs. 5 each and 20,000, 6 % Cumulative Preference Shares of Rs. 50 each
- (iv) All the Intangible and Fictitious Assets are to be eliminated and Bad Debts of Rs. 50,000 and absolute stock of Rs. 80,000 are to be written off. Give the necessary Journal Entries to record the Capital Reduction and draw up the revised Balance Sheet.

5. Following a series of losses, XYZ Co. Ltd., resolved to reduce its Capital to 50,000 fully paid Rs. 5 shares and to eliminate Share Premium Account. The companies Balance Sheet prior to implementation of the Scheme was :

Liabilities	Amount Rs.	Assets	Amount Rs.
Share Capital; 50,000 Fully paid Shares of Rs. 10 each	5,00,000	Goodwill	1,00,000
Securities Premium A/c	50,000	Land and Buildings	1,62,000
Creditors	62,000	Plant and Machinery	2,07,000
Bank Overdraft	73,000	Stock	92,000
		Sundry Debtors	74,000
		Profit and Loss A/c	50,000
	6,85,000		6,85,000

It was resolved to apply the sum available under the Scheme:

- (i) To write off the Goodwill Account
- (ii) To write off the debit balances of the Profit and Loss Account
- (iii) To reduce the Book values of the Assets by the following Accounts :
 - Land and Building - Rs. 42,000
 - Plant and Machinery - Rs. 67,000
 - Stock - Rs. 33,600
- (iv) To provide a bad debts reserve of 10 % of the Book value of Debtors

Show the Journal entries to give effect to the scheme and prepare the revised Balance Sheet after its implementation

6. The following are the balance sheets of Sindhu Ltd., and Bindhu Ltd., as on 31-3-2000

Liabilities	Sindhu Ltd Rs.	Bindhu Ltd Rs.	Assets	Sindhu Ltd Rs.	Bindhu Ltd Rs.
Equity share capital (Rs. 10 each)	5,00,000	3,00,000	Fixed Assets	8,00,000	3,50,000
8% Pref. Share capital (Rs.100 each)	2,00,000	1,00,000	Current Assets	4,00,000	2,50,000
General Reserve	1,00,000	50,000			
P&L A/C	50,000	30,000			
12 % Debentures of Rs. 100 each	50,000	20,000			
Current Liabilities	3,00,000	1,00,000			
	12,00,000	6,00,000		12,00,000	6,00,000

Sindhu Ltd., agreed to acquire Bindhu Ltd., on the following terms :

- (i) 11 % Preference Shares will be issued to discharge the Preference Shares in Bindhu Ltd., at 25 % Premium
- (ii) Cash of Rs. 2 per Share will be paid and one Equity Shares in Sindhu Ltd., will be issued at agreed value of Rs. 13 per share for every Equity Shares in Bindhu Ltd.
- (iii) Bindhu Ltd., 's Debentures are to be paid off in cash

Give Journal Entries in the books of Sindhu Ltd., and prepare its Balance Sheet, if Amalgamation is in the Nature of Merger.

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Coimbatore - 641021						
DEPARTMENT OF COMMERCE						
CORPORATE ACCOUNTING (17CCU301)						
UNIT III						
S No	Questions	Option 1	Option 2	Option3	Option4	Answer
1	Purchase consideration is payable in _____	goods	shares	loan	bond	shares
2	Realisation consideration met by the purchasing company should be debited to	Realisation A/c	goodwill	vendor A/c	Creditor A/c	goodwill
3	Accounting standard for amalgamation is _____	AS-8	As-20	AS-14	As-3	AS-14
4	Pooling of interest method is used to account for amlgamation in the nature of	Purchase	sale	merger	credit	merger
5	Purchase consideration , as per As-14 should include cash and securities agreed	Shareholders	Shareholders & debentures	creditors, debentures	Debentures	Shareholders
6	Expenses of liquidation of transferor company may be shown as	Transferor company	Transferee company	transferor and transferee the	X company	Transferee company
7	Excess purchase consideration paid to the transferor company and debited to	2 years	8 years	20 years	5 years	5 years
8	The accounting standards committee of the ICAI (Institute of chartered	As14	As16	As20	As 15	As14
9	The methods of accounting used to record amalgamation in the nature of merger is	Purchasing method	Pooling of Interest	payment method	Net asset method	Pooling of Interest
10	Any excess of purchase consideration paid over and above the share capital of	Reserves	Assets	Capital	secured loan	Reserves

11	Net worth method and intrinsic value method of ascertaining purchase	Net assets	Net liability	capital employed	current asset	Net assets
12	when two or more existing companies combine together to form a new company	Amalgamation	Absorption	External reconstruction	internal reconstruction	Amalgamation
13	When one existing company takes over the business of one or more existing	Amalgamation	Absorption	external reconstruction	Internal reconstruction	Absorption
14	When an existing company is liquidated and a new company is formed with the	Absorption	amalgamation	internal reconstruction	external reconstruction	external reconstruction
15	Alteration of share capital is effected by a company if it is authorised by the	Memorandum of	Articles of association	shareholders	board of directors	Articles of association
16	The capital reduction scheme can be implemented only after getting	central Govt	controller of capital issues	shareholders	the competent court	the competent court
17	In case of sub-division of share capital , the total number of shares _____	Does not change	Decreases	Increases	Decrease proportionately	Increases
18	When a company converts its equity shares into the capital stock, then the	Preference share capital	equity share capital A/c	Equity capital Stock A/c	No entry is required	Equity capital Stock A/c
19	After writing off all accumulated losses, the balance in capital reduction A/c if any	share capital A/c	Capital Reserve A/c	General Reserve A/c	Good will A/c	Capital Reserve A/c
20	Any gain on revaluation of the assets at the time of internal reconstruction will be	capital reserveA/c	Capital reduction	share capital A/c	General reserve A/c	Capital reduction A/c
21	In the scheme of reorganisation , amount of shares surrendered by shareholders is	Capital reserve A/c	General reserve A/c	surrendered shares A/c	sharecapital A/c	surrendered shares A/c
22	Any decrease in the value of assets, at the time of internal reconstruction , will be	good will A/c	capital reduction	revaluation a/c	share capital A/c	capital reduction A/c
23	A company has issued capital of 40000 equity shares of Rs10 each fully paid It	Decrease in unissued	sub-division of	consolidation of share	division of capital	sub-division of sharecapital
24	The price payable by the purchasing company to the selling company for	purchasing consideration	sale consideration	cash consideration	business consideration	purchasing consideration

25	The accounting standards committee of the ICAI (Institute of chartered	As14	As16	As20	As 15	As14
26	_____ section of companies Act permits a limited company to alter the	95	90	94	91	94
27	A copy of the resolution should be filed with him within _____ of the date of	32	34	30	41	30
28	_____ section of the companies Act, any such alteration must be notified to the	80	9	94	95	95
29	_____ of the company must permit reduction of share capital	AOA	MOA	AOC	MOC	AOA
30	In the general body meeting, a _____ must be passed for reduction of share	ordinary meeting	special resolution	annual meeting	general resolution	special resolution
31	any surplus amount in capital reduction is transferred to _____	reserve account	capital reserve	General Reserve A/c	capital redemption A/c	capital reserve account
32	Intrinsic value method is also called as _____	share exchange	hare and stock method	share capital method	share method	share exchange method
33	The new values given for assets and liabilities must be shown in the books of	purchasing company	vendor company	creditor company	seller company	purchasing company
34	Purchasing company records the assets on _____ values	marked value	market value	book value	any value	market value
35	The books of the selling company which is liquidated must be _____	opened	started	closed	begin	closed
36	The undistributed profits of both revenue and capital nature appear on the	Liabilities	Assets	fixed assets	current asset	Liabilities
37	_____ are the amount payable to all outsiders except shareholders	liabilites	external laibilities	current liabilities	reserve	external laibilities
38	_____ section of the companies Act 1956 facilities amalgamation, absorption	495	465	494	490	494

39	_____ means the company which is amalgamated into another company	transferee company	transferor company	transferred company	transport company	transferor company
40	_____ method the price paid in the agreement directly	net payment method	net asset method	Lumpsum method	Intrinsic value method	Lumpsum method
41	_____ taken by the purchasing company is deemed as the purchase	net payment method	net asset method	Lumpsum method	Intrinsic value method	net asset method
42	Purchasing company records the assets on _____ values	marked value	market value	book value	any value	market value
43	Net worth method and intrinsic value method of ascertaining purchase	Net assets	Net liability	capital employed	current asset	Net assets
44	Purchase consideration is payable in _____	cash	loan	bonds	goods	cash
45	The exchange ratio is generally determined on the basis of _____	face value	Intrinsic value	agreed value	normal value	Intrinsic value
46	_____ section of the companies Act specify the provision relating to	390&396A	391&392A	350&350A(4)	346&360A	390&396A
47	Share which are not yet issued by the company are _____	cancelled	entered	uncalled	Paid	cancelled
48	Reconstruction refers to reorganisation of the _____ - of a company	asset	liabilities	reserves	Capital structure	Capital structure
49	a company can reduce its share capital as per the provisions of section _____	99 to 100	89 to 90	100 to 105	60 to 67	100 to 105
50	If the articles are silent it may be altered through _____ to enable the	ordinary resolution	special resolution	annual resolution	general resolution	special resolution
51	The surrendered shares may be _____ immediately by transferring their value to	paid	unpaid	called	Cancelled	Cancelled
52	Agreed value of asset taken over-Agreed value of liabilities taken over is _____	net assets	net payment	purchasing method	yield method	net assets

53	The undistributed profits of both revenue and capital nature appear on the	Liabilities	Assets	fixed assets	current asset	Liabilities
54	_____ are the amount payable to all outsiders except shareholders	liabilites	external laibilities	current liabilities	reserve	external laibilities
55	_____ profits do not form part of liabilities , they belong to the	future	net	accumulated	gross	accumulated
56	the terms of agreement between the purchasing and selling companies govern	purchase	cashier	net asset	purchase consideration	purchase consideration
57	Every scheme of amalgamation involving two or more companies requires th	creditors winding up	members	court	Unsecured creditors	court
58	Pooling of interests method is used to account for amalgamation in the nature of	Purchase	Sale	Merger	Acquisition	Merger
59	Purchase consideration, as per AS-14, should include cash and securities agreed	Shareholders	Shareholders & Debenture	Creditors, Debenture	Creditors and Debenture	Shareholders
60	Excess purchase consideration paid to the transferor company and debited to	2 years	20 years	5 years	8 years	5 years

UNIT - IV

Accounts of Holding Companies/Parent Companies: Preparation of consolidated balance sheet with one subsidiary company - Relevant provisions of Accounting Standard: 21 (ICAI).

INTRODUCTION

One of the popular forms of business combination is by means of holding company or Parent Company. A holding company is one which directly or indirectly acquires either all or more than half the number of Equity shares in one or more companies so as to secure a controlling interest in such companies, which are then known as subsidiary companies. Holding companies are able to nominate the majority of the directors of subsidiary company and therefore control such companies. Holding company meet directly from such subsidiary company or it may acquired majority OR shares in existing company. Such company also considered as subsidiary company in which holding company acquired majority shares.

MEANING UNDER COMPANIES ACT 1956

Section 4 of the companies Act, 1956 defines a subsidiary company. A company is a subsidiary of another if and only if –

- a) That other company controls the composition of its Board of Directors; or
- b) That other –
 - i) Where the first mentioned company is an existing company in respect of which the holders of Preference shares issued before the commencement of this Act have the same voting rights in all respect as the holders of Equity shares exercises or controls more than half of the total voting power of such company.
 - ii) Where the first mentioned company is any other company, holds more than half in nominal value of its Equity share capitals.
 - iii) The company is a subsidiary of any company which is that other company's subsidiary.

ADVANTAGES OF HOLDING COMPANIES

Following are the advantages of Holding Company:

- 1) Subsidiary company maintained their separate identity.
- 2) The public may not be aware the existence of combination among the various company.
- 3) Holding company need not to be invest entire amount in the share capital in subsidiary company still enjoy controlling power in such company.
- 4) It would be possible to carry forward losses for income tax purposes.
- 5) Each subsidiary company prepares its own accounts and therefore financial position and profitability of each undertaking is known.
- 6) Holding company may additional acquired or disposed of and the shares in subsidiary company in market whenever if desired.

DISADVANTAGES OF HOLDING COMPANIES

- 1) There is a possibility of fraudulent manipulation of accounts.
- 2) Inter-company transaction may not be at a fair price.
- 3) Minority shareholders interest may not be properly protected.
- 4) The accounts of various companies may be made upon different dates to, manipulate profit or financial position of Group companies.
- 5) The shareholders in the holding company may not be aware of true financial position of subsidiary company.
- 6) Creditors and outsiders shareholder in the subsidiary company may not be aware of true financial position of subsidiary company.
- 7) The Subsidiary Companies may be force to appoint person of the choice of holding company such as Auditors, Directors other officers etc. at in dually high remuneration.
- 8) The Subsidiary Company may be force for purchases or sale of goods, certain assets etc. as per direction of holding company.

PRESENTATION OF ACCOUNTS BY HOLDING COMPANIES

As laid down in section (212) of the companies Act, 1956. A holding company requires attaching its balance sheet. The following documents and present the same to its shareholders.

- a) A copy of the Balance Sheet of the subsidiary.
- b) A copy of the Profit and Loss Account of the subsidiary.
- c) A copy of the Report of the Board of Directors of the subsidiary.
- d) A copy of the Auditors Report of subsidiary.
- e) A statement indicating the extent of holding company's interest in the subsidiary at the end of the accounting year of the subsidiary.
- f) Where the financial year of the subsidiary company does not coincident with the financial year of the holding company. A statement showing the following.
 - i) Whether there are any changes in holding companies interest in subsidiary company since the close of financial year of the subsidiary company.
 - ii) Details of material changes which have occurred between the end of the financial year or the subsidiary company an end of the financial year of the holding company.

AS. 21 – Consolidation of Financial statement

AS. 21 come into effect in respect of accounting periods commencing on or after 1st April i.e. for year ending 31st March 2002. The A.S. 21 is applicable to all the enterprises that prepare consolidated financial statement. It is mandatory for Listed companies and Banking companies.

As per AS 21, The Consolidated financial statements would include:

- i) Profit & Loss A/c
- ii) Balance sheet
- iii) Cash flow statement
- iv) Notes of Accounts except typical notes.
- v) Segment reporting

AS 21 also desire various import terms, as well as treatment and same while preparing consolidated financial statement. Consolidated financial statements should be prepared for both domestic as well as foreign subsidiaries.

CONSOLIDATION OF BALANCE SHEET

A holding company is required to present to its shareholders consolidated balance sheet of holding company and its subsidiaries. Consolidated balance sheet is nothing but adding up or combining the balance sheet of holding and its subsidiary together. However assets and liabilities are straight forward, i.e. added line to line and combination of share capital, reserves, and accumulated losses are not directly added in consolidated balance sheet.

Preparation of consolidated balance sheet. The following points need special attention while preparing consolidated balance sheet.

- 1) Share of holding company and share of minority (outside shareholders).
- 2) Date of Balance sheet of holding company and that of various subsidiary companies must be same. If they are not so necessary adjustment must be made before consolidation.
- 3) Date of Acquisition of control in subsidiary companies.
- 4) Inter company owing.
- 5) Revaluation of fixed assets as on date of acquisition, depreciation, adjustment on revaluation amount etc. which are discussed here in after.

COST OF CONTROL / GOODWILL / CAPITAL RESERVE :

The holding company acquires more than 50% of the shares of the subsidiary company. such shares may be acquired at a market price. Which may be at a premium or at discount. This amount is reflected in the balance sheet of holding company of the assets side as investment in the shares of subsidiary company. This is the price paid for shares in net assets of subsidiary company as on date of its acquisition. Net assets of the subsidiary company consist of share capital, accumulated profits and reserve after adjustment, accumulated losses as on the date of acquisition.

If the amount paid by the holding company for the shares of subsidiary company is more than its proportionate share in the net asset of the subsidiary company as on the date of acquisition, the difference is considered as goodwill.

If there is excess of proportionate share in net assets of subsidiary company intrinsic of shares acquired and cost of shares acquired by holding company there will be capital reserve in favour of holding company.

If goodwill already exists in the balance sheet of holding company or both the goodwill thus calculated, will be added up to the existing goodwill. Capital Reserve will be deducted from Goodwill. In short, net amount resulting from goodwill and capital Reserve will be shown in the consolidated Balance sheet.

MINORITY INTEREST:

The claim of outside shareholders in the subsidiary company has to be assessed and shown as liability in the consolidated balance sheet. Minority interest in the net assets of the company is nothing but the proportionate share of aggregation of share capital, reserve surpluses funds etc. proportionate share of all assets should be deducted from the minority interest.

Thus, minority interest is the share of outsider in the following.

- 1) Share in share capital in subsidiary.
- 2) Share in reserves (Both pre and post acquisition of subsidiary).
- 3) Share in accumulated losses should be deducted.
- 4) Proportionate share of profit or loss on revaluation of assets.
- 5) Preference share capital of subsidiary company held by outsiders and dividend due on such share capital, if there are profits. Minority interest means outsiders interest. It is treated as liability and shown in consolidated Balance sheet as current liability. This amount is basically intrinsic value of shares held by minority.

CAPITAL PROFITS AND REVENUE PROFITS:

The holding company may acquire the shares in the subsidiary company either on the balance sheet date or any date earlier than balance sheet date. All the profit earned by the subsidiary company till the date of acquisition of shares by holding company have to be taken as capital profits for the holding company.

Such reserves lose their individual identity and considered as capital profits. In case, the holding company acquired shares on a date other than balance sheet date of subsidiary, the profits of subsidiary company will have to be apportioned between capital profits and Revenue profits from the point of view of the holding company. Thus any profit earned by subsidiary company before the date of acquisition is the capital profit, while any profit earned by subsidiary company after the date of acquisition is Revenue profits.

While preparing the consolidated balance sheet share in capital profits should be adjusted with the cost of control and Revenue profits / Reserves should be merged with the balances in the Reserve and surpluses of the holding company.

ELIMINATION OF INVESTMENTS IN SHARES OF SUBSIDIARY COMPANY:

Investment in shares in subsidiary company represents the cost paid by the holding company to acquire the shares of the subsidiary company. The investment in shares of the subsidiary company entitles the holding company to share the net assets of the subsidiary company. While preparing consolidated balance sheet all the assets and liabilities of subsidiary company have to be merged with those of the holding company and therefore it is logical to eliminate investments of the holding company in the shares of the subsidiary company. Share in net assets of the outside shareholders should treat as the minority interest it is shown in the balance sheet on the liability side of holding company.

MUTUAL OWING / INTER COMPANY TRANSACTIONS :

The holding company and the subsidiary company may have number of inter company transactions in any one or more of the following matters.

1. Loan advanced by the holding company to the subsidiary company or vice versa.
 2. Bill of Exchange drawn by holding company on subsidiary company or vice versa.
 3. Sale or purchase of goods on credit by holding company from subsidiary company or vice versa.
 4. Debentures issued by one company may be held by the other.
- As a result of these inter company transactions, certain accounts appear in the balance sheet of the holding company as well as the subsidiary company. In the consolidated balance sheet all these common accounts should be eliminated.

For example

1. S Ltd. has taken loan of Rs. 20,000 from H Ltd. then S Ltd. balance sheet shows a liability of Rs. 20,000 while H Ltd. balance sheet shows on assets of Rs. 20,000.
2. H Ltd. draws a bill of Rs. 50,000 on S Ltd., then H Ltd. books it will show bills receivable Rs. 50,000 while S Ltd. books will show bills payable Rs. 50,000.
3. S Ltd. issued debentures of Rs. 1,00,000 which are held by H Ltd. then S Ltd. balance sheet will show a liability of Rs. 50,000 while H Ltd. books will show an assets of Rs. 50,000.

All the above inter company transactions have to be eliminated while preparing the consolidated balance sheet. These can be done by deducting inter company transactions from the respective items on both sides of balance sheet.

UNREALIZED PROFIT:

The problem of unrealized profit arises in those cases where the companies of the same group have sold goods to each other at the profits and goods still remain unsold at the end of the year company to whom the goods are sold. While preparing the consolidated balance sheet, unrealized profit has to be eliminated from the consolidated balance sheet in the following manner.

1. Unrealized profits should be deducted from the current revenue profits of the holding company.
2. The same should be deducted from the stock of the company consolidated balance sheet. Minority shareholders will not be affected in any way due to unrealized profits.

CONTINGENT LIABILITIES:

As 29 defines a contingent liabilities as:

A possible obligation that arises from past events and whose existence will be confirmed only by occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity or a present obligation that arises from the past events but not recognized / provided.

Such contingent liability may be of two types.

- a) External contingent liability.
- b) Internal contingent liability.

Internal contingent liability relates in respect of transactions between holding and subsidiary company and it will not be shown as foot note in the consolidated balance sheet, as they appear as actual liability in the consolidated balance sheet.

REVALUATION OF ASSETS AND LIABILITIES:

The holding company may decide to revalue the assets and liabilities of the subsidiary company on the date of acquisition of share in the subsidiary company. Any profit or loss on such revaluation is a capital profit or loss.

Profit on revaluation of assets of the subsidiary company whether before or after date of acquisition of shares by the holding company, the same must be shared by the holding company, and the minority share holders in proportion to their respective holding. The minority share holders share should be added to the minority interest. But the holding company share should be treated as capital profits and considered in cost of control.

Further readjustment for depreciation on increase in the value of assets should be made in the profit and loss account in the subsidiary company. And same should be deducted from the Revenue profits of the subsidiary company.

PREFERENCE SHARES IN SUBSIDIARY COMPANY :

In case the subsidiary company has also Preference share capital, its treatment on consolidation will be as follows:

- a) Nominal value of non participating Preference share capital of the subsidiary company is held by the holding company should be adjusted in cost of control against the cost of Preference shares.
- b) Preference shares held by outsiders. Paid up value of such Preference shares should be included in Minority interest.

BONUS SHARES:

The issue of bonus shares by the subsidiary company will increase the number of shares held by the holding company as well as by the minority share holders without any additional cost. However ratio of holding will not change. Issue of bonus shares may or may not affect the cost of control depending upon whether such shares are issued out of capital profits or revenue profits.

- i) Issue of bonus shares out of pre acquisition profits (capital profits): In case the subsidiary company issues bonus shares out of capital profits the cost of control remains unaffected in the consolidated balance sheet on account of issue of bonus shares. As share capital increases by the amount of bonus and capital profits decreases by the same amount. Hence, there is not effect on cost of control when bonus shares are issued from pre acquisition profits.
- ii) Issue of bonus share of post acquisition profits (Revenue profits): In this case, a part of revenue profits will get capitalized resulting decrease in cost of control or increase in capital reserve. Issue of bonus shares whether out of capital profits or revenue profits will not affect on minority interest. Minority interest will remain unaffected.

TREATMENT OF DIVIDEND:**i) Dividend paid :**

When subsidiary company pays dividend, the holding company will naturally receive its due share. On receipt the holding company will debit bank account. However account to be credited depends upon whether dividend received out of pre- acquisition profit or out of post acquisition profit. Dividend received by the holding company out of Pre- acquisition profit should be credited to investment account. Only the dividend out of post acquisition profit should be treated as Revenue income and credited to profit and loss account.

ii) Proposed dividend :

In case the subsidiary company has proposed dividend on its shares which is not accounted by the holding company for such dividend due on their investment in subsidiary company profits. Profit may be then analysed between capital Revenue in the usual manner.

iii) Dividend payable :

In case subsidiary company has declared dividend and the holding company taken credits for such dividend in its account, following treatments should be given.

1. No adjustment in respect of such dividend should be done in the subsidiary company book.

2. In the holding company books dividend out of pre-acquisition profit should be credited investment account. Dividend out of post acquisition profit should be credited to profit and loss account.

3. In the consolidated Balance-sheet the amount of dividend payable by the subsidiary company will be cancelled against the amount of dividend receivable by the holding company. Dividend payable to minorities may be either included in the minority interest or be shown separately as liability in the consolidated balance sheet.

iv) Intension to propose dividend: In case subsidiary company as intension to propose dividend, such proposed dividend given in adjustment may be completely ignored while preparing the consolidated balance sheet. Alternatively proposed dividend on share capital held by minority may be deducted from minorities interest and shown separately liability in the consolidated balance sheet.

PRELIMINARY EXPENSES :

The preliminary expenses of subsidiary company may be taken as capital loss or the amount may be added with the amount of preliminary expenses of the holding company.

PROVISION FOR TAXATION :

Any provision for taxation provided by the subsidiary company should be taken to the consolidated balance sheet and be shown on the liability side.

PURCHASE OF SHARES IN INSTALLMENT :

A holding company may purchase shares of the subsidiary company in installments. In such circumstances division of profit between pre and post acquisition will depend upon the lots in which shares are purchased. However, if small purchases are made over the period of time then date of purchase of shares which results in acquiring in controlling interest may be taken as cut of line for division of profits between capital and Revenue.

SALE OF SHARES :

When a holding company disposed off a part of its holding in the subsidiary company and the relationship of holding and subsidiary company continues as it holds majority of shares of subsidiary. Sale of shares by holding company may be treated as follows.

- a) Profit or loss on sale of shares should be ascertained and it should be adjusted while ascertaining goodwill or capital reserve. In brief, such loss or gain on sale of share should be considered in cost of control.
- b) The minority interest and cost of control should be ascertained on the basis of number of shares held by the holding company and the minority on the date of consolidated balance sheet.

Problem 1 (Wholly Owned Subsidiary):

Balance Sheet as on 31st Dec. 2004

<i>Liabilities</i>	<i>H Ltd. Rs.</i>	<i>S Ltd. Rs.</i>	<i>Assets</i>	<i>H Ltd. Rs.</i>	<i>S. Ltd. Rs.</i>
Share Capital of Rs. 10 each	1,00,000	50,000	Sundry Assets	1,50,000	80,000
Creditors	1,00,000	30,000	Investments: 5,000 shares at par	50,000	
	2,00,000	80,000		2,00,000	80,000

Prepare a consolidated Balance Sheet

SOLUTION:

**H Ltd and its subsidiary S Ltd.
Consolidated Balance Sheet as on 31st Dec. 2004**

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Share Capital: 10,000 Shares of Rs. 10 each, fully paid	1,00,000	Sundry Assets: H Ltd.	1,50,000
Sundry Creditors: H Ltd. 1,00,000 S Ltd. 30,000	1,30,000	S Ltd.	80,000
	2,30,000		2,30,000

Problem 2 (Goodwill):

The following are the Balance Sheet of H and S as at 31st December on which date H acquires all the shares of S:

	H	S		H	S
	Rs.	Rs.		Rs.	Rs.
Share Capital	5,00,000	1,00,000	Sundry Assets	7,50,000	1,90,000
Reserve		25,000	Shares in S (at cost)	2,00,000	
Profit & Loss A/c	1,00,000	15,000			
Creditors	3,50,000	50,000			
	9,50,000	1,90,000		9,50,000	1,90,000

Show the consolidated Balance Sheet.

SOLUTION:

Since cost of shares is in excess of the net worth at the date of acquisition, the price paid for goodwill would be arrived at as follows:

Cost of Shares	Rs. 2,00,000
Less: Net worth of Equity	
(Capital: Rs 1,00,000 +	
Reserve: Rs 25,000	
P & L A/c Rs 15,000)	1,40,000
Paid for Goodwill	60,000

Consolidated Balance Sheet as at 31st Dec.

	Rs.		Rs.
Share Capital	5,00,000	Sundry Assets (Rs. 7,50,000	
Profit & Loss	1,00,000	+ 1,90,000)	9,40,000
Creditors (Rs 3,50,000 + 50,000)	4,00,000	Goodwill	60,000
	10,00,00		10,00,000

Problem 3 (Capital Reserve):

Balance Sheet as on 31st March

	H	S		H	S
	Rs.	Rs.		Rs.	Rs.
Share Capital: in Re 1 shares	12,000	6,000	Sundry Assets	20,000	12,000
Reserve	3,000	2,000	Investment: 6,000 shares in S Ltd.	7,500	
Profit % Loss	2,000	1,000			
Sundry Creditors	10,500	3,000			
	27,500	12,000		27,500	12,000

H Ltd. has acquired shares on 31st March.

Prepare consolidated Balance Sheet.

SOLUTION:

**Consolidated Balance Sheet
as on 31st March**

	Rs.		Rs.
Share Capital: in Re. 1 paid up	12,000	Sundry Assets: H:	20,000
Capital Reserve	1,500	S:	12,000
Reserve (H. Ltd)	3,000		
Profit & Loss A/c (H Ltd.)	2,000		
Sundry Creditors : H :	10,500		
S :	3,000		
	13,500		
	32,000		32,000

Note:

The Reserve and Profit and Loss Account balances of the Subsidiary Company do not figure in the consolidated Balance Sheet as they are considered together with share capital in the calculation of Capital Reserve.

Workings :

Method A: Net Assets acquired in S Ltd:	Rs.
Gross Assets - Liabilities	9,000
Less: Price paid for investment	7,500
Capital Reserve:	1,500

Alternatively:

Method B: Equity acquired in the subsidiary:	
Share Capital: Rs	6,000
Reserve	2,000
Profit & Loss A/c	1,000
Less: Price paid for Investment	9,000
	7,500
	1,500

Problem 4 (Inter-Company Owings):

From the balance sheets and information given below, prepare a Consolidated Balance Sheet:

	H Ltd.	S Ltd.		H Ltd.	S Ltd.
	Rs.	Rs.		Rs.	Rs.
Share Capital :			Sundry Assets	80,000	12,000
Rs. 10 fully paid	1,00,000	20,000	Stock	61,000	24,000
Profit & Loss A/c	40,000	12,000	Debtors	13,000	17,000
Reserve	10,000	6,000	Bills Receivable	1,000	
Bills Payable		3,000	Shares in S Ltd. at cost	15,000	
Creditors	20,000	12,000			
	1,70,000	53,000		1,70,000	53,000

- (a) All the profits of S Ltd. have been earned since the shares were acquired by H Ltd. but there was already the Reserve of Rs. 6, 00,000 on that date.
- (b) The bills accepted by S Ltd. are all in favour of H Ltd. which has discounted Rs. 2,000 of them.
- (c) Sundry assets of S Ltd. are undervalued by Rs. 2,000.
- {d) The stock H Ltd. includes Rs. 5,000 bought from S Ltd. at a profit to the latter of 25% on cost.

SOLUTION :

CONSOLIDATED BALANCE SHEET OF H LTD. AND ITS SUBSIDIARY S LTD.

as at 31st March, 2006

	Rs.		Rs.
Share Capital :		Fixed Assets :	
Authorised :		Sundry Assets	92,000
....Share is of Rs. 10 each	.....	Add : Appreciation	2,000
Issued and Subscribed :			94,000
10,000 Shares of Rs. 10 each,		Current Assets :	
fully called up	1,00,000	Stock	85,000
Reserves and Surplus :		Less : Unrealised profit	750
Capital Reserve	6,000		84,250
General Reserve	10,000	Debtors	30,000
Profit & Loss A/c :			
H Ltd.	40,000		
Share of profit in S Ltd.	9,000		
	49,000		
Less : Share of unrealised profit	750		
	48,250		
Minority Interest	10,000		
Current Liabilities :			
Creditors	32,000		
Bills Payable	2,000		
	2,08,250		2,08,250

Note : Out of 2,000 shares of S Ltd. 1,500 are held by H Ltd. and 500 by outsiders. The proportion is thus 3 : 1.

Pre-acquisition reserve Rs. 6,000 : $\frac{3}{4}$ = Rs. 4,500 and $\frac{1}{4}$ = 1,500

Post-acquisition profit Rs. 12,000 : $\frac{3}{4}$ = Rs. 9,000 and $\frac{1}{4}$ = Rs. 3,000

Minority Interest :

1/4th of capital

Pre-acquisition Reserve

Post-acquisition Profit

9,500

Add : 1/4th of Revaluation Profit

500

10,000

Goodwill or Cost of Control :	Rs.	Rs.
Cost of acquiring 3/4th of share capital		15,000
Less : Equity paid-up capital	15,000	
Pre-acquisition Reserve	4,500	
Revaluation Profit	<u>1,500</u>	<u>21,000</u>
Capital Reserve :		<u>6,000</u>
NB : Unrealised profit on goods worth Rs. 5,000 bought from S Ltd. at a profit of 25% on cost		
125% = Rs. 5,000		
25% = Rs. $\frac{5,000 \times 25}{125}$		= Rs. 1,000
3/4th of Rs. 1,000 = Rs. 750 is the share of H Ltd.		

Problem 5 (Inter-Company Owings):

The following are the Balance Sheets of H Ltd. and its subsidiary S Ltd. as on 31st December 2004.

Balance Sheet as on 31st Dec. 2004					
Liabilities	H Ltd	S Ltd	Assets	H Ltd	S Ltd
	Rs.	Rs.		Rs.	Rs.
Share Capital of Re. 1 per share	10,000	8,000	Buildings	4,000	
Reserves	4,000	3,000	Plant	1,000	6,000
Bills Payable	2,000	1,000	Stock	4,000	6,000
Creditors	5,000	4,000	Shares in S Ltd	6,000	
Profit & Loss A/c	4,000	2,000	Debtors	5,000	3,000
			Bills Receivable	3,000	2,000
			Cash	2,000	1,000
	<u>25,000</u>	<u>18,000</u>		<u>25,000</u>	<u>18,000</u>

Debtors of H Ltd. include Rs 2,000 due from S Ltd. and Bills payable of H Ltd. included a bill of Rs 500 accepted in favour of S Ltd. A Loan of Rs 1,000 given by H Ltd. to S Ltd. was also included in the items of debtors and creditors respectively. Rs 500 was transferred by S Ltd. from Profit and Loss Account to Reserve out of current year's profit. Shares were purchased on 30th June 2004 at par. Prepare consolidated Balance Sheet.

KARPAGAM ACADEMY OF HIGHER EDUCATION

CLASS: I B.COM CA

COURSE CODE: 17CCU01

COURSE NAME: CORPORATE ACCOUNTING

UNIT: IV (Accounts of Holding Companies/Parent Companies)

BATCH-2017-2020

SOLUTION:

**Consolidated Balance Sheet
as on 31st Dec. 2004**

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Share Capital (in Rs. 1 shares)	10,000	Building: H Ltd.	4,000
Reserves	4,000	Plant: H Ltd.	1,000
Capital Reserve	2,812.50	S Ltd.	6,000
Profit & Loss A/c		Stock H Ltd.	4,000
H Ltd.	4,000	S Ltd.	6,000
S Ltd.	937.50		10,000
	4,937.50	Debtors:	
Bills Payable:		H Ltd.	5,000
H Ltd.	2,000	S Ltd.	3,000
S Ltd.	1,000		8,000
	3,000	Less: Inter Co. dealings	3,000
Less: Inter Co. Bills	500		5,000
	2,500	Bills Receivable:	
Creditors:		H Ltd.	3,000
H Ltd.	5,000	S Ltd.	2,000
S Ltd.	4,000		5,000
	9,000	Less: Inter Co. Bills	500
Less: Inter Co. dealings			4,500
(2,000 + 1,000)	3,000	Cash: H Ltd.	2,000
Minority Interest		S Ltd.	1,000
	6,000		3,000
	3,250		
	33,500		33,500

Working:

Analysis of Profits of S Ltd.

Reserves (Rs 3,000 - Rs 500)

Profit for the year (Rs 2,000 + 500)

Less: Minority Interest

Holding Company's share

Cost of Control Capital reserve

Amount paid for shares

Less: Paid up value of shares

Share of capital Profit

Capital Reserve

Minority Interest

Paid up value of shares

Add: Share of Capital Profit

Share of Revenue Profit

Minority Interest

Capital

2,500

1,250

3,750

937.50

2,812.50

6,000

2,812.50

Revenue

1,250

1,250

312.50

937.50

Rs 6,000

8,812.50

2812.50

2000.00

937.50

312.50

3,250.00

Problem 6 (Cash-in-Transit & Mutual Obligation):

X Ltd. purchased 750 shares in Y Ltd. on 1.7.2006. The following were their Balance Sheets on 31.12.2006.

<i>Liabilities</i>	<i>X Ltd.</i>	<i>Y Ltd.</i>	<i>Assets</i>	<i>X Ltd.</i>	<i>Y Ltd.</i>
	Rs.	Rs.		Rs.	Rs.
Share Capital :			Buildings	2,05,000	1,25,000
Shares of Rs. 100 each	3,00,000	1,00,000	Stock	1,00,000	80,000
General Reserve			Debtors	1,00,000	40,000
1.1.2006	1,00,000	70,000	Investments	1,00,000	—
Profit & Loss A/c	1,00,000	60,000	(in Y Ltd.)		
Creditors	80,000	40,000	Bills Receivable	40,000	45,000
Bills Payable	50,000	20,000	Bank	60,000	20,000
Current Account :			Current Accounts :		
X Ltd.	—	20,000	Y Ltd.	25,000	—
	6,30,000	3,10,000		6,30,000	3,10,000

Further:

1. Bills Receivable of X Ltd. include Rs. 10,000 accepted by Y Ltd.
 2. Debtors of X Ltd. include Rs. 20,000 payable by Y Ltd.
 3. A cheque of Rs. 5,000 sent by Y Ltd. on 20th December was not yet received by X Ltd. till 31st December 2006.
 4. Profit and Loss Account of Y Ltd. showed a balance of Rs. 20,000 on 1st January 2006.
- You are required to prepare a consolidated Balance sheet of X Ltd. and Y Ltd. as on 31st December 2006.

SOLUTION :

CONSOLIDATED BALANCE SHEET OF X LTD. AND ITS SUBSIDIARY Y LTD.

as on 31st December, 2006

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Shares Capital :		Buildings :	
3,000 shares of Rs. 100 each	3,00,000	X Ltd.	2,05,000
General Reserve	1,00,000	Y Ltd.	1,25,000
Profit & Loss A/c	1,00,000		3,30,000
Add : Holding Co's. share	15,000	Stock :	
Capital Reserve	57,500	X Ltd.	1,00,000
Creditors :		Y Ltd.	80,000
X Ltd.	80,000		1,80,000
Y Ltd.	40,000	Debtors :	
	1,20,000	X Ltd.	1,00,000
Less : Mutual		Y Ltd.	40,000
Obligation	20,000		1,40,000
Bills Payable :		Less : Mutual	
X Ltd.	50,000	Obligation	20,000
Y Ltd.	20,000	Bills Receivable :	
	70,000	X Ltd.	40,000
Less : Mutual Obligation	10,000	Y Ltd.	45,000
Current Account :			85,000
X Ltd.	20,000	Less : Mutual Obligation	10,000
Less : Mutual Obligation	20,000	Bank :	
Minority Interest	57,500	X Ltd.	60,000
		Y Ltd.	20,000
			80,000
		Current Account :	
		Y Ltd.	25,000
		Less : Cash-in transit	5,000
			20,000
		Less : Mutual Obligation	20,000
		Cash-in-transit	5,000
	7,90,000		7,90,000

Note :

1. Holding-Minority Ratio :

Total shares in subsidiary Rs. 1,00,000 , Rs. 100 = 1,000 shares

Shares possessed by X Ltd. = 750 shares

Minority Shares = 250 shares

Ratio = 750 : 250 or 3 : 1

2. Revenue Profits

Profit & Loss Account (Y Ltd.) on 31.12.2006 : Rs. 60,000

Less : Profit & Loss Account (Y Ltd.) on 1.1.2006 : Rs. 20,000

Profit for 2006 40,000

Profit made by Y Ltd. after 1.7.2006 (Revenue) Rs. 40,000 × 1/2 = Rs. 20,000

Holding Company's share : 20,000 × 3/4 = Rs. 15,000

Minority's share 20,000 × 1/4 = Rs. 5,000

3. Capital Profit :

General Reserve of Y Ltd. on 1.1.2006	Rs. 70,000
Add : Profit & Loss A/c of Y Ltd. 1.1.2006	Rs. 20,000
Current year's capital profit	
Rs. 40,000 × 6/12	Rs. 20,000
Capital Profit:	<u>1,10,000</u>

Holding Company's share Rs. 1,10,000 × 3/4 = 82,500

Minority' Share Rs. 1,10,000 × 3/4 = 27,500

4. Minority Interest :

Face value of Minority shares Rs. 100 × 250	= Rs. 25,000
Add : Minority share of capital profit	= 27,500
Minority share of revenue profit	= 5,000
Minority Interest :	<u>57,500</u>

5. Cost of Control or Goodwill :

Amount paid by X Ltd. for shares in Y Ltd.	= Rs. 1,00,000
Less : Face value of shares : 750 × Rs. 100 : Rs. 75,000	
Holding Co's. share of Capital	82,500
Profit	<u>1,57,500</u>
Capital Reserve	<u>57,500</u>

Problem 7 (Cost of Control):

The summarised Balance Sheet of H Ltd. and its S Ltd. on 31st December 2004 are as follows:

<i>Liabilities</i>	<i>H Ltd. Rs.</i>	<i>S Ltd. Rs.</i>	<i>Assets</i>	<i>H Ltd. Rs.</i>	<i>S Ltd. Rs.</i>
Share Capital (in shares of Rs. 10 each)	5,00,000	1,00,000	Assets	5,00,000	1,70,000
Reserves	80,000	30,000	8,000 shares in S Ltd.	1,40,000	
Profit and Loss	60,000	40,000			
	<u>6,40,000</u>	<u>1,70,000</u>		<u>6,40,000</u>	<u>1,70,000</u>

S Ltd. had the credit balance of Rs 30,000 in the Reserves when H Ltd. acquired shares in S Ltd. decided to make a bonus issue out of post-acquisition profits of two shares of Rs 10 each fully paid for every five shares held. Calculate the cost of control before the issue of bonus shares and after the issue of bonus shares. Also make the consolidated Balance Sheet after the issue of bonus shares.

SOLUTION:

**Consolidated Balance Sheet of H Ltd. and its
Subsidiary S Ltd. as on 31st Dec 2004**

Liabilities	Rs.	Assets	Rs.
Share Capital:		Goodwill ²	4,000
50,000 shares of Rs. 10 each	5,00,000	Assets:	
Reserves	80,000	H Ltd.	5,00,000
Profit and Loss A/c	60,000	S Ltd.	1,70,000
Minority Interest	34,000		6,70,000
	6,74,000		6,74,000

Workings:

1. Cost of Control before the issue of Bonus shares.		Rs.
Cost of 8,000 shares in S Ltd.		1,40,000
Less: Face value of 8,000 shares of Rs 10 each	80,000	
Share of Capital Profit Rs 30,000 $\times \frac{8,000}{10,000}$	24,000	1,04,000
Cost of Control or Goodwill		36,000
2. Cost of Control After the issue of Bonus share:		Rs.
Cost of 8,000 shares in S Ltd.		1,40,000
Less: Face value of 8,000 shares of Rs 10 each held before issue of Bonus share	80,000	
Face value of 3,200 shares (2 Bonus shares of every 5 shares: $\frac{8,000 \times 2}{5} = 3,200$)	32,000	
Share in Reserves:		
(Rs 30,000 $\times \frac{8,000}{10,000}$)	24,000	1,36,000
Cost of Control or Goodwill:		4,000
3. Calculation of Minority Interest:		Rs.
Share capital held by outsiders before the issue of Bonus Shares (2,000 \times Rs 10)		20,000
Add: 2,000 $\times \frac{2}{5} = 800$ Bonus shares of Rs 10 each		8,000
Add: Share in Reserves		6,000
(Rs. 30,000 $\times \frac{2,000}{10,000}$)		
Minority Interest:		34,000

Problem 8:

Following are the Balance Sheets of A Ltd. and B Ltd. on 31st March, 2006.

	A Ltd. Rs.	B Ltd. Rs.		A Ltd. Rs.	B Ltd. Rs.
Prof. Capital (Rs. 10)	10,000	4,000	Assets	9,000	42,000
Equity Capital (Rs. 10)	20,000	30,000	Investments in B Ltd. :		
Reserves	4,000	1,000	2,250 Equity Shares	30,000	–
Profit & Loss	5,000	5,000	250 Pref. Shares	4,000	–
Creditors	4,000	2,000			
	43,000	42,000		43,000	42,000

On 1.4.2005 the date of purchase of shares of B Ltd. by A Ltd., there was debit balance of Rs. 1,000 in the P & L A/c of B Ltd. and reserves of B Ltd. were nil. Prepare Consolidated Balance Sheet.

SOLUTION :

**Consolidated Balance Sheet
as on 31st March, 2006**

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Capital :		Fixed Assets :	
Equity Capital	20,000	Goodwill	9,750 ¹
Pref. Capital	10,000	Other Assets	
Reserves & Surplus :		(9,000 + 42,000)	51,000
Reserves	4,000		
Profit & Loss	10,250 ²		
Current Liabilities :			
Minority Interest	10,500 ³		
Creditors	6,000 ⁷		
	60,750		60,750

1. Calculation of Goodwill :

	Rs.	Rs.
Cost of Equity Shares		30,000
Cost of Pref. Shares		4,000
		<u>34,000</u>
Less : Face value of Equity Shres	22,500	
Less : Face value of Pref. Shares	<u>2,500</u>	
	25,000	

Less : Shares of Loss $\frac{1,000 \times 3}{4}$	- 750	24,250
Goodwill		<u>9,750</u>

$$\frac{*2,250 \text{ shares}}{3,000 \text{ shares}} = \frac{3}{4}$$

2. Consolidated Profit :

Profit of A Ltd.	Rs.	Rs. 5,000
Profit of B Ltd. as per B/S	5,000	
Add : Reserves	1,000	
Add : Loss of prior period	1,000	
	<u>Rs. 7,000</u>	

Share of A Ltd. is the profit $\left(\frac{7,000 \times 3}{4}\right)$	5,250
	<u>10,250</u>

3. Minority Interest :

Equity Capital $\left(\frac{30,000 \times 1}{4}\right)$	7,500
Pref. Capital $\left(\frac{4,000 \times 3}{8}\right)$	1,500
Revenue Profit $\left(\frac{7,000 \times 1}{4}\right)$	1,750
	<u>10,750</u>
Less : Loss of prior Period $\left(\frac{1,000 \times 1}{4}\right)$	- 250
	<u>10,500</u>

4. Since reserves in prior period were nil, the amounts of reserve of Rs. 1,000 has been transferred to reserves only out of current year's profit, hence it has been added in order to find out Total Profit of the current year.

5. Ratio in Pref. Capital : Pref. share is of Rs. 10, hence Rs. 4,000 ÷ 10 = 400 shares; 400 shares - 250 shares = 150 shares, 250 : 150 or 10 : 6 or 5 : 3 or 5/8 : 3/8.

6. Ratio in Equity shares : Equity share is of Rs. 10, hence 30,000 ÷ 10 = 3,000 shares; 3,000 - 2,250 shares = 750 shares. 2,250 : 750 or 450 : 150 or 30 : 10 or 3 : 1 or 3/4 : 1/4

7. Creditors = Rs. 4,000 + 2,000 = Rs. 6,000

Problem 9 (Bonus Shares):

The Sun Co. Ltd. acquired 6,000 shares in the Moon Co. Ltd. on 31.12.2006.

The summarised Balance Sheets of the two companies on that date were:

	Sun Ltd. Rs.	Moon Ltd. Rs.		Sun Ltd. Rs.	Moon Ltd. Rs.
Share Capital : 60,000 Shares of Rs. 5 each	3,00,000		Sundry Assets Share in the Moon Co. Ltd.	2,53,000 1,00,000	1,28,000
8,000 Shares of Rs. 10 each		80,000	Bills Receivable (including Rs. 1,000 from Moon Co. Ltd.)	2,000	
Capital Reserve		34,000	Debtors A/c	19,000	14,000
Revenue Reserve	20,000	10,000	Stock	30,000	10,000
Profit & Loss A/c	50,000	10,000	Current A/c : With Sun Co. Ltd.		10,000
Bills Payable (including Rs. 1,000 to Sun Co. Ltd.)		3,500	Cash at Bank	10,000	3,000
Creditors Moon Co. Ltd.	35,000 9,000	27,500			
	4,14,000	1,65,000		4,14,000	1,65,000

On 31st December, 2002 the Sun Co. Ltd. remitted cash Rs. 1,000 on current account to Moon Co. Ltd. On 1st January, 2007, Moon Co. Ltd., utilised a part of its capital reserve to make a bonus issue of one share for every four shares held. There is a contingent liability for bills discounted Rs. 1,200.

SOLUTION :

**CONSOLIDATED BALANCE SHEET OF SUN CO. LTD. AND ITS
SUBSIDIARY MOON CO. LTD.**

as at 1st January, 2007

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Share Capital :		Fixed Assets :	
60,000 Shares of Rs. 5 each,		Sundry Assets	3,81,000
fully paid	3,00,000	Current Assets :	
Reserves and Surplus :		Stock	40,000
Capital Reserve	500	Debtors	33,000
Revenue Reserve	20,000	Bills Receivable	1,000
Profit and Loss A/c	50,000	Cash at Bank	13,000
Current Liabilities :		Cash in transit	1,000
Bills Payable	2,500		
Creditors	62,500		
Minority Interest	33,500		
Contingent Liability for bills discounted Rs. 1,200			
	4,69,000		4,69,000

Note :

Capital Profits :

Capital reserve	Rs. 34,000	
Less : Bonus shares	20,000	
		Rs. 14,000
Revenue reserve		10,000
Profit and Loss A/c		10,000
		34,000
Sun Co. Ltd. 3/4 of Rs. 34,000 =	Rs. 25,500	
Moon Co. Ltd., 1/4 of Rs. 34,000	Rs. 8,500	

Cost of Control :

Cost of acquiring 6,000 shares	Rs. 1,00,000	
Less : Equity paid up capital plus 1,500 bonus shares of Rs. 10 each	Rs. 75,000	
Pre-acquisition profits	25,500	1,00,500
		Capital Reserve 500

Minority Interest :

Paid up capital : 1/4	Rs. 20,000	
Bonus shares : 500 of Rs. 10 each	5,000	
Pre-acquisition profits	8,500	
	33,500	

Dividend and Shares of a Holding Company

Problem 10.

H Ltd. holds the entire share capital of S Ltd. which made a loss of Rs 50,000 in its first year and a profit of Rs 1,10,000 in its second year. In the second year S Ltd. paid a dividend of Rs 40,000. Show journal entries in the books of the holding company assuming that the latter company brings into account all the losses and profits of the subsidiary company.

		Dr. ₹	Cr. ₹
Year 1	Profits and Losses of Subsidiaries	Dr. 50,000	
	To S Ltd. (Profits)		50,000
	Losses incurred by S Ltd. and hence credited to S Ltd. (Profits) A/c.		
Year 2	S Ltd. (Profits)	Dr. 1,10,000	
	To Profits and Losses of Subsidiaries		1,10,000
	Profit earned by S Ltd. debited to S Ltd. (Profits) A/c.		
	Bank	Dr. 40,000	
	To S Ltd. (Profits)		40,000
	Dividend received from S Ltd.—credited to S Ltd. (Profits).		
S Ltd. (Profits) Account stands debited to the extent of ₹ 20,000. This presents what S Ltd. owes to H Ltd. in respect of profits.			

Problem 11.

H Ltd. acquires all the shares of S Ltd. on 31st March, 2012 on which date the balance sheets of the two companies are as under:

Particulars	Note No.	Amounts as on 31st March, 2012	
		H Ltd.	S Ltd.
I. Equity and Liabilities			
(1) Shareholders' funds			
(a) Share capital	1	5,00,000	2,00,000
(b) Reserves and surplus	2	1,00,000	
(2) Current liabilities		80,000	60,000
(a) Trade payables		6,80,000	2,60,000
II. Assets			
Sundry assets		4,80,000	2,60,000
Non-current investments	3	2,00,000	
		6,80,000	2,60,000
Notes:		H Ltd.	S Ltd.
1. Share Capital		₹	₹
Issued, Subscribed and Paid Up:			
Equity Shares of ₹ 10 each, fully paid		5,00,000	2,00,000
2. Reserves and Surplus			
Reserves		1,00,000	
3. Non-current Investments			
100% Equity Shares in S Ltd.		2,00,000	
Prepare a Consolidated Balance Sheet as at 31st March, 2012.			

Solution:

100% shares in S Ltd. represent assets of Rs 2,60,000 minus the liabilities of Rs 60,000. Hence, while preparing the consolidated balance sheet of H Ltd. and S Ltd. the assets and liabilities of both the companies will be added; the share capital of S Ltd. being cancelled against 'Shares in S Ltd.' shown as an asset by H Ltd.

The consolidated balance sheet will appear as under:

Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 2012

<i>Particulars</i>	<i>Note No.</i>	<i>Amounts as at 31st March, 2012</i>
I. Equity and Liabilities		
(1) <i>Shareholders' funds</i>		
(a) Share capital	1	5,00,000
(b) Reserves and surplus	2	1,00,000
(2) <i>Current liabilities</i>		
(a) Trade payables	3	1,40,000
		<u>7,40,000</u>
II. Assets		
Sundry assets	4	7,40,000

Notes:

1. Share Capital

Issued, Subscribed and Paid up:

50,000 Equity Shares of ₹ 10 each, fully paid up

5,00,000

2. Reserves and Surplus

Reserves

H Ltd.

1,00,000

3. Trade Payables

H Ltd.

₹

80,000

S Ltd.

60,000

1,40,000

4. Sundry Assets

H Ltd.

4,80,000

S Ltd.

2,60,000

7,40,000

The journal entry the H Ltd. may pass is:

Sundry Assets

Dr.

₹ 2,60,000

To Creditors

60,000

To Shares in S Ltd.

2,00,000

Problem 12.

The following are the balance sheets of H Ltd and S Ltd as at 31st March, 2012:

Particulars	Note No.	Amounts as at 31st March, 2012	
		H Ltd.	S Ltd.
I. Equity and Liabilities			
Shareholders' funds			
Share capital	1	5,00,000	2,00,000
Reserves and surplus	2	1,00,000	
Current liabilities			
Trade payables		80,000	60,000
		<u>6,80,000</u>	<u>2,60,000</u>
II. Assets			
Sundry assets		4,70,000	2,60,000
Non-current investments	3	2,10,000	
		<u>6,80,000</u>	<u>2,60,000</u>

Notes:

	H Ltd.	S Ltd.
1. Share Capital		
Issued, Subscribed and Paid up:		
Equity Shares of ₹ 10 each, fully paid	<u>5,00,000</u>	<u>2,00,000</u>
2. Reserves and Surplus		
Reserves		
H Ltd.	<u>1,00,000</u>	
3. Non-current Investments		
100% Equity Shares in S Ltd.	<u>2,10,000</u>	

Prepare a Consolidated balance sheet as at 31st March, 2010.

Solution:

In this case, H Ltd. has paid ₹ 10,000 for goodwill. The consolidated balance sheet will appear as follows :—

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2012

Particulars	Note No.	Amounts as at 31st March, 2012
I. Equity and Liabilities		
Shareholders' funds		
Share capital	1	5,00,000
Reserves and surplus	2	1,00,000
Current liabilities		
Trade payables	3	1,40,000
		<u>7,40,000</u>

II. Assets		
Sundry assets	4	7,30,000
Intangible assets	5	<u>10,000</u>
		<u>7,40,000</u>
Notes:		
1. Share Capital		<u>?</u>
Issued, Subscribed and Paid up:		
50,000 Equity Shares of ₹ 10 each, fully paid up		<u>5,00,000</u>
2. Reserve and Surplus		
Reserve – H Ltd.		<u>1,00,000</u>
3. Trade Payables	₹	
H Ltd.	80,000	
S Ltd.	<u>60,000</u>	<u>1,40,000</u>
4. Sundry Assets		
H Ltd.	4,70,000	
S Ltd.	<u>2,60,000</u>	<u>7,30,000</u>
5. Intangible Assets		
Goodwill		<u>10,000</u>

Problem 13

The following are the balance sheets of H Ltd and S Ltd. as at 31st March, 2012:

Particulars	Note No.	Amount as at 31st march, 2012	
		H Ltd.	S Ltd.
I. Equity and Liabilities			
Shareholders' funds			
Share capital	1	5,00,000	2,00,000
Reserves and surplus	2	1,00,000	
Current liabilities			
Trade payables		80,000	60,000
		<u>6,00,000</u>	<u>2,60,000</u>
II. Assets			
Sundry assets		5,00,000	2,60,000
Non-current investments	3	1,20,000	
		<u>6,20,000</u>	<u>2,60,000</u>

Notes:

	H Ltd.	S Ltd.
	₹	₹
1. Share Capital		
Equity Shares of ₹ 10 each, fully paid	<u>5,00,000</u>	<u>2,00,000</u>
2. Reserves and Surplus		
Reserves	<u>1,00,000</u>	
3. Non-current Investments		
60% Equity Shares in S Ltd; at cost	<u>1,20,000</u>	

Prepare a consolidated balance sheet as at 31st March, 2012.

Solution :

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2012

Particulars	Note No.	Amounts as at 31st March, 2012
I. Equity and Liabilities		
(1) Shareholders' funds		
(a) Share capital	1	5,00,000
(b) Reserves and surplus	2	1,00,000
Minority interest (working note)		80,000
(2) Current liabilities		
(a) Trade payables	3	1,40,000
		<u>8,20,000</u>
II. Assets		
Sundry assets	4	<u>8,20,000</u>

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CLASS: I B.COM CA**COURSE NAME: CORPORATE ACCOUNTING****COURSE CODE: 17CCU01****UNIT: IV (Accounts of Holding Companies/Parent Companies)****BATCH-2017-2020**

Notes:**1. Share Capital**

Issued, Subscribed and Paid up:

50,000 Equity Shares of ₹ 10 each, fully paid up

5,00,000**2. Reserves and Surplus**

Reserves of H Ltd.

1,00,000**3. Trade Payables**

₹

H Ltd.

80,000

S Ltd.

60,0001,40,000**4. Sundry Assets**

H Ltd.

5,60,000

S Ltd.

2,60,0008,20,000**Working Note:**

Minority Interest = ₹ 2,00,000 × 40/100 = ₹ 8,00,000

Problem 14.

The following are the balance sheets of H Ltd and S Ltd. as at 31st March, 2012:

Particulars	Note No.	Amounts as at 31st March, 2012	
		H Ltd.	S Ltd.
I. Equity and Liabilities			
Shareholders' funds			
Share capital	1	5,00,000	2,00,000
Reserves and surplus	2	1,60,000	79,000
Current liabilities			
Trade payables		80,000	60,000
		<u>7,40,000</u>	<u>3,39,000</u>
II. Assets			
Non-current assets			
Fixed assets		3,00,000	1,00,000
Non-current investments	3	1,62,400	
Current assets		2,77,600	2,39,000
		<u>7,40,000</u>	<u>3,39,000</u>

Notes:

	H Ltd.	S Ltd.
1. Share Capital	₹	₹
Issued, Subscribed and Paid up:		
Equity Shares of ₹ 10 each, fully paid up	<u>5,00,000</u>	<u>2,00,000</u>
2. Reserves and Surplus	₹	
General Reserve		
H Ltd.	1,00,000	
S Ltd.	50,000	
Less: Preliminary Expenses	<u>(6,000)</u>	<u>44,000</u>
Surplus i.e. credit balance of Profit & Loss A/c	<u>60,000</u>	<u>35,000</u>
	<u>1,60,000</u>	<u>79,000</u>
3. Non-current Investments		
60% Equity Shares in S Ltd. at cost		<u>1,62,400</u>

H Ltd. acquired the shares on 1st April, 2011 on which date General Reserve and Profit and Loss Account of S Ltd. showed balances of Rs 40,000 and Rs 8,000 respectively. No part of Preliminary Expenses was written off during the year ending 31st March, 2012.

Prepare the consolidated balance sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2012.

Solution :

(i) Capital Profits of the subsidiary i.e. profits earned prior to acquisition of shares :	₹
General Reserve	40,000
Profit & Loss Account	8,000
	<u>48,000</u>
Less : Preliminary Expenses	6,000
	<u>42,000</u>

(ii) Revenue profits of the subsidiary i.e. profits earned after the acquisition of shares :

Profit & Loss Account		₹	₹
To General Reserve (₹ 50,000 – ₹ 40,000)	10,000	By Balance b/fd	8,000
To Balance c/d	<u>35,000</u>	By Net Profit for the year (balancing figure)	<u>37,000</u>
	<u>45,000</u>		<u>45,000</u>

(iii) Calculation of Goodwill :

Amount paid for 60% Shares of S Ltd.	₹	1,62,400
Less : Paid up value of 60% Shares of S Ltd.	1,20,000	
Add : 60% of Capital Profits i.e. profits prior to acquisition, ₹ 42,000 × 60/100	<u>25,200</u>	<u>1,45,200</u>
		<u>17,200</u>

(iv) Calculation of Minority Interest:

Paid up value of 40% shares of S Ltd.	80,000
Add : 40% of Capital Profits = ₹ 42,000 × 40/100	16,800
Add : 40% of Revenue Profits = ₹ 37,000 × 40/100	<u>14,800</u>
	<u>1,11,600</u>

Alternatively, minority interest may be calculated as follows :—

Paid up value of 40% shares of S Ltd.	80,000
Add : 40% of General Reserve as on 31.3.2012 ₹ 50,000 × 40/100	20,000
Add : 40% of Profit & Loss Account as on 31.3.2012 ₹ 35,000 × 40/100	<u>14,000</u>
	<u>1,14,000</u>
Less : 40% of Preliminary Expenses ₹ 6,000 × 40/100	<u>2,400</u>
	<u>1,11,600</u>

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2012

Particulars	Note No.	Amounts as at 31st March, 2012
I. Equity and Liabilities		
Shareholders' funds		
Share Capital	1	5,00,000
Reserves and Surplus	2	1,82,200
Minority interest [working note (ii)]		1,11,600
Current liabilities		
Trade payable	3	<u>1,40,000</u>
Total		<u>9,33,800</u>

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COURSE NAME: CORPORATE ACCOUNTING

UNIT: IV (Accounts of Holding Companies/Parent Companies)

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II. Assets		
<i>Non-current assets</i>		
Sundry fixed assets	4	4,00,000
Intangible assets [Working Note (iii)]	5	17,200
<i>Current assets</i>	6	5,16,600
Total		<u>9,33,800</u>

Notes:

1. Sundry Capital

Issued, Subscribed and Paid Up:

50,000 Equity Shares of ₹ 10 each, fully paid

5,00,000

2. Reserves and Surplus

General Reserve

Surplus i.e. credit balance of

Statement of Profit and Loss

₹

1,00,000

H Ltd.

60,000

Add: H Ltd.'s share of revenue profit of S Ltd.

₹ $37,000 \times \frac{60}{100}$

22,200

82,200

1,82,200

3. Trade Payables

H Ltd.

80,000

S Ltd.

60,000

1,40,000

4. Sundry Fixed Assets

H Ltd.

3,00,000

S Ltd.

1,00,000

4,00,000

5. Intangible Assets

Goodwill

17,200

6. Current Assets

H Ltd.

2,77,600

S Ltd.

2,39,000

5,16,600

Problem 15.

The following are the balance sheets of H Ltd. and its subsidiary S Ltd. as at 31st March, 2012:

Particulars	Note No.	Amounts as at 31st March, 2012	
		H Ltd.	S Ltd.
I. Equity and Liabilities			
Shareholders' funds			
Share capital	1	6,00,000	2,00,000
Reserves and surplus	2	2,20,000	1,14,000
Current liabilities			
Trade payables		90,000	60,000
Total		<u>9,10,000</u>	<u>3,74,000</u>
II. Assets			
Non-current assets			
Fixed assets	3	3,70,000	1,45,000
Non-current investments	4	2,60,000	
Current assets			
Inventories		1,75,000	1,89,000
Trade receivables		55,000	30,000
Cash and cash equivalents	5	50,000	10,000
		<u>9,10,000</u>	<u>3,74,000</u>

Notes:

	H Ltd.	S Ltd.
	₹	₹
1. Share Capital		
Issued, Subscribed and Paid up		
Fully paid Equity Shares of ₹ 10 each	<u>6,00,000</u>	<u>2,00,000</u>
2. Reserves and Surplus		
General Reserve	1,50,000	70,000
Less: Preliminary Expenses		<u>(6,000)</u>
		<u>64,000</u>
Surplus	<u>70,000</u>	<u>50,000</u>
	<u>2,20,000</u>	<u>1,14,000</u>
3. Fixed Assets		
Machinery	3,00,000	1,00,000
Furniture	70,000	45,000
	<u>3,70,000</u>	<u>1,45,000</u>
4. Non-current Investments		
70% Equity Shares in S Ltd; at Cost	<u>2,60,000</u>	
5. Cash and cash Equivalents		
Balance with Bank	<u>50,000</u>	<u>10,000</u>

H Ltd. acquired the shares of S Ltd. on 30th June, 2011. On 1st April, 2011 S Ltd.'s General Reserve and Profit and Loss Account stood at Rs 60,000 and Rs 20,000 respectively. No part of Preliminary Expenses was written off during the year ended 31st March, 2012.

Prepare the consolidated balance sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2012.

Solution :

Working Notes :

(i) In the books of S Ltd.

Profit and Loss Account for the year ended 31st March, 2012

	₹		₹
To General Reserve (₹ 70,000 – ₹ 60,000)	10,000	By Balance b/fd	20,000
To Balance c/d	50,000	By Net Profit for the year (Balancing figure)	40,000
	<u>60,000</u>		<u>60,000</u>
		By Balance b/d	50,000

Assuming that the profits during the current year have been evenly earned.

Profit for the first three months

i.e. up to 30th June, 2011, the date of acquisition

$$= ₹ 40,000 \times 3/12 = ₹ 10,000.$$

Profit for the remaining nine months

$$= ₹ 40,000 - ₹ 10,000 = ₹ 30,000.$$

Hence, revenue profits of S Ltd. i.e. profits earned after

the acquisition of shares by H Ltd. = ₹ 30,000

$$\text{H Ltd.'s share} = ₹ 30,000 \times 70/100 = ₹ 21,000$$

$$\text{Minority shareholders' share} = ₹ 30,000 \times 30/100 = ₹ 9,000$$

(ii) Capital Profits

	₹
General Reserve on 1st April, 2011	60,000
Profit & Loss Account on 1st April, 2011	20,000
Profits earned upto 30th June, 2011	<u>10,000</u>
	90,000
Less: Preliminary Expenses	<u>6,000</u>
	<u>84,000</u>

$$\text{H Ltd.'s share} = ₹ 84,000 \times 70/100 = ₹ 58,800$$

$$\text{Minority shareholders' share} = ₹ 84,000 \times 30/100 = ₹ 25,200$$

(iii) Calculation of cost of control :

Amount paid for 70% shares of S Ltd.		2,60,000
Less:		
Paid up value of 70% shares of S Ltd.	1,40,000	
Add: H Ltd.'s share of capital profits	58,800	<u>1,98,800</u>
		<u>61,200</u>

(iv) Calculation of minority interest :

Paid up value of 30% shares	60,000
Add: minority shareholders' share of capital profits	25,200
Add: minority shareholders' share of revenue profits	9,000
	<u>94,200</u>

Alternatively :

Paid up value of 30% shares	60,000
30% of General Reserve, ₹ 70,000 × 30/100	21,000
30% of Profit & Loss Account, ₹ 50,000 × 30/100	15,000
	<u>96,000</u>
Less: 30% of Preliminary Expenses, ₹ 6,000 × 30/100	<u>1,800</u>
	<u>94,200</u>

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2012

Particulars	Note No.	Amounts as at 31st March, 2012
I. Equity and Liabilities		
Shareholders' funds		
Share capital	1	6,00,000
Reserves and surplus	2	2,41,000
Minority interest [working notes (iv)]		94,200
Current liabilities		
Trade payables	3	1,50,000
Total		<u>10,85,200</u>
II. Assets		
Non-current assets		
Fixed assets		
Tangible assets	4	5,15,000
Intangible assets	5	61,200
Current assets		
Inventories	6	3,64,000
Trade receivables	7	85,000
Cash and cash equivalents	8	60,000
Total		<u>10,85,200</u>

Notes:

1. Share Capital

Issued, Subscribed and Paid up:

60,000 Equity Shares of ₹ 10 each, fully paid up

6,00,000

2. Reserve and Surplus

General Reserve

1,50,000

Surplus i.e. credit balance of Profit and Loss Account
H Ltd.

₹
70,000

Add: H Ltd's share in
S Ltd's revenue

profits [working note (i)]

21,000

91,000

2,41,000

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3. Trade Payables		
H Ltd.		90,000
S Ltd.		<u>60,000</u>
		<u>1,50,000</u>
4. Tangible Assets		
Machinery		
H Ltd.	3,00,000	
S Ltd.	<u>1,00,000</u>	4,00,000
Furniture		
H Ltd.	70,000	
S Ltd.	<u>45,000</u>	<u>1,15,000</u>
		<u>5,15,000</u>
5. Intangible Assets		
Goodwill		<u>61,200</u>
6. Inventories		
H Ltd.	1,75,000	
S Ltd.	<u>1,89,000</u>	<u>3,64,000</u>
7. Trade Receivables		
H Ltd.	55,000	
S Ltd.	<u>30,000</u>	<u>85,000</u>
8. Cash and Cash Equivalents		
H Ltd.	50,000	
S Ltd.	<u>10,000</u>	<u>60,000</u>

Problem 16.

On 1st April 2011 H Ltd. acquired 80% equity shares and 30% preference shares of S Ltd. for Rs 1,95,000 and Rs 30,500 respectively on which date S Ltd.'s General Reserve and Profit and Loss Account showed balances of Rs 30,000 and Rs 4,000 respectively. On 31st March, 2012 the balance sheets of the two companies stood as follows:

Particulars	Note No.	Amounts as at 31st March, 2012	
		H Ltd.	S Ltd.
I. Equity and Liabilities			
Shareholders' funds			
Share capital	1	10,00,000	3,00,000
Reserves and surplus	2	4,00,000	79,000
Current liabilities			
Trade payables		1,80,000	97,000
Total		15,80,000	4,76,000
II. Assets			
Sundry assets		13,54,500	4,76,000
Non-current investments	3	2,25,500	
Total		15,80,000	4,76,000

Notes:

	H Ltd.	S Ltd.
	₹	₹
1. Share Capital		
Issued, Subscribed and Paid up:		
Equity Shares of ₹ 10 each, fully paid up	10,00,000	2,00,000
10% Preference shares of ₹10 each, fully paid up	—	1,00,000
	<u>10,00,000</u>	<u>3,00,000</u>
2. Reserves and Surplus		
General Reserves	3,00,000	40,000
Surplus i.e credit balance of Profit and Loss A/c	1,00,000	39,000
	<u>4,00,000</u>	<u>79,000</u>
3. Non-current Investments		
80% Equity Shares in S Ltd.	1,95,000	
30% Preference Shares in S Ltd.	30,500	
	<u>2,25,500</u>	

You are required to draw the consolidated balance sheet as at 31st March, 2012 assuming that on 1st April, 2011 there were no arrears of preference dividend.

Solution :

(i) In S Ltd.'s Ledger

Profit and Loss Appropriation Account

	₹		₹
To General Reserve (₹ 40,000 – ₹ 30,000)	10,000	By Balance b/fd	4,000
To Balance c/d	39,000	By Net Profit for the year (balancing figure)	45,000
	<u>49,000</u>		<u>49,000</u>

	₹
Revenue Profit	<u>45,000</u>
Less: Preference Dividend on ₹ 1,00,000 @ 10% per annum for 1 year	<u>10,000</u>
Remaining profit	35,000
Holding company's share = ₹ 35,000 × 80/100 = ₹ 28,000	
Minority shareholders' share = ₹ 35,000 × 20/100 = ₹ 7,000	
Holding company's share in preference dividend = ₹ 10,000 × 30/100 = ₹ 3,000	
Minority shareholders' share in preference dividend = ₹ 10,000 × 70/100 = ₹ 7,000	
Holding company's total share = ₹ 28,000 + ₹ 3,000 = ₹ 31,000	

(ii) Capital Profits :

	₹
General Reserve as on 1st April, 2009	30,000
Profit & Loss Account as on 1st April, 2009	<u>4,000</u>
	<u>34,000</u>
H Ltd.'s share = ₹ 34,000 × 80/100 = ₹ 27,200	
Minority interest = ₹ 34,000 × 20/100 = ₹ 6,800	

(iii) Calculation of Goodwill :

Amount paid for acquiring equity shares	1,95,000
Amount paid for acquiring preference shares	<u>30,500</u>
	₹ 2,25,500
Less: Paid up value of 80% equity shares	1,60,000
Paid up value of 30% preference shares	<u>30,000</u>
H Ltd.'s share of capital profits	<u>27,200</u>
	<u>2,17,200</u>
	<u>8,300</u>

(iv) Calculation of Minority Interest :

	₹
Paid up value of 20% equity shares	40,000
Share in capital profits	<u>6,800</u>
Share in revenue profits in addition to preference dividend	<u>7,000</u>
Paid up value of 70% preference shares	<u>70,000</u>
Share in preference dividend	<u>7,000</u>
	<u>1,30,800</u>

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2012

<i>Particulars</i>	<i>Note No.</i>	<i>Amounts as at 31st March, 2012</i>
I. Equity and Liabilities		
<i>Shareholders' funds</i>		
Share Capital	1	10,00,000
Reserves and Surplus	2	4,31,000
Minority interest [working note (iv)]		1,30,800
<i>Current liabilities</i>		
Trade payables	3	2,77,000
		<u>18,38,000</u>
II. Assets		
Sundry assets	4	18,30,500
Intangible assets	5	8,300
		<u>18,38,800</u>

Notes:

1. Share Capital

Issued, Subscribed and Paid up:

1,00,000 Equity Shares of ₹ 10 each, fully paid up

10,00,000

2. Reserves and Surplus

General Reserves

3,00,000

Surplus

₹

H Ltd.

1,00,000

Add : Share in S Ltd's profits

31,000

1,31,000

4,31,000

3. Trade Payables

H Ltd.

1,80,000

S Ltd.

97,000

2,77,000

4. Sundry Assets

H Ltd.

13,54,500

S Ltd.

4,76,000

18,30,500

5. Intangible Assets

Goodwill

8,300

Problem 17.

On 31st March, 2012 the Balance Sheets of H Ltd. and its subsidiary S Ltd. stood as follows:

Particulars	Note No.	Amounts as at 31st March, 2012	
		H Ltd.	S Ltd.
I. Equity and Liabilities			
<i>Shareholders' funds</i>			
Share capital	1	8,00,000	2,00,000
Reserves and surplus	2	2,40,000	1,25,000
<i>Current liabilities</i>			
Trade payables		1,20,000	80,000
Total		11,60,000	4,05,000
II. Assets			
<i>Non-current assets</i>			
Fixed assets			
Tangible assets		5,50,000	1,00,000
Non-current investments		2,80,000	
<i>Current assets</i>			
Inventories		1,05,000	1,77,000
Other Current assets		2,25,000	1,28,000
Total		11,60,000	4,05,000

Notes:

	<i>H Ltd.</i>	<i>S Ltd.</i>
	₹	₹
1. Share Capital		
Issued, Subscribed and Paid up:		
Equity Shares of ₹ 10 each, fully paid	<u>8,00,000</u>	<u>2,00,000</u>
2. Reserves and Surplus		
General Reserve	1,50,000	70,000
Surplus i.e credit balance of Profit and Loss A/c	<u>90,000</u>	<u>55,000</u>
	<u>2,40,000</u>	<u>1,25,000</u>
3. Non-current Investments		
75% Equity Shares in S Ltd. at cost	<u>2,80,000</u>	

Draw a consolidated balance sheet as at 31st March, 2012 after taking into consideration the following information also :—

- (i) H Ltd. acquired the shares on 31st July 2011.
- (ii) S Ltd. earned a profit of ₹ 45,000 for the year ended 31st March, 2012.
- (iii) In January, 2012 S Ltd. sold to H Ltd. goods costing ₹ 15,000 for ₹ 20,000. On 31st March, 2012 half of these goods were lying as unsold in the godowns of H Ltd.

[C.S. (Inter.) June, 1996 Modified]

Solution :

Working Notes :

(i) <i>Capital Profits :</i>		₹
General Reserve		70,000
Profit & Loss Account as on 31st March, 2011 (₹ 55,000 – ₹ 45,000)		10,000
Current year's profit up to 31st July 2011, the date of acquisition of shares ₹ 45,000 × 4/12 = ₹ 15,000		<u>15,000</u>
		<u>95,000</u>
H Ltd.'s share = ₹ 95,000 × 75/100 = ₹ 71,250		
Minority shareholders' share = ₹ 95,000 × 25/100 = ₹ 23,750		
(ii) <i>Revenue Profits :</i>		
Profits from 1st August, 2011 to 31st March, 2012		
i.e., for 8 months = ₹ 45,000 × 8/12 = ₹ 30,000		
H Ltd.'s share = ₹ 30,000 × 75/100 = ₹ 22,500		
Minority shareholders' share = ₹ 30,000 × 25/100 = ₹ 7,500		
(iii) <i>Unrealised profit in respect of stock with H Ltd. :</i>		
Total profit charged by S Ltd. = ₹ 20,000 – ₹ 15,000 = ₹ 5,000		
Since only half of the goods remained unsold as on 31st March, 2012, the unrealised profit = ₹ 5,000 × 1/2 = ₹ 2,500		
(iv) <i>Cost of control or goodwill :</i>		
Amount paid for acquiring 75% shares of S Ltd.	₹	2,80,000
Less: Paid up value of 75% shares of S Ltd.	1,50,000	
H Ltd.'s share of capital profits	<u>71,250</u>	<u>2,21,250</u>
Goodwill		<u>58,750</u>
(v) <i>Minority Interest :</i>		₹
Paid up value of 25% shares of S Ltd.		50,000
Add : Share in capital profits		23,750
Add : Share in reserve profits		<u>7,500</u>
		<u>81,250</u>
Or		
Paid up value of 25% shares in S Ltd.		50,000
25% of General Reserve as on 31st March, 2012 = ₹ 70,000 × 25/100		17,500
25% of Balance of Profit & Loss Account as on 31st March, 2012		
= ₹ 55,000 × 25/100		<u>13,750</u>
		<u>81,250</u>

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2012

<i>Particulars</i>	<i>Note No.</i>	<i>Amount as at 31st march, 2012</i>
I. Equity and Liabilities		
<i>Shareholders' funds</i>		
Share Capital	1	8,00,000
Reserves and Surplus	2	2,60,000
Minority interest [working note (v)]		81,250
<i>Current liabilities</i>		
Trade payables	3	2,00,000
Total		<u>13,41,250</u>
II. Assets		
<i>Non-current assets</i>		
Fixed assets		
Tangible assets	4	6,50,000
Intangible assets	5	58,750
<i>Current assets</i>		
Inventories	6	2,79,500
Other current assets	7	3,53,000
Total		<u>13,41,250</u>

Notes:

1. Share Capital

Issued, Subscribed and Paid up:

80,000 Equity Shares of ₹ 10 each, fully paid

8,00,000

2. Reserves and Surplus

General Reserve

1,50,000

₹

Surplus i.e. credit balance of Profit and Loss Account
H Ltd.

90,000

Add: Share in S Ltd's profits

22,500

1,12,500

Less: Unrealised profit

2,500

1,10,000

2,60,000

3. Trade Payables

H Ltd.

1,20,000

S Ltd.

80,000

2,00,000

4. Tangible (Fixed) Assets

H Ltd.

5,50,000

S Ltd.

1,00,000

6,50,000

5. Intangible Assets

Goodwill

58,750

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6. Inventories	
H Ltd.	1,05,000
S Ltd.	1,77,000
	<u>2,82,000</u>
Less: Unrealised profit	2,500
	<u><u>2,79,500</u></u>
7. Other current Assets	
H Ltd.	2,25,000
S Ltd.	1,28,000
	<u>3,53,000</u>

Problem 18.

H Ltd. acquired as investment 15,000 shares in S Ltd. for Rs 1,55,000 on 1st July, 2011. The balance sheets of the two companies on 31st March, 2012 were as follows:

Particulars	Note No.	Amounts as at 31st March, 2012	
		H Ltd.	S Ltd.
I. Equity and Liabilities			
Shareholders' funds			
Share capital	1	9,00,000	2,50,000
Reserves and surplus	2	2,40,000	65,000
Current liabilities			
Trade payables	3	90,000	50,000
Total		<u>12,30,000</u>	<u>3,65,000</u>
II. Assets			
Non-current assets			
Fixed assets			
Tangible assets	4	8,00,000	2,20,000
Non-current investments	5	1,55,000	

<u>Current assets—</u>			
Inventories		1,00,000	50,000
Trade receivables	6	85,000	55,000
Cash and cash equivalents	7	90,000	40,000
Total		<u>12,30,000</u>	<u>3,65,000</u>
Notes:		<i>H Ltd.</i>	<i>S Ltd.</i>
1. Share Capital		₹	₹
Issued, Subscribed and Paid up:			
Fully paid Equity Shares of ₹ 10 each		<u>9,00,000</u>	<u>2,50,000</u>
2. Reserves and Surplus			
General Reserves		1,60,000	40,000
Surplus i.e credit balance of Profit and Loss A/c		<u>80,000</u>	<u>25,000</u>
		<u>2,40,000</u>	<u>65,000</u>
3. Trade Payables			
Total of accounts of Credit Suppliers		50,000	30,000
Bills Payable		<u>40,000</u>	<u>20,000</u>
		<u>90,000</u>	<u>50,000</u>
4. Tangible Assets			
Machinery		7,00,000	1,50,000
Furniture		<u>1,00,000</u>	<u>70,000</u>
		<u>8,00,000</u>	<u>2,20,000</u>
5. Non-current Investments			
15,000 Equity Shares in S Ltd., at cost		<u>1,55,000</u>	
6. Trade Receivables			
Total of accounts of credit customers		60,000	35,000
Bills Receivables		<u>25,000</u>	<u>20,000</u>
		<u>85,000</u>	<u>55,000</u>
7. Cash and Cash Equivalents			
Balance with Bank		<u>90,000</u>	<u>40,000</u>

The following additional information is provided to you:

(i) General Reserve appearing in the balance sheet of S Ltd. has remained unchanged since 31st March, 2011.

(ii) Profit earned by S Ltd. for the year ended 31st March, 2012 amounted to Rs 20,000.

(iii) On 1st February, 2012 H Ltd. sold to S Ltd. goods costing Rs 8,000 for Rs 10,000. 25% of these goods remained unsold with S Ltd. on 31st March, 2012. Creditors of S Ltd. include Rs 4,000 due to H Ltd. on account of these goods.

(iv) Out of S Ltd.'s acceptances, Rs 15,000 are those which have been accepted in favour of H Ltd. Out of these, H Ltd. had endorsed by 31st March, 2012 Rs 8,000 worth of bills receivable in favour of its creditors.

You are required to draw a consolidated balance sheet as at 31st March, 2012.

Solution :

(i) <i>Capital Profits :</i>	₹
General Reserve	40,000
Profit & Loss Account balance as on 31st March, 2011 (₹ 25,000 – ₹ 20,000)	5,000
Profit earned during the current year up to the date of acquisition of	
shares ₹ 20,000 × 3/12 = ₹ 5,000	5,000
	<u>50,000</u>
H Ltd.'s share = ₹ 50,000 × (15,000/25,000) = ₹ 30,000.	
Minority shareholders' share = ₹ 50,000 – ₹ 30,000 = ₹ 20,000.	
(ii) <i>Revenue Profit :</i>	
Profit earned during the current year subsequent to the acquisition of	
shares = ₹ 20,000 × 9/12 = ₹ 15,000	
H Ltd.'s share = ₹ 15,000 × (15,000/25,000) = ₹ 9,000	
Minority shareholders' share = ₹ 15,000 – ₹ 9,000 = ₹ 6,000.	
(iii) <i>Capital Reserve on acquisition of shares :</i>	
Paid up value of 15,000 shares of S Ltd.	1,50,000
H Ltd.'s share of capital profits	30,000
	<u>1,80,000</u>
Less: Cost of shares	1,55,000
Capital Reserve	<u>25,000</u>
(iv) <i>Minority Interest :</i>	
Paid up value of 10,000 shares held by minority shareholders	1,00,000
Capital Profits	20,000
Revenue Profits	6,000
	<u>1,26,000</u>
<i>Alternatively :</i>	
Paid up value of 10,000 shares	1,00,000
General Reserve ₹ 40,000 × (10,000/25,000)	16,000
Profit & Loss Account ₹ 25,000 × (10,000/25,000)	10,000
	<u>1,26,000</u>
(v) <i>Unrealised profit in respect of inventories:</i>	
= (₹ 10,000 – ₹ 8,000) × 25/100 = ₹ 500.	

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2012

Particulars	Note No.	Amounts as at 31st March, 2012
I. Equity and Liabilities		
<i>Shareholders' funds</i>		
Share Capital	1	9,00,000
Reserves and surplus	2	2,73,500
Minority interest [working note (iv)]		1,26,000
<i>Current liabilities</i>		
Trade payables	3	1,29,000
Total		<u>14,28,500</u>
II. Assets		
<i>Non-current assets</i>		
Fixed assets	4	10,20,000
<i>Current assets</i>		
Inventories	5	1,49,500
Trade receivables	6	1,29,000
Cash and cash equivalents	7	1,30,000
Total		<u>14,28,500</u>

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Notes:		₹
1. Share Capital		
Issued, Subscribed and Paid up:		
90,000 Equity Shares of ₹ 10 each, fully paid		<u>9,00,000</u>
2. Reserves and Surplus		
Capital Reserve		25,000
General Reserve		1,60,000
Surplus i.e. credit balance of profit and Loss Account	₹	
H Ltd.	80,000	
Add: Share of S Ltd's part acquisition profit	<u>9,000</u>	
	89,000	
Less: Unrealised profit	<u>500</u>	<u>88,500</u>
		<u>2,73,500</u>
3. Trade Payables		
Total of list of credit suppliers		
H Ltd.	50,000	
S Ltd.	<u>30,000</u>	
	80,000	
Less: Mutual Owings	<u>4,000</u>	76,000
Bills Payable		
H Ltd.	40,000	
S Ltd.	<u>20,000</u>	
	60,000	
Less: Mutual Owings	<u>7,000</u>	<u>53,000</u>
		<u>1,29,000</u>
4. Tangible Assets		
Machinery		
H Ltd.	7,00,000	
S Ltd.	<u>1,50,000</u>	8,50,000
Furniture		
H Ltd.	1,00,000	
S Ltd.	<u>70,000</u>	<u>1,70,000</u>
		<u>10,20,000</u>
5. Inventories		
H Ltd.	1,00,000	
S Ltd.	<u>50,000</u>	
	1,50,000	
Less: Unrealised Profit	<u>500</u>	<u>1,49,500</u>
6. Trade Receivables		
Total of list of credit customers		
Credit customers		
H Ltd.	60,000	
S Ltd.	<u>35,000</u>	
	95,000	
Less: Mutual Owings	<u>4,000</u>	91,000
Bills Payable		
H Ltd.	25,000	
S Ltd.	<u>20,000</u>	
	45,000	

Less: Mutual Owings	7,000	38,000
		<u>1,29,000</u>
7. Cash and Cash Equivalents		
Balance with Bank		
H Ltd.	90,000	
S Ltd.	<u>40,000</u>	<u>1,30,000</u>

Problem 19.

H Ltd. acquired 12,000 shares of S Ltd. For Rs 1,70,000 on April 1, 2011 on which date S Ltd's Profit & Loss Account showed a credit balance of Rs 53,400. In August, 2011 S Ltd. declared a dividend of 10% for the year ended 31st March, 2011. This dividend was credited by H Ltd. to its Profit & Loss Account. Assume dividend distribution tax was paid @ 17%. On 31st March, 2012 the balance sheets of the two companies appeared as follows:

Particulars	Note No.	Amounts as at 31st March, 2012	
		H Ltd.	S Ltd.
I. Equity and Liabilities			
Shareholders' funds			
Share capital	1	5,00,000	2,00,000
Reserves and surplus	2	2,90,000	1,20,000
Current liabilities			
Trade payables	3	1,00,000	75,000
		<u>8,90,000</u>	<u>3,95,000</u>
II. Assets			
Non-current assets			
Fixed assets	4	3,35,000	50,000
Tangible assets	5	30,000	20,000
Non-current investments	6	1,70,000	
Current assets			
Inventories		2,10,000	2,30,000
Trade receivables	7	65,000	58,000
Cash and cash equivalents	8	80,000	37,000
		<u>8,90,000</u>	<u>3,95,000</u>

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Notes:	H Ltd. ₹	S Ltd. ₹
1. Share capital		
Issued, Subscribed and Paid up:		
Equity Shares of ₹ 10 each, fully paid up	<u>5,00,000</u>	<u>2,00,000</u>
2. Reserves and Surplus		
General Reserve (as at 31st March, 2011)	1,30,000	55,000
Surplus	<u>1,60,000</u>	<u>65,000</u>
	<u>2,90,000</u>	<u>1,20,000</u>
3. Trade Payables		
Trade Creditors	<u>1,00,000</u>	<u>75,000</u>
4. Tangible Assets		
Machinery	2,50,000	
Furniture	<u>85,000</u>	<u>50,000</u>
	<u>3,35,000</u>	<u>50,000</u>
5. Intangible Assets		
Goodwill	<u>30,000</u>	<u>20,000</u>
6. Non-current Investments		
Equity Shares in S Ltd; at cost	<u>1,70,000</u>	
7. Trade Receivables		
Trade Debtors	<u>65,000</u>	<u>58,000</u>
8. Cash and Cash Equivalents		
Balance with Bank	<u>80,000</u>	<u>37,000</u>

You are required to prepare a consolidated balance sheet as at 31st March, 2012.

Solution :

Working Notes :

(i) In S Ltd.'s Ledger

Profit & Loss Account			
	₹		₹
To Dividend	20,000	By Balance b/fd	53,400
To Dividend Distribution Tax	3,400		
To Balance c/d	65,000	By Net Profit for the year (Balancing figure)	35,000
	<u>88,400</u>		<u>88,400</u>

H Ltd.'s share in current year's profit = ₹ 35,000 × 12,000/20,000 = ₹ 21,000.

Minority shareholders' share = ₹ 35,000 – ₹ 21,000 = ₹ 14,000

(ii) Dividend received by H Ltd. out of pre-acquisition profits

= ₹ 1,20,000 × 10/100 = ₹ 12,000.

The dividend has been wrongly credited to profit and loss account.

It should have been credited to Shares in S Ltd. Account.

Rectifying the error :

Shares in S Ltd. Account			
	₹		₹
To Balance b/fd	1,70,000	By Profit & Loss Account (Rectification of error)	12,000
		By Balance c/d	1,58,000
	<u>1,70,000</u>		<u>1,70,000</u>
To Balance b/d	1,58,000		

H Ltd.'s Profit & Loss Account			
	₹		₹
To Shares in S Ltd. (Rectification of error)	12,000	By Balance b/d	1,60,000
To Balance c/d	1,48,000		
	<u>1,60,000</u>		<u>1,60,000</u>
		By Balance b/d	1,48,000
(iii) <i>Capital Profits :</i>			₹
General Reserve			55,000
Profit & Loss account ₹ 52,000 – ₹ 2,00,000 × 10/100 – 2000			<u>30,000</u>
			<u>85,000</u>
H Ltd.'s share = ₹ 85,000 × 12,000/20,000 = ₹ 51,000			
Minority shareholders' share = ₹ 85,000 – ₹ 51,000 = ₹ 34,000.			
(iv) <i>Capital Profit on acquisition of shares :</i>			
Paid up value of 12,000 shares			1,20,000
Add: H Ltd.'s share of capital profits			<u>51,000</u>
			1,71,000
Less: Balance of Shares in S Ltd. Account after deduction of dividend received out of pre-acquisition profits			<u>1,58,000</u>
			<u>13,000</u>
(v) <i>Minority Interest :</i>			
Paid up value of 8,000 shares			80,000
Capital Profits			34,000
Current year's profit			<u>14,000</u>
			<u>1,28,000</u>

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2012

Particulars	Note No.	Amounts as at 31st March, 2012
I. Equity and Liabilities		
<i>Shareholders' funds</i>		
Share Capital	1	5,00,000
Reserves and Surplus	2	2,99,000
Minority interest		1,28,000
<i>Current liabilities</i>		
Trade payable	3	1,75,000
Total		<u>11,02,000</u>
II. Assets		
<i>Non-current assets</i>		
Fixed assets		
Tangible assets	4	3,85,000
Intangible assets	5	37,000
<i>Current assets</i>		
Inventories	6	4,40,000
Trade receivables	7	1,23,000
Cash and cash equivalents	8	1,17,000
Total		<u>11,02,000</u>

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Notes		₹
1. Share Capital		
Issued, Subscribed and Paid up:		
50,000 Equity Shares of ₹ 10 each, fully paid up		<u>5,00,000</u>
2. Reserves and Surplus		
General Reserve		1,30,000
Surplus i.e. credit balance of statement of Profit and Loss	₹	
H Ltd. (after rectification)	1,48,000	
Add: Share in S Ltd.'s profits	<u>21,000</u>	<u>1,69,000</u>
		<u>2,99,000</u>
3. Trade Payables		
Trade Creditors		
H Ltd.	1,00,000	
S Ltd.	<u>75,000</u>	<u>1,75,000</u>
4. Tangible Assets		
Machinery		
H Ltd.	<u>2,50,000</u>	2,50,000
Furniture		
H Ltd.	85,000	
S Ltd.	<u>50,000</u>	<u>1,35,000</u>
		<u>3,85,000</u>
5. Intangible Assets		
Goodwill		
H Ltd.	30,000	
S Ltd.	<u>20,000</u>	
	50,000	
Less: Capital Reserve on acquisition of shares [working Note (iv)]	<u>13,000</u>	<u>37,000</u>
6. Inventories		
H Ltd.	2,10,000	
S Ltd.	<u>2,30,000</u>	<u>4,40,000</u>
7. Trade Receivables		
Trade Debtors		
H Ltd.	65,000	
S Ltd.	<u>58,000</u>	<u>1,23,000</u>
8. Cash and Cash Equivalents		
Balance with Bank		
H Ltd.	80,000	
S Ltd.	<u>37,000</u>	<u>1,17,000</u>

Problem 20.

H Ltd. acquired 80% shares in S Ltd. on 30th September, 2011 at a total cost of Rs 3,60,000. The balance sheets at 31st March, 2012 when the accounts of both the companies were prepared were as under:

Balance Sheet of H Ltd. as at 31st March, 2010

Particulars	Note No.	Amounts as at 31st March, 2012	
		H Ltd.	S Ltd.
I. Equity and Liabilities			
Shareholders' funds			
Share capital	1	7,50,000	2,50,000
Reserves and surplus	2	6,90,000	1,90,000
Current liabilities			
Trade payables	3	60,000	70,000
Total		15,00,000	5,10,000
II. Assets			
Non-current assets			
Fixed assets			
Tangible assets	4	7,90,000	2,15,000
Non-current investments	5	5	3,60,000
Current assets			
Inventories		1,45,000	1,61,000
Trade receivables	6	85,000	79,000
Cash and cash equivalents	7	1,20,000	55,000
Total		15,00,000	5,10,000

Notes:

	H Ltd.	S Ltd.
	₹	₹
1. Share Capital		
Issued, Subscribed and Paid up:		
Equity Shares of ₹ 10 each, fully paid up	7,50,000	2,50,000
2. Reserves and Surplus		
Securities Premium	50,000	
General Reserve		
H Ltd.	4,00,000	
S Ltd; as on 1st April, 2011		1,10,000
Surplus i.e. credit balance of Statement of Profit and Loss	2,40,000	80,000
	6,90,000	1,90,000
3. Trade Payables		
Trade Creditors	60,000	70,000
4. Tangible Assets		
Land and Buildings	4,15,000	
Plant and Machinery	2,25,000	1,50,000
Furniture and Fittings	1,50,000	65,000
	7,90,000	2,15,000
5. Non-current Investments		
80% Equity Shares in S Ltd., at cost	1,45,000	
6. Trade Receivables		
Trade Debtors	85,000	79,000
7. Cash and Cash Equivalents		
Balance with Bank	1,20,000	55,000

Balance of H Ltd's Statement of Profit and Loss includes interim dividend @ 10% per annum received from S Ltd.

On 1st April, 2011 S Ltd.'s Profit & Loss Account showed a credit balance of Rs 40,000. S Ltd. declared the interim dividend on 1st January, 2012. Assume the absence of dividend distribution tax.

You are required to prepare a consolidated sheet balance of H Ltd. and its subsidiary S Ltd. as at 31st March, 2012.

Solution :

Working Notes :

(i) S Ltd.'s Profit & Loss Appropriation Account for the year ended 31st March, 2012

	₹		₹
To Interim Dividend @ 10% on ₹ 2,50,000	25,000	By Balance b/fd	40,000
To Balance c/d	80,000	By Net Profit for the year (Balancing figure)	65,000
	<u>1,05,000</u>		<u>1,05,000</u>
		By Balance b/d	80,000

Profit up to 30th September, 2011 = ₹ 65,000 × 6/12 = ₹ 32,500

Profit after the acquisition of shares = ₹ 65,000 – ₹ 32,500 = ₹ 32,500

(ii) Interim Dividend received by H Ltd. = ₹ 25,000 × 80/100 = ₹ 20,000

Interim Dividend pertaining to pre-acquisition period = ₹ 20,000 × 6/12 = ₹ 10,000

(iii) Capital Profits :

		₹
General Reserve		1,10,000
Profit & Loss Account as on 1st April, 2011	40,000	
Profit for the current year upto the date of acquisition i.e. 30th September, 2011	₹ 32,500	
Less: ½ of interim dividend	₹ 12,500	<u>20,000</u>
		<u>1,70,000</u>

H Ltd.'s share = ₹ 1,70,000 × 80/100 = ₹ 1,36,000

Minority shareholders' share = ₹ 1,70,000 – ₹ 1,36,000 = ₹ 34,000.

(iv) Revenue Profits :

		₹
Profit after the acquisition of shares		32,500
Less: ½ of interim dividend		<u>12,500</u>
		<u>20,000</u>

H Ltd.'s share ₹ 20,000 × 80/100 = ₹ 16,000.

Minority shareholders' share = ₹ 20,000 – ₹ 16,000 = ₹ 4,000.

(v) Cost of Control :

		₹
Amount paid for acquiring 80% shares in S Ltd.		3,60,000
Less: Interim dividend pertaining to pre-acquisition period		<u>10,000</u>
		<u>3,50,000</u>
Less: Paid up value of 80% shares in S Ltd.	2,00,000	
Add: H Ltd.'s share of Capital Profits	<u>1,36,000</u>	<u>3,36,000</u>
		<u>14,000</u>

(vi) Minority Interest :

		₹
Paid up value of 20% shares in S Ltd.		50,000
Add: Minority shareholders' share in Capital Profits		34,000
Add: Minority shareholders' share in Revenue Profits		<u>4,000</u>
		<u>88,000</u>

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 2012

<i>Particulars</i>	<i>Note No.</i>	<i>Amounts as at 31st March, 2012</i>
I. Equity and Liabilities		
<i>Shareholders' funds</i>		
Share capital	1	7,50,000
Reserves and surplus	2	6,96,000
Minority interest [Working Note (vi)]		88,000
<i>Current liabilities</i>		
Trade payable	3	1,30,000
Total		16,64,000
II. Assets		
<i>Non-current assets</i>		
Fixed assets		
Tangible assets	4	10,05,000
Intangible assets [Working Note (v)]	5	14,000
<i>Current assets</i>		
Inventories	6	3,06,000
Trade receivables	7	1,64,000
Cash and cash equivalents	8	1,75,000
Total		16,64,000

Notes:

1. Share Capital		
Issued, Subscribed and Paid up:		
75,000 Equity Shares of ₹ 10 each, fully paid up		7,50,000
2. Reserve and Surplus		
Securities Premium		50,000
General Reserve		4,00,000
Surplus		₹
H Ltd.	2,40,000	
Less: Half of Interim Dividend	10,000	
	2,30,000	
Add: H Ltd's share in S Ltd's profits	16,000	2,46,000
		6,96,000
3. Trade Payables		
Trade Creditors		
H Ltd.	60,000	
S Ltd.	70,000	1,30,000
4. Tangible Assets		
Land and Buildings		4,15,000
Plant and Machinery		
H Ltd.	2,25,000	
S Ltd.	1,50,000	3,75,000

Furniture and Fittings		
H Ltd.	1,50,000	
S Ltd.	<u>65,000</u>	<u>2,15,000</u>
		<u><u>10,05,000</u></u>
5. Intangible Assets		
Goodwill		<u>14,000</u>
6. Inventories		
H Ltd.	1,45,000	
S Ltd.	<u>1,61,000</u>	<u>3,06,000</u>
7. Trade Receivables		
Trade Debtors		
H Ltd.	85,000	
S Ltd.	<u>79,000</u>	<u>1,64,000</u>
8. Cash and Cash Equivalents		
Balance with Bank		
H Ltd.	1,20,000	
S Ltd.	<u>55,000</u>	<u>1,75,000</u>

UNIT – IV
ACCOUNTS OF HOLDING COMPANIES/PARENT COMPANIES

POSSIBLE QUESTIONS

PART – A (1 MARK)
ONLINE QUESTIONS

PART – B (2 MARKS)

1. What is amalgamation?
2. What is Absorption?
3. What is Transferor Company?
4. What is Transferee Company?
5. What is meant by purchase consideration?
6. What is net payment method?
7. What is net asset method?
8. What are the types of amalgamation?

PART – C (6 MARKS)

1. The Balance Sheet of C Ltd. and D Ltd. as at 31st December, 1986 are as follows :

Liabilities	C Ltd. Rs.	D Ltd. Rs.	Assets	C Ltd. Rs.	D Ltd. Rs.
Share capital (in shares of Rs. 10 each)	2,00,000	1,00,000	Sunday assets	1,32,500	1,38,200
General reserves	18,000	20,000	Goodwill	---	20,000
Profit and Loss /c	24,000	23,000	Shares in D Ltd. at cost	1,40,000	---
Creditors	30,000	15,200			
	2,72,500	1,58,200		2,72,500	1,58,200

In the case of D Ltd., profit for the year ended 31st December 1986 is Rs.12,000 and transfer to reserve is RS. 5,000. The holding of C Ltd. in D Ltd. is 90% acquired on 30th June 1986.

Draft a consolidate Balance Sheet of 'C' Ltd. and its subsidiary.

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2. On 31st March, 1996 the balance sheet of H Ltd. and its subsidiary S Ltd. stood as follows:

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Equity share capital	8,00,000	2,00,000	Fixed assets	5,50,000	1,00,000
General reserve	1,50,000	70,000	75% shares in S Ltd. (at cost)	2,80,000	---
Profit & Loss A/c	90,000	55,000	Stock	1,05,000	1,77,000
Creditors	1,20,000	80,000	Other current assets	2,25,000	1,28,000
	11,60,000	4,05,000		11,60,000	4,05,000

Draw a consolidated balance sheet as at 31st March, 1996 after taking into consideration the following information:

- H Ltd. acquired the shares on 31st July, 1995.
- S Ltd. earned profit of Rs. 45,000 for the year ended 31st March, 1996.
- In January 1996 S Ltd. sold to H Ltd. goods costing Rs.15,000 for Rs 20,000. On 31st March, 1996 half of these goods were lying as unsold in the godown of H Ltd.

Give the working notes.

3. From the following balance sheet to H Ltd. prepare a consolidated balance sheet.

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Share capital (shares of Rs. 10 each)	10,00,000	2,00,000	Sundry fixed assets	8,00,000	1,20,000
Profit and loss A/c	4,00,000	1,20,000	Stock	6,10,000	2,40,000
Reserves	1,00,000	60,000	Debtors	1,30,000	1,70,000
Creditors	2,00,000	1,20,000	Bill receivable	10,000	----
Bill payable	---	30,000	Shares in 'S' Ltd. at Cost(15,000 shares)	1,50,000	----
	17,00,000	5,30,000		17,00,000	5,30,000

- All profits of S Ltd. have been earned after the shares were acquired by H Ltd. But there was already a reserve of Rs.60,000 on the date.
- All the bills payable of S Ltd. were accepted in favour of H Ltd.
- The stocks of H Ltd. includes Rs.50,000 purchased from S Ltd. The profit added was 25% on cost.

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4. The following are the balance sheet of H Ltd. and its subsidiary S Ltd. as on 31/3/1995.

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Share capital Rs. 10 each fully paid	6,00,000	2,00,000	Machinery	3,00,000	5,00,000
General reserve	1,50,000	70,000	Furniture	70,000	45,000
Profit & loss A/c	70,000	50,000	70% shares in S Ltd. at cost	2,60,000	----
Creditors	90,000	60,000	Stock	1,75,000	1,89,000
			Debtors	55,000	30,000
			Cash at Bank	50,000	10,000
			Preliminary expenses	----	6,000
	9,10,000	3,80,000		9,10,000	3,80,000

H Ltd. acquired the shares of S Ltd. on 30th June 1994. On 1st April 94, S Ltd's general reserve and Profit & Loss account stood at Rs60,000 and 20,000 respectively. No part of the preliminary expenses was written off in the year ended 31.3.95

Prepare consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as on 31.3.95, giving all your working notes separately.

5. X Ltd. purchased 750 shares in Y Ltd. on 1.7.94. The following were their balance sheets on 31.12.94

Liabilities	X Ltd. Rs.	Y Ltd. Rs.	Assets	X Ltd. Rs.	Y Ltd. Rs.
Share capital:			Buildings	2,05,000	1,25,000
Shares of Rs.100 each	3,00,000	1,00,000	Stock	1,00,000	80,000
Gen. reserve on 1.1.94	1,00,000	70,000	Debtors	1,00,000	40,000
Profit & loss A/c	1,00,000	60,000	Investment in Y Ltd.	1,00,000	-
Creditors	80,000	40,000	Bills receivable	40,000	45,000
Bill payable	50,000	20,000	Cash at bank	60,000	20,000
Current Account:			Current Account:		
X Ltd.	-	20,000	-Y Ltd.	25,000	-
	6,30,000	3,10,000		6,30,000	3,10,000

Additional information:

- a) Bills receivable of X Ltd. include RS.10,000 accepted by Y Ltd.
 - b) Debtors of X Ltd. include Rs.20,000 payable by Y Ltd.
 - c) A cheque of Rs.5,000 sent by Y Ltd. on 28th December was not yet received by X Ltd. on 31st December 1994.
 - d) Profit and Loss A/c of Y Ltd. showed a balance of Rs.20,000 on 1.1.94.
- You are required to prepare a consolidated balance sheet of X Ltd. and Y Ltd. as on 31.12.94.

6. The following are the balance sheet of A Ltd. and B Ltd. as at 31st Dec. 1973

Liabilities	A Ltd. Rs.	B Ltd. Rs.	Assets	A Ltd. Rs.	B Ltd. Rs.
Equity share capital, Rs.10 each	1,00,000	50,000	Sundry assets	66,250	69,100
Revenue reserves	9,000	10,000	Shares in B Ltd. At cost	70,000	-
P & L A/c on 1.1.73	8,500	8,000	Goodwill	-	10,000
Profit for the year less					
Transfer to reserves	3,750	3,500			
Creditors	15,000	7,600			
	1,36,250	79,100		1,36,250	79,100

Profit for the year of B Ltd. was Rs.6000 out of which Rs.2500 was transferred to reserves. The holding of A Ltd. is 90% acquired a year ago on 31.12.72. Write off from sundry assets of A Ltd. Rs.9000. Also write off Rs.3100 from to sundry assets of B Ltd. out of the current year's profits. Draft a consolidated balance sheet of A Ltd. and its subsidiary.

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DEPARTMENT OF COMMERCE						
CORPORATE ACCOUNTING (17CCU301)						
UNIT IV						
S. No.	Questions	Option 1	Option 2	Option3	Option4	Answer
1	The price payable by a company for business acquired is known as-----.	Purchase consideration	Net worth	Net asset	Lump sum	Purchase consideration
2	If the net tangible assets exceeds the purchase consideration, the difference will be treated as-----.	Goodwill	Capital reserve	Acquisition cost	Capital redemption reserve	Capital reserve
3	When shares or debentures are issued at a premium -----account should be credited with the amount of the premium.	Share premium	Securities premium	Premium	Profit on issue of shares	Securities premium
4	The profit made on acquisition of business is credited to-----.	P&L account	P&L appropriation account	Capital reserve account	Goodwill account	Capital reserve account
5	Lease is divided in ----- ratio while calculating pre- incorporated profit.	Time ratio	Sales ratio	Adjusted time ratio	Purchase ratio	Time ratio
6	Loss prior top incorporation is to be shown in the assets side of the balance sheet under the heading-----.	Fixed assets	Loans and advances	Current assets	Miscellaneous expenses	Miscellaneous expenses
7	Final accounts of a company include-----.	Profit & Loss account	Trading	Balance sheet	P&L account, P&L appropriation account and Balance Sheet	Trading, Profit & Loss account and Balance Sheet
8	Loose tools is shown in the balance sheet under the head-----.	Fixed assets	Loans and advances	Current assets	Miscellaneous assets	Fixed assets

9	The surplus found in P&L appropriation account is shown under the head-----	Share capital	Reserves and surplus	Current liabilities	Current provision.	Reserves and surplus
10	..... section of the companies Act provides the power of issuing debentures	293	292(1)	295	287	292(1)
11	Debentures can be issued -----.	For cash consideration only	For other than cash consideration only.	As collateral securities	Either for cash or for other than cash or as collateral	Either for cash or for other than cash or as collateral
12	Discount and loss on issue of debentures are shown under -----.	Current liabilities	Fixed assets	Reserves and surplus	Miscellaneous expenses	Miscellaneous expenses
13	When debentures are redeemed out of profits, the profit equivalent to the debenture is transferred to -----.	Sinking fund	Debenture redemption fund	Debenture	Debenture holders	Debenture redemption fund
14	If the quoted price includes the interest on the debenture from the previous interest to till the date of sale, the price is-----	Ex-interest price	Cum-interest price	Interest free price	Whole sale price	Cum-interest price
15	If the quoted price does not include the interest on debenture from the previous interest to till the date of sale, the price is-----	Ex-interest price	Cum-interest price	Interest free price	Whole sale price	Ex-interest price
16	Sinking fund can be created out of-----.	Revenue profit	Capital profit	Premium	Capital redemption reserve	Revenue profit
17	Debentures represent the-----.	Manager's share in the business	Investment by shareholders in business	Longterm borrowings of a business	Trade creditors	Longterm borrowings of a business
18	Debenture holders are the ----- . Customers	Creditors	Owners	Borrowers	Customers	Creditors
19	In case of internal reconstruction the existing company will be-----.	Liquidated	Amalgamated	Absorbed	Merged	Merged

20	Increases in the value of fixed assets at the time of reconstruction will be credited to --	Capital reserve account	Share capital account	General Reserve account	Capital reduction account	Capital reserve account
21	Decrease of liability at the time of internal reconstruction-----.	Equity share capital	Capital reduction	Capital reserve	Preference share capital	Capital reduction
22	At the time of reorganisation the amount of shares surrendered by shareholder is transferred to-----.	Capital reserve account	Capital reduction account	General reserve account	Surrendered share account	Surrendered share account
23	For writingoff the accumulated losses under the scheme of capital reduction we debit	Share capital account	Capital reserve account	General reserve account	Accumulated loss account	Share capital account
24	In case of consolidation of share capital the total number of shares of the company--	Decreases	Increases	Equal	Constant	Equal
25	When uncalled amount of share capital is to be reduced then the amount of paid up capital of the company is called-----	Stock	Does not change	Advances	Arrears	Arrears
26	To carry out the scheme of capital reduction -----approval is necessary.	Court	Central government	Company Law Board	Registrars of company	Company Law Board
27	If the creditors are willing, their claim against the company-----be reduced.	Income	Capital	Cannot	Interest	Interest
28	Reserves of the company can be utilised in meeting the accumulated losses at the time of	Internal reconstruction	Liquidated	Amalgamated	Absorbed	Internal reconstruction
29	The various losses can be written with the help of capital reduction account at the time of reconstruction	External	Outsources	Internal	Surplus	External
30	The amount of surrendered shares is credited to -----account.	Capital reduction	Capital	Bank	P&L Account	Bank
31	Alteration of share capital is effected by a company if it is authorized by the-----	Memorandum of Association	Articles of association	Shareholders	Board of directors	Memorandum of Association

32	The capital reduction scheme can be implemented only after getting permission from	Central government	Controller of capital issues	Share holders	The competent court	Share holders
33	Any decreases in the value of assets at the time of internal reconstruction, will be changed to-----.	Goodwill a/c	Capital reduction a/c	Revaluation a/c	Share capital a/c	Capital reduction a/c
34	Consolidation of shares does not affect the amount of-----.	Share capital	Creditors	Debtors	Bank overdraft	Share capital
35	A company can convert fully paid -----into stock and also reconvert -----back into shares.	Securities	Debentures, Equity	Deposits, Stock	Share, stock	Debentures, Equity
36	Any debit balance in P&L a/c represents -----and such losses will be written off as part of capital reorganization.	Gains	Resources	Accumulated losses	Incomes	Accumulated losses
37	In the scheme of capital reduction, any new liability to be provided for, such as arrears of preference dividend, must be	Income reduction	Trading	Capital reduction	Debtors	Capital reduction
38	Inter company 'owing' should be -----while preparing the balance sheet of the transferee company after completion of	Eliminated	Not eliminated	Appointed	Not appointed	Eliminated
39	When surrendered shares are reissued -----is debited.	Surrendered shares account	Preference share capital	Bank account	Capital reduction account	Surrendered shares account
40	For refunding surplus capital-----is credited.	Share holders a/c	Creditors a/c	Liabilities a/c	Share holders a/c	Share holders a/c
41	For any sacrifice made by debenture holders or creditors-----is credited.	Capital reduction account	Bank account	Capital reserve account	Asset account	Capital reduction account
42	For transferring assets to realisation a/c-----is debited.	Purchasing a/c	Liabilities a/c	Preference share capital a/c	Realisation a/c	Realisation a/c
43	For transferring liabilities taken over -----is debited.	Assets a/c	Realisation a/c	Liabilities a/c	Bank Account	Liabilities a/c

44	For purchase consideration receivable----- -----is debited	Purchasingcom pany's account	Bank a/c	Purchasinga/c	Debenture a/c	Purchasingcompany's account
45	For receivingthe purchase consideration --- -----is credited	Liability account	Purchasing company's account	Realisation account Bank account	Asset account	Purchasingcompany's account
46	For realizingassets not taken over ----- -----is debited	Creditors a/c	Bank a/c	Debenture a/c	Share holders a/c	Bank a/c
47	For payment of liabilities not taken over --- -----is debited.	Purchasingcom pany's a/c	Debenture holders a/c	Realization a/c	Shares in purchasinga/c	Realization a/c
48	If expenses are to be borne by the purchasingcompany -----is debited.	Purchasingcom pany's a/c	Profit & Loss a/c	Preference share holders a/c	Equity share holders a/c	Purchasingcompany's a/c
49	For discharge of preference share capital--- -----is debited.	Shares in purchasinga/c	Preference share capital	Realization	Debenture	Preference share capital
50	For realization profit and loss account ----- -----is credited.	Equity share holders a/c	Bank a/c	Preference share capital	Bank a/c	Equity share holders a/c
51	When windingup takes place in a company, the shareholders are called	Creditors	Shareholders	Debtors	Contributories	Contributories
52	When two or more companies liquidate to form a new company is is called-----	Amalgamation	Absorption	Reconstruction	Merging	Amalgamation
53	When the purchasingcompany allots shares at market price the calculation of purchase consideration is based on	Market price	Paid up value	Average of the above two	Equity share holders a/c	Market price
54	Liquidation expenses paid by the purchasing company are to be debited to ---	Preliminary expenses account	Business purchase account	Recreation expenses	Realisation a/c	Realisation a/c

55	Absorption is said to be taken place when-----.	A Company is formed to take over the other company.	Two or more companies are liquidated to form a new company.	Two or more companies liquidate to be taken over by the existing company.	Two or more existing companies liquidate	A Company is formed to take over the other company.
56	A person who is entrusted with the job of realizing assets and discharging liabilities in the process of liquidation is called	Managing Director	Agent	Liquidator	Shareholders	Liquidator
57	On acquisition of business, which of the following item is not taken over by the purchasing company -----	Profit and loss account (debit balance)	Cash balance	Bank balance	Bank a/c	Profit and loss account (debit balance)
58	The accounting treatment with respect to acquisition of business will be by using -----	When new set of books is opened	When the same set of books is continued	When new set of books is opened and the same set of books is continued	When the past year set of books is continued	When new set of books is opened and the same set of books is continued
59	The first item in the order of payment to be made by the liquidator is	Unsecured Creditors	Secured creditors	Liquidation expenses	Preference Share Holder	Liquidation expenses
60	.....method is used to account for amalgamation in the nature of purchase	Pooling of interests	Sale	Merger	Purchase	Pooling of interests

UNIT- V

Banking:

Section 5 of Banking Regulation Act defines Banking as “the accepting, for the purpose of lending or investment, of deposit of money from the public repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise.

Features of banking company:

- The borrowing, raising, or taking up of money.
- The lending or advancing of money either upon or without security.
- The granting and issuing of letters of credit, travellers cheques and circular notes.
- The buying and selling of bullion.
- The buying and selling of foreign exchange including foreign bank notes.
- Contracting for public and private loans negotiating and issuing the same.
- Undertaking and executing trust.
- The acquisition, constructing, maintenance and alternation of any building or works necessary or convenient for the purpose of the company.
- Carrying on and transacting every kind of guarantee and indemnity business.
- The collecting and transmitting of money and securities.
- Undertaking the administration of estates as executor, trustee or otherwise
- No banking company can carry on business in India unless its subscribed capital is not less than one-half of the authorized capital and its paid up capital is not less than one – half of subs. capital.
- A banking company cannot create any charge upon its uncalled capital.
- Every banking co. shall transfer a sum equal to 25% of profits to statutory reserve.
- A bank can open a branch only at the permission or reserve bank

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Accounting System:

The accounting system of a banking company is different from that of a trading or manufacturing company. A bank has a large number of customers whose acc are to be maintained in such a way so that these should be kept upto date.

Features of Banking Accounting System:

- Entries in the personal ledgers are made directly from vouchers.
- From such entries in personal acc each day summary sheets in total are prepared.
- The general ledger's trial balance is extracted and agreed every day.
- A trial balance of detailed personal ledger is prepared periodically and get agreed with general ledger.
- Two vouchers are prepared for every transaction not involving cash- debit and credit voucher.

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Revised Formats THE THIRD SCHEDULE (See Section 29) Form A

FORM OF BALANCE SHEET

Balance Sheet of _____ (here enter the name of the Banking Company)
Balance Sheet as on 31st March (Year)

(000's omitted)

CAPITAL & LIABILITIES	Schedule	As on 31.3. — (Current Year)	As on 31.3. — (Previous Year)
Capital	1		
Reserve & Surplus	2		
Deposits	3		
Borrowings	4		
Other Liabilities and Provisions	5		
TOTAL			
ASSETS			
Cash and Balances with Reserve Bank of India	6		
Balance with banks and money at call and short notice	7		
Investments	8		
Advances	9		
Fixed Assets	10		
Other Assets	11		
TOTAL			
Contingent Liabilities			
Bills for collection	12		

Schedule 1 — Capital

	As on 31.3. — (Current Year)	As on 31.3. — (Previous Year)
I. FOR NATIONALISED BANKS		
Capital (Fully owned by Central Government)		
		Contd.
	As on 31.3. — (Current Year)	As on 31.3. — (Previous Year)
II. FOR BANKS INCORPORATED OUTSIDE INDIA		
Capital		
(i) (The amount brought in by banks by way of start-up capital as prescribed by RBI should be shown under this head)		
(ii) Amount of deposit kept with the RBI under Section 11(2) of the Banking Regulation Act, 1949		
TOTAL		
III. FOR OTHER BANKS		
Authorised Capital (.....shares of Rs. each)		
Issued Capital (.....shares of Rs. each)		
Subscribed Capital (.....shares of Rs. each)		
Called-up Capital (.....shares of Rs. each)		
Less: Calls Unpaid		
Add: Forfeited Shares		

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Schedule 2 – Reserves and Surplus

	As on 31.3. — (Current Year)	As on 31.3. — (Previous Year)
I. Statutory Reserves		
Opening Balance		
Additions during the year		
Deductions during the year		
II. Capital Reserves		
Opening Balance		
Additions during the year		
Deductions during the year		
III. Securities Premium		
Opening Balance		
Additions during the year		
Deductions during the year		
IV. Revenue and other Reserves		
Opening Balance		
Additions during the year		
Deductions during the year		
V. Balance in Profit and Loss Account		
TOTAL		
(I, II, III, IV and V)		

Schedule 3 — Deposits

	As on 31.3. — (Current Year)	As on 31.3. — (Previous Year)
A. I. Demand Deposits		
(i) From Banks		
(ii) From Others		
II. Savings Bank Deposits		
III. Term Deposits		
(i) From Banks		
(ii) From Others		
TOTAL		
(I, II and III)		
B. (i) Deposits of branches in India		
(ii) Deposits of branches outside India		
TOTAL		

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Schedule 4 — Borrowings

	As on 31.3. — (Current Year)	As on 31.3. — (Previous Year)
I. Borrowing in India		
(i) Reserve Bank of India		
(ii) Other Banks		
(iii) Other Institutions and Agencies		
II. Borrowings outside India		
TOTAL		
(I and II)		

Secured borrowings in I & II above –

Schedule 5 — Other Liabilities and Provisions

	As on 31.3. — (Current Year)	As on 31.3. — (Previous Year)
I. Bills Payable		
II. Inter-office adjustments (net)		
III. Interest Accrued		
IV. Others (including provisions)		
TOTAL		

Schedule 6 — Cash and Balances with Reserve Bank of India

	As on 31.3. — (Current Year)	As on 31.3. — (Previous Year)
I. Cash in Hand (including foreign currency notes)		
II. Balances with Reserve Bank of India		
(i) In Current Account		
(ii) In Other Accounts		
TOTAL		
(I & II)		

Schedule 7 — Balances with Banks and Money at Call & Short Notice

	As on 31.3. — (Current Year)	As on 31.3. — (Previous Year)
I. In India		
(i) Balances with banks		
(a) in Current Accounts		
(b) in Other Deposit Accounts		
(ii) Money at call and short notice		
(a) with Banks		
(b) with other Institutions		
TOTAL		
(I & II)		
II. Outside India		
(i) in Current Accounts		
(ii) in other Deposit Accounts		
(iii) Money at call and short notice		
TOTAL		
GRAND TOTAL (I & II)		

Schedule 8 — Investments

	As on 31.3. — (Current Year)	As on 31.3. — (Previous Year)
I. Investments in India in		
(i) Government Securities		
(ii) Other approved securities		
(iii) Shares		
(iv) Debentures and Bonds		
(v) Subsidiaries and/or Joint Ventures		
(vi) Others (to be specified)		
TOTAL		

Contd.

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	As on 31.3. — (Current Year)	As on 31.3. — (Previous Year)
II. Investments outside India		
(i) Government Securities (Including local authorities)		
(ii) Subsidiaries and/or Joint Ventures abroad		
(iii) Other investments (to be specified)		
TOTAL		
GRAND TOTAL (I & II)		

Schedule 9 — Advances

	As on 31.3. — (Current Year)	As on 31.3. — (Previous Year)
A. (i) Bills purchased and discounted		
(ii) Cash Credits, Overdrafts and Loans payable on demand		
(iii) Term Loans		
TOTAL		
B. (i) Secured by tangible assets		
(ii) Covered by Bank/Government Guarantees		
(iii) Unsecured		
TOTAL		
C. I. Advances in India		
(i) Priority Sectors		
(ii) Public Sector		
(iii) Banks		
(iv) Others		
TOTAL		
II. Advances outside India		
(i) Due from Banks		
(ii) Due from others		
(a) Bills purchased and discounted		
(b) Syndicated Loans		
(c) Others		
TOTAL		
GRAND TOTAL (C. I & II)		

Schedule 10 — Fixed Assets

	As on 31.3. — (Current Year)	As on 31.3. — (Previous Year)
I. Premises		
At cost as on 31st March of the preceding year		
Additions during the year		
Deductions during the year		
Depreciation to date		
II. Other Fixed Assets (including Furniture and Fixtures)		
At cost as on 31st March of the preceding year		
Additions during the year		
Deductions during the year		
Depreciation to date		
TOTAL (I & II)		

Schedule 11 — Other Assets

	As on 31.3. — (Current Year)	As on 31.3. — (Previous Year)
I. Inter-office Adjustments (net)		
II. Interest Accrued		

Contd.

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	As on 31.3. — (Current Year)	As on 31.3. — (Previous Year)
III. Tax paid in advance/Tax deducted at source		
IV. Stationery and Stamps		
V. Non-banking assets acquired in satisfaction of claims		
VI. Others @		
TOTAL		

@ In case there is any unadjusted balance of loss the same may be shown under this item with appropriate footnote.

Schedule 12 — Contingent Liabilities

	As on 31.3. — (Current Year)	As on 31.3. — (Previous Year)
I. Claims against the bank not acknowledged as debts		
II. Liability for partially paid investments		
III. Liability on account of outstanding forward exchange contracts		
IV. Guarantees given on behalf of constituents		
(a) In India		
(b) Outside India		
V. Acceptances, endorsements and other obligations		
VI. Other items for which the bank is contingently liable		
TOTAL		

REVISED FORMAT FOR PROFIT AND LOSS ACCOUNT

Form 'B'

Form of Profit & Loss Account for the year ended 31st March—

('000 omitted)

	Schedule No.	Year ended 31.3.— (Current Year)	Year ended 31.3.— (Previous Year)
I. INCOME			
Interest earned	13		
Other income	14		
TOTAL			
II. EXPENDITURE			
Interest expended	15		
Opening expenses	16		
Provisions and Contingencies			
TOTAL			
III. PROFIT/LOSS			
Net profit/loss (–) for the year			
Profit/Loss (–) brought forward			
TOTAL			
IV. APPROPRIATIONS			
Transfer to Statutory Reserves			
Transfer to other Reserves			
Transfer to Government/Proposed Dividends			
Balance carried over to Balance Sheet			
TOTAL			

Schedule 13 — Interest Earned

	Year ended 31.3.— (Current Year)	Year ended 31.3.— (Previous Year)
I. Interest/Discount on advances/bills		
II. Income on investments		
III. Interest on balances with Reserve Bank of India and other inter-bank funds		
IV. Others		
TOTAL		

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Schedule 14 — Other Income

	Year ended 31.3.— (Current Year)	Year ended 31.3.— (Previous Year)
I. Commission, Exchange and Brokerage		
II. Profit on sale of investments		
Less : Loss on sale of investments		
III. Profit on revaluation of investments		
Less : Loss on revaluation of investments		
IV. Profit on sale of land, building and other assets		
Less : Loss on sale of land, building and other assets		
V. Profit on exchange transactions		
Less : Loss on exchange transactions		
VI. Income earned by way of dividends etc. from subsidiaries/companies and/or joint ventures abroad/in India		
VII. Miscellaneous Income		
TOTAL		

Note: Under items II to V—Loss figures may be shown in brackets.

Schedule 15 — Interest Expended

	Year ended 31.3.— (Current Year)	Year ended 31.3.— (Previous Year)
I. Interest on deposits		
II. Interest on Reserve Bank of India/inter-bank borrowings		
III. Others		
TOTAL		

Schedule 16 — Operating Expenses

	Year ended 31.3.— (Current Year)	Year ended 31.3.— (Previous Year)
I. Payments to and provisions for employees		
II. Rent, Taxes and Lighting		
III. Printing and Stationery		
IV. Advertisement and Publicity		
V. Depreciation on Bank's property		
VI. Directors' fees, allowances and expenses		
VII. Auditor's fees and expenses (including branch auditors)		
VIII. Law Charges		
IX. Postages, Telegrams, Telephones, etc.		
X. Repair and Maintenance		
XI. Insurance		
XII. Other expenditure		
TOTAL		

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Share Capital:

It has always been stated that the subscribed share capital of a banking company should not be less than one-half of its authorized capital. Similarly, its paid-up share capital should not be less than one-half of its subscribed capital.

Contingency Accounts:

These accounts are maintained in order to meet any known contingencies, e.g., provision for taxation, provision for bad and doubtful debt, etc. These accounts also include any unadjusted suspense accounts. The amounts are usually merged with Current Accounts. As a result, the reader/analyst does not know their existence separately.

Bills Payable:

These include unpaid bank drafts, telegraphic transfers, circular note or cash order. In order to remit money from one place to another by a customer, service rendered by a bank in this respect is to grant bank drafts and telegraphic transfers against a nominal charge.

These drafts and telegraphic transfers etc. are paid to the holders by the issuing bank's branches who reimburse the money. Naturally, any such draft issued by a bank but which remains unpaid at the date of the Balance Sheet is treated as a liability of the issuing bank.

Bills for Collection:

These include drafts and hundies drawn by a creditor on his debtor, and the same is lodged with the bank for collection against documents already attached. These are numbered by the bank serially and all information about them is recorded in a book known as Bills for Collection Register. Until they are actually collected they are not recorded in any other account.

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After collection — the entry will be:

Cash A/c	Dr.	Full amount received
To Customer A/c		Balancing figure
" Commission A/c		Bank's Commission

These bills, at the time of preparing Final A/c, are shown on both sides of the Balance Sheet. It will be recorded on the Assets side since the bank will get the payment in due course and also on the Liabilities side since it will have to be accounted for to customers.

These items appear as:

On Liabilities side — Bills for collection, being Bills Received as per contra.

On Assets side — Bills Receivable, being Bills for Collection as per contra.

Acceptance, Endorsements and other obligations:

It is a liability of a bank in respect of bills accepted or endorsed on behalf of its customers including letter of credit issued and guarantees given. A security is usually required for this purpose and a commission is charged by the bank. The customers are liable to pay to the bank for full payment of the bills plus any loss or expenses that may be incurred.

As a result, this item will appear in both sides of the Balance Sheet in the following manner:

On Liabilities side:

Acceptance, Endorsements and other obligations as per contra.

On Assets side:

Constituent's liabilities for acceptance, Endorsements, and other obligations as per contra.

Branch Adjustments:

A banking company may have different branches in different places. As a result, some transactions may take place between the head office of the bank and its branches. Head office passes necessary entries after receiving the periodical statements from the branches.

In the absence of such information, some entries remain unadjusted in the head office books at the time of preparing the final accounts. Therefore, such entries are recorded in the Balance Sheet under

Prepared by K.Kavitha, SampathKumar and R.Jayalakshmi, Asst Prof, Dept of Commerce, KAHE

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the head 'Branch Adjustments'. It may appear on either side of the Balance Sheet depending on the Debit or Credit Balance.

Unexpired Discounts, or Rebates on Bills Discounted:

If a bank discounts a bill or purchases a hundi etc. it receives discount for the full period which is credited to Discount Account. But the point is that the bank is not entitled to take credit for any greater amount of such discount than what has actually been earned to the Balance Sheet date.

As a result, such discounts are apportioned between the current year and the next year and the amount which is carried forward is shown in the Balance Sheet under the head 'Unexpired Discount' or 'Rebate on Bills Discounted'.

Money at Call and Short Notice:

It includes:

- (i) Inter-bank call money and
- (ii) Call money at short notice.

These are actually inter-bank transactions. Under this head, money is borrowed by one bank from another for a period of 3 days to 31 days and, naturally, the bank having surplus money advances such loans to the bank having short supply of money. These transactions are transacted with the help of brokers who charge brokerage usually @ $\frac{1}{2}\%$ from both the banks. The rate of interest, of course, fluctuates every day, depending on the demand and supply of money.

Advances:

It includes the following (if advances are made by Indian banks):

- (i) Loans,
- (ii) Cash Credit,
- (iii) Overdrafts, and
- (iv) Bills discounted and purchased.

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Loans:

A loan is an advance of money made with or without security. A certain amount is advanced for a stipulated period at an agreed rate of interest in a loan account. The rate of interest is lower than rate of interest of cash credit.

Most of the business houses prefer to use cash credit although the rate of interest is higher since the same is most convenient to them.”

Cash Credit:

It is an arrangement made between the bank and its customer so that the former allows the latter to borrow money up to a certain limit. It is not always necessary that the money should immediately be withdrawn. It is usually sanctioned on hypothecation or pledge of stock.

Overdraft:

If a customer requires funds for a short period and he has a current account in a bank, he may be allowed to overdraw his current account with or within a certain limit fixed by the banking authorities.

The rate of interest is generally higher than the rate of interest of Cash Credit. It is advantageous on behalf of the customer since he is to pay interest only on the amount that has already been taken.

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BANK BALANCE SHEET VS COMPANY BALANCE SHEET

	BANK BALANCE SHEET	COMPANY BALANCE SHEET
Definition	Prepared as per the mandate by the Regulatory Authority	Prepared as per the Regulations of International Accounting Standards Board
Objective	To reflect the trade-off between bank's profit and risk	Reflects the financial position of the organization to the stakeholders
Scope	Limited since it is applicable only to banks	Boarder since it is applicable to all sorts of companies
Equation	Assets = liabilities + shareholders' equity (bank's assets and liabilities are much different from any regular company)	Assets = liabilities + shareholders' equity
Complexity	Preparation of balance sheet for a bank is quite complex since bank needs to calculate the "net loans",	Preparation of company balance sheet is much simpler
Time consumption	Bank's balance sheet need a lot of time to prepare	Company's balance sheet does not take a lot of time to prepare
Key concepts	Loans, short term investments and allowances for losses on loans.	Assets, liabilities and shareholders equity.
Mentionable documents	Bank balance sheet mentions reference through 'schedules'.	Company's balance sheet mentions its reference via notes.
Types of balance	In bank balance sheet, the type of balance is average balance	In company balance sheet, the type of balance is ending balance.

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A **Non-performing asset** (NPA) is defined as a credit facility in respect of which the interest and/or installment of Bond finance principal has remained 'past due' for a specified period of time. NPA is used by **financial institutions** that refer to loans that are in jeopardy of **default** the so called **NPL**. Once the borrower has failed to make interest or principal payments for 90 days the loan is considered to be a non-performing asset. Non-performing assets are problematic for financial institutions since they depend on interest payments for income. Troublesome pressure from the economy can lead to a sharp increase in NPLs and often results in massive write-downs.

Description: Banks are required to classify NPAs further into Substandard, Doubtful and Loss assets.

1. Substandard assets: Assets which has remained NPA for a period less than or equal to 12 months.
2. Doubtful assets: An asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months.
3. Loss assets: As per RBI, "Loss asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted, although there may be some salvage or recovery value."

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Problem:1

From the following particulars, prepare a Profit and Loss Account of New Bank Ltd. For the year ended 31.12.2006

Particulars	Amount Rs.(in'000)	Particulars	Amount Rs.(in'000)
Interest on Loans	260	Interest on Cash Credits	225
Interest on Fixed Deposits	280	Rent and Taxes	20
Rebate on Bills Discounted	50	Interest on Overdrafts	56
Commission Charged to Customers	9	Directors and Auditors Fees	4
Establishment Expenses	56	Interest on Savings Bank Accounts	70
Discount on Bills Discounted	200	Postage and Telegrams	2
Interest on Current Accounts	45	Sundry Charges	2
Printing and Advertisements	3		

Solution:

New Bank Ltd
Profit and Loss Account for the year ended 31.12.96

	Schedule No.	Year ended 31.12.96 (Current Year) Rs.(in '000)	Year ended 31.12.95 (Previous Year) Rs.(in '000)
I. Income			
Interest Earned	13	741	
Other Income	14	9	
Total		750	
II. Expenditure			
Interest Expended	15	395	
Operating Expenses	16	87	
Provisions and Contingencies			
Total		482	
III. Profit/Loss:			
Net Profit for the year (I – II)		268	
Profit b/f		-	
Total		268	
IV. Appropriations:			

Prepared by K.Kavitha, SampathKumar and R.Jayalakshmi, Asst Prof, Dept of Commerce, KAHE

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Transfer to statutory reserve (25% of 268)		67	
Transfer to other reserves		-	
Transfer to Government/proposed dividend		-	
Balance c/f to balance sheet		201	

		268	

Note: Transfer to statutory reserve is now increased to 25% of Net Profit from the earlier 20%.

Working notes:

Schedule 13: Interest earned	Rs. (in'000)
Interest on loans	260
Discount on bills discounted	200
Interest on cash credits	225
Interest on overdrafts	56
Total	741

Note: Rebate on bill is the closing rebate and it will be shown in schedule 5 in balance sheet

Schedule 14: Other Income	Rs. (in'000)
Commission charged to customers	9
Total	9

Schedule 15: Interest expended	Rs. (in'000)
Interest on fixed deposit	280
Interest on current accounts	45
Interest on savings bank account	75
Total	395

Schedule 16: Operating expenses	Rs. (in'000)
Establishment expenses	56
Printing and Advertisement	3
Rent and rates	20
Director's and auditor's fees	4
Postage and telegram	2
Sundry charges	2
Total	87

Provisions and Contingencies	Rs.
Provisions and Contingencies	Nil
Total	Nil

KARPAGAM ACADEMY OF HIGHER EDUCATION, COIMBATORE**Class: ILBCOM.CA****Course Code: 17CCU301****Unit V****Course Name: Corporate Accounting****Semester: III****Year: 2017 - 2020 Batch****Problem:2**

From the following information relating to Lakshmi Bank Ltd., prepare the Profit and Loss A/c for the year ended 31st December, 2007.

Particulars	Amount Rs.	Particulars	Amount Rs.
Rent Received	72,000	Salaries and Allowances	2,18,800
Exchange and Commission	32,800	Postage	5,600
Interest on Fixed Deposits	11,00,000	Sundry Charges	4,000
Interest on Savings Bank A/cs	2,72,000	Director's & Auditors fees	16,800
Interest on Overdrafts	2,16,000	Printing	8,000
Discount on Bills Discounted	7,80,000	Law Charges	3,600
Interest on Current Accounts	1,68,000	Locker Rent	1,400
Interest on Cash Credits	8,92,000	Transfer Fees	2,800
Depreciation on bank property	20,000	Interest on Loans	10,36,000

Solution:

The Lakshmi Bank Ltd

Profit and Loss Account for the year ended 31.12.1987

	Schedule No.	Year ended 31.12.1987 Rs.
I. Income		
Interest Earned	13	29,24,000
Other Income	14	1,09,000
Total		30,33,000
II. Expenditure		
Interest Expended	15	15,40,000
Operating Expenses	16	2,76,800
Provisions and Contingencies		----
Total		18,16,800
III. Profit/Loss:		
Net Profit for the year (I – II)		12,16,200
Profit b/f		----

Prepared by K.Kavitha, SampathKumar and R.Jayalakshmi, Asst Prof, Dept of Commerce, KAHE

KARPAGAM ACADEMY OF HIGHER EDUCATION, COIMBATORE**Class: ILBCOM.CA****Course Code: 17CCU301****Unit V****Course Name: Corporate Accounting****Semester: III****Year: 2017 - 2020 Batch**

Total		12,16,200
IV. Appropriations:		
Transfer to statutory reserve (25% of 268)		3,04,050
Transfer to other reserves		----
Transfer to Government/proposed dividend		-----
Balance c/f to balance sheet		9,12,150
		12,16,200

Note: Transfer to statutory reserve has been increased to 25% recently.

Working notes:

Schedule 13: Interest earned	Rs.
Interest on overdrafts	2,16,000
Discount on bills discounted	7,80,000
Interest on cash credits	8,92,000
Interest on loans	10,36,000
Total	29,24,000

Schedule 14: Other Income	Rs.
Locker rent	1,400
Transfer fee	2,800
Exchange and commission	32,800
Rent	72,000
Total	1,09,000

Schedule 15: Interest expended	Rs.
Interest on fixed deposits	11,00,000
Interest on savings bank account	2,72,000
Interest on current accounts	1,68,000
Total	15,40,000

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Schedule 16: Operating expenses	Rs. (in'000)
Depreciation on bank property	20,000
Salaries and allowances	2,18,000
Postage	5,600
Sundry charges	4,000
Director's and auditor's fees	16,800
Printing	8,000
Law charges	3,600
Total	2,76,800

Problem:3

On 31st December 2016. The following balances stood in the books of Asian Bank Ltd., after preparation of its Profit and Loss Account.

Particulars	Amount Rs.(in'000)	Particulars	Amount Rs.(in'000)
Share Capital Issued and Subscribed	4,000	Reserve Fund (u/sec 17)	6,200
Fixed Deposits	42,600	Savings Bank Deposits	19,000
Current Accounts	23,200	Money at Call and Short Notice	1,800
Investments	25,000	Profit and Loss A/c (Cr.) 1 st Jan 2016	1,350
Dividend for 2015	400	Premises	2,950
Cash in Hand	380	Cash with RBI	10,000
Cash with Other Banks	6,000	Bills discounted and Purchased	3,800
Loans, Cash Credits and Overdrafts	51,000	Bills Payable	70
Unclaimed Dividends	60	Rebate on Bills Discounted	50
Short Loans (Borrowings from other Banks)	4,750	Furniture	1,164
Other Assets	336	Net Profit for 2016	1,550

Prepare Balance Sheet of the Bank as on 31st December 2016.

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Solution:

Asian Bank Ltd
Balance Sheet as on 31.12.1986

(000's omitted)

	Schedule No.	As on 31.12.1986 (Rs. In '000)
Capital and Liabilities		
Capital	1	4,000
Reserves and surplus	2	8,700
Deposits	3	84,800
Borrowings	4	4,750
Other liabilities and provisions	5	180
Total		1,02,430
Assets		
Cash and balance with RBI	6	10,380
Balance with banks & money at call and short notice	7	7,800
Investments	8	25,000
Advances	9	54,800
Fixed assets	10	4,114
Other assets	11	336
Total		1,02,430
Contingent liabilities	12	Nil
Bills for collection	-	Nil

Working notes:

Schedule 1: Capital	(Rs. In '000)
Issued and subscribed share capital	4,000
Total	4,000

Schedule 2: Reserves and surplus	(Rs. In '000)
Reserve fund	6,200
Profit and loss A/c (1.1.86)	1,350
Less: Dividend for 1985	<u>400</u>
	950
Add: Net profit for 1986 after deducting statutory reserve [15,50,000 – (15,50,000*25%)]	<u>1,162.5</u>
Statutory reserve	387.5
Total	8,700

Prepared by K.Kavitha, SampathKumar and R.Jayalakshmi, Asst Prof, Dept of Commerce, KAHE

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Note: Transfer to statutory reserve now at 25% of Net Profit.

Schedule 3: Deposits	(Rs. In '000)
Fixed deposits	42,600
Savings bank account	19,000
Current accounts	23,200
Total	84,800

Schedule 4: Borrowings	(Rs. in'000)
Short loans	4,750
Total	4,750

Schedule 5: Other liabilities and provisions	(Rs. In '000)
Bills payable	70
Unclaimed dividend	60
Rebate on bills discounted	50
Total	180

Schedule 6: Cash and balance with RBI	(Rs. in'000)
Cash in hand	380
Cash with RBI	10,000
Total	10,380

Schedule 7: Balance with banks and money at call and short notice	(Rs. in'000)
Money at call and short notice	1,800
Cash with other banks	6,000
Total	7,800

Schedule 8: Investments	(Rs. in'000)
Investments	25,000
Total	25,000

Schedule 9: Advances	(Rs. in'000)
Bills discounted and purchased	3,800
Loans, cash credits and overdrafts	51,000
Total	54,800

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Schedule 10: Fixed Assets	(Rs. in'000)
Premises	2,950
Furniture	1,164
Total	4,114

Schedule 11: Other assets	(Rs. in'000)
Other assets	336
Total	336

Schedule 12: Contingent liabilities	(Rs. in'000)
Bills for collection	Nil
Total	Nil

Problem:4

The following figures are extracted from the books of Bheema Bank Ltd., as on 31.12.2007

Particulars	Amount Rs.	Particulars	Amount Rs.
Interest and Discount received	36,95,738	Commission, Exchange and Brokerage	2,00,000
Directors' fees and allowances	55,000	Postage and Telegrams	62,313
Stationery	17,625	Preliminary Expenses	15,000
Interest paid on Deposits	20,32,542	Rent Received	55,000
Salaries and Allowances	1,75,000	Rent and Taxes paid	87,973
Profit on Sale of Investments	2,00,000	Depreciation on Building	27,375
Audit Fees	5,000		

Additional Information:

- 1) A customer to whom a sum of Rs. 10,00,000 has been advanced has become insolvent. It is expected that only 50% can be recovered from his private estate.
 - 2) For the remaining debts, a provision of Rs. 1,50,000 was necessary.
 - 3) Rebate on Bills Discounted as on 31.12.2006 Rs. 12,000 and on 31.12.2007 Rs. 16,000
 - 4) Provide Rs. 6,50,000 for Taxation
 - 5) Write off all Preliminary Expenses.
- Prepare Profit and Loss A/c in accordance with the law.

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Solution:

Bheema Bank Ltd Profit and Loss Account for the year ended 31.12.87

	Schedule No.	Year ended 31.12.87s (Current Year) Rs.
I. Income		
Interest Earned	13	36,91,000
Other Income	14	4,55,000
Total		41,46,738
II. Expenditure		
Interest Expended	15	20,32,542
Operating Expenses	16	4,45,286
Provisions and Contingencies		13,00,000
Total		37,77,828
III. Profit/Loss:		
Net Profit for the year (I – II)		3,68,910
Profit b/f		----
Total		3,68,910
IV. Appropriations:		
Transfer to statutory reserve (25% of 3,68,910)		92,228
Transfer to other reserves		----
Transfer to Government/proposed dividend		-----
Balance c/f to balance sheet		2,76,682
		3,68,910

Note: Transfer to statutory reserve is now at 25%.

Working notes:

Schedule 13: Interest earned	Rs.
Interest and Discount received	36,95,738
Add: Rebate on bills discounted on 31.12.86	12,000
Less: Rebate on bills discounted on 31.12.87	37,07,738
	16,000
Total	36,91,738

Prepared by K.Kavitha, SampathKumar and R.Jayalakshmi, Asst Prof, Dept of Commerce, KAHE

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Schedule 14: Other Income	Rs.
Commission, Exchange and Brokerage	2,00,000
Rent received	55,000
Profit on sale of investments	2,00,000
Total	4,55,000

Schedule 15: Interest expended	Rs.
Interest paid on deposits	20,32,542
Total	20,32,542

Schedule 16: Operating expenses	Rs.
Director's fees and allowances	55,000
Postage and telegram	62,313
Stationery	17,625
Preliminary expenses	15,000
Salaries and allowances	1,75,000
Rent and taxes paid	87,973
Depreciation on building	27,375
Audit fees	5,000
Law charges	
Total	4,45,286

Provisions and Contingencies	Rs.
Bad debts (10,00,000 * 50%)	5,00,000
Provision for Bad debts	1,50,000
Provision for taxation	6,50,000
Total	13,00,000

KARPAGAM ACADEMY OF HIGHER EDUCATION, COIMBATORE**Class: ILBCOM.CA****Course Code: 17CCU301****Unit V****Course Name: Corporate Accounting****Semester: III****Year: 2017 - 2020 Batch****Problem:5**

From the following information, prepare Profit and Loss Account of Swadesh Bank Ltd., for the year ended 31st December 2007

Particulars	Amount Rs. ('000)	Particulars	Amount Rs. ('000)
Interest on Fixed Deposits	430	Interest on Loans	650
Discount on Bills Discounted	415	Interest on Overdrafts	210
Interest on Cash Credits	410	Interest on Savings Bank Deposits	125
Salaries and Allowances	140	Rent, Taxes, Insurance and Lighting	40
Locker Rent	5	Repairs to Bank Property	2
Commission, exchange and brokerage	24	Directors' fees and allowances	25
Transfer Fees	2	Provident Fund Contribution	12
Local Committee fees and allowances	10	Audit fees	12
Printing and Stationery	4	Loss on Sale of Government Securities	5
Loss on Sale of Furniture	2	Postage and Telegrams	2
Depreciation	10	Advertisement	4
Legal Charges	3		

Additional Information :

- (i) Rebate on Bills Discounted on 31st December, 2006 Rs. 19,000
- (ii) Rebate on Bills Discounted on 31st December, 2004 Rs. 26,000
- (iii) Bad Debts to be written off Rs. 40,000
- (iv) Provision for Taxation Rs. 50,000

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Solution:

Swadesh Bank Ltd Profit and Loss Account for the year ended 31.12.87

	Schedule No.	Year ended 31.12.1987 Rs. (in'000)
I. Income		
Interest Earned	13	1,678
Other Income	14	24
Total		1,702
II. Expenditure		
Interest Expended	15	555
Operating Expenses	16	264
Provisions and Contingencies		90
Total		909
III. Profit/Loss:		
Net Profit for the year (I – II)		793
Profit b/f		----
Total		793
IV. Appropriations:		
Transfer to statutory reserve (25% of 7,93,000)		198.25
Transfer to other reserves		----
Transfer to Government/proposed dividend		-----
Balance c/f to balance sheet		594.75
		793.0

Note: Transfer to statutory reserve is now at 25%.

Working notes:

Schedule 13: Interest earned	Rs. (in'000)
Interest on loans	650
Discount on bills discounted	415
Interest on overdrafts	210
Interest on cash credits	410
	1,685
Add: opening rebate on bills discounted	19
	1,704
Less: closing rebate on bills discounted	26
Total	1,678

Prepared by K.Kavitha, SampathKumar and R.Jayalakshmi, Asst Prof, Dept of Commerce, KAHE

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		Rs. (in'000)
Schedule 14: Other Income		
Locker rent		5
Commission, exchange and brokerage		24
Transfer fee		2
		<hr/> 31
Less: Loss on sale of Govt. securities	5000	
Loss on sale of furniture	<u>2000</u>	7
Total		24

		Rs. (in'000)
Schedule 15: Interest expended		
Interest on fixed deposit		430
Interest on savings bank account		125
Total		555

		Rs. (in'000)
Schedule 16: Operating expenses		
Salaries and allowances		140
Rent, taxes, insurance and lighting		40
Repairs to bank property		2
Director's fees and allowances		25
Provident fund contribution		12
Local committee fees and allowances		10
Audit fees		12
Printing and stationary		4
Postage and telegram		2
Depreciation		10
Advertisement		4
Legal charges		3
Total		264

		Rs.
Provisions and Contingencies		
Bad debts written off		40
Provision for taxation		50
Total		90

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Problem:6

From the following information, prepare the Profit and Loss A/c of ABC Bank Ltd., for the year ended on 31st March, 2012 in the prescribed form.

Particulars	Amount Rs.	Particulars	Amount Rs.
Interest on Loan	2,59,000	Interest on Fixed Deposits	2,75,000
Rebate on Bills Discounted required	49,000	Commission	8,200
Establishment Expenses	54,000	Discount on Bills Discounted	1,95,000
Interest on Cash Credit	2,23,000	Interest on Current Account	42,000
Rent and Taxes	18,000	Interest on Overdraft	1,54,000
Director's Fees	3,000	Auditors Fees	1,200
Interest on Savings Bank Deposit	68,000	Postage and Telegrams	1,400
Printing and Stationery	2,900	Sundry Charges	1,700

Bad Debts to be written off amounted to Rs. 40,000. Provision for Taxation may be made @ 55 %. Balance of Profit from last year was Rs. 1,20,000.

The Directors have recommended a dividend of Rs. 20,000 for the Share Holders.

Solution:

ABC Bank Ltd Profit and Loss Account for the year ended 31.3.1992

	Schedule No.	Year ended 31.3.1992 Rs.
I. Income		
Interest Earned	13	7,82,000
Other Income	14	8,200
Total		7,90,200
II. Expenditure		
Interest Expended	15	3,85,000
Operating Expenses	16	82,800
Provisions and Contingencies		1,95,650
Total		6,62,850
III. Profit/Loss:		
Net Profit for the year (I – II)		1,27,350
Profit b/f		1,20,000
Total		2,47,350

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IV. Appropriations:		
Transfer to statutory reserve (25% of 1,27,350)		31,838
Transfer to other reserves		----
Transfer to Government/proposed dividend		20,000
Balance c/f to balance sheet		1,95,512
		2,47,350

Working notes:

Schedule 13: Interest earned	Year ended 31.3.1992 Rs.
Interest on loan	2,59,000
Discount on bills discounted	1,95,000
Interest on cash credit	2,23,000
Interest on overdrafts	1,54,000
	8,31,000
Less: Rebate on bills discounted on 31.12.87	49,000
Total	7,82,000

Note: Transfer to statutory reserve is to be made now at 25%.

Schedule 14: Other Income	Rs.
Commission,	8,200
Total	8,200

Schedule 15: Interest expended	Rs.
Interest on fixed deposits	2,75,000
Interest on current account	42,000
Interest on savings bank deposits	68,000
Total	3,85,000

KARPAGAM ACADEMY OF HIGHER EDUCATION, COIMBATORE**Class: II.BCOM.CA****Course Code: 17CCU301****Unit V****Course Name: Corporate Accounting****Semester: III****Year: 2017 - 2020 Batch**

Schedule 16: Operating expenses	Rs.
Establishment	54,000
Rent and rates	18,000
Director's fees	3,000
Auditor's fees	1,200
Postage and telegram	1,400
Printing and stationary	2,900
Sundry charges	1,700
Total	82,200

Provisions and Contingencies	Rs.
Bad debts written off	40,000
Provision for taxation (2,83,000 * 55%)	1,55,650
(7,82,000 + 8,200) – (3,85,000 + 82,200 + 40,000) * 55%	
Total	1,95,650

Problem:7

From the books of accounts of new Bharat Bank Ltd., as on 31st March, 2006 the following, particulars regarding loans and advances given by the Bank in India are available :

Particulars	Amount Rs.
Loans to Corporate Sector fully secured (excluding banks but including companies in which directors are interested)	10,00,000
Loan to Vijaya Bank Ltd., fully secured	3,00,000
Debts due to officers (excluding directors, fully secured)	2,00,000
Loans to non – corporate sector – fully secured	9,00,000
Loans to Nagarik Bank Ltd., fully secured	4,00,000
Debts due by Manoj, director of the bank – fully secured	1,00,000
Debts considered good which are unsecured	5,00,000
Debts due by companies in which the directors are interested, fully secured	6,00,000
Maximum Amount of debts at any time during the year	15,00,000
Doubtful Debts	50,000
Provision for bad and doubtful debts	75,000
Maximum amount of debts due by officers and directors at any time during the year	5,00,000

You are required to show how the items are statutorily required to be entered in the Balance Sheet of the bank.

KARPAGAM ACADEMY OF HIGHER EDUCATION, COIMBATORE**Class: ILBCOM.CA****Course Code: 17CCU301****Unit V****Course Name: Corporate Accounting****Semester: III****Year: 2017 - 2020 Batch****Solution:****New Bharat Bank Ltd
Schedule 9: Advances**

	(Rs. in'000)
A. (1) Bills purchased and discounted	3,400
(2) Cash credit, overdraft and loans payable on demand	---
(3) Term loans	---
Total	3,400
B (1) Secured by transferable assets	2,900
(2) Covered by Bank / Government guarantees	---
(3) Unsecured	500
Total	3,400
C. (i) Advances in India	
(1) Private sector	---
(2) Public sector	---
(3) Banks	700
(4) Others	2,700
Total	3,400
(ii) Advances outside India	
(1) Due from Banks	---
(2) Due from others	---
(a) Bills payable and discounted	---
(b) Syndicated loans	---
(c) Others	---
Total	---
Grand total of (i) and (ii)	3,400s

KARPAGAM ACADEMY OF HIGHER EDUCATION, COIMBATORE

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Course Code: 17CCU301

Unit V

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Problem:8

From the following particulars of XY Bank Ltd., having its own premises, prepare the Balance Sheet in the prescribed form as on 31st December 2015

Particulars	Amount Rs. (in '000)	Particulars	Amount Rs. (in '000)
Authorised Capital	4,000	Investments	7,000
Subscribed Capital 4,00,000 shares of Rs. 10 each, Rs. 5 Paid	2,000	Bills Discounted (in India)	15,000
Profit and Loss (Cr.)	850	Endorsement on Bills for Collection	100
Liability of Customers for Acceptance	5,000	Money at Call and Short Notice	9,000
Cash in Hand	2,000	Cash with RBI	4,000
Reserve	3,000	Cash with State Bank	4,000
Letters of Credit Issued	500	Telegraphic transfer payable	800
Bank drafts payable	1,200	Short Loans	40
Rebate on Bills Discounted	10	Acceptances for Customers	5,000
Loans and Advances	10,000	Cash Credits	10,000
Overdrafts	1,000	Bills Purchased (payable outside India)	1,000
Current and Deposit Accounts	56,000	Investment Fluctuation Fund	100
Bills for Collection	100		

Solution:

XY Bank Ltd
Trial Balance as on 31.12.1995

(Rs. in'000)

	Debit balance Rs.	Credit balance Rs.
Investments	7,000	
Bills discounted	15,000	
Endorsement on bills for collection	100	
Liability of customers for acceptances	5,000	
Money at call and short notice	9,000	
Cash in hand	2,000	
Cash with RBI	4,000	
Cash with SBI	4,000	
Letters of credit issued	500	
Loans and advances	10,000	

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Cash credit	10,000	
Overdrafts	1,000	
Bills purchased	1,000	
Premises (bal. fig)	1,000	
Subscribed capital		2,000
Profit and loss A/c		850
Endorsement on bills for collection		100
Acceptances for customers		5,000
Reserves		3,000
Letters of credit issued		500
Telegraphic transfer payable		800
B.D. payable		1,200
Short loans		40
Rebate on bills discounted		10
Current deposit account		56,000
Investment fluctuation fund		100
	69,600	69,600

XY Bank Ltd
Balance Sheet as on 31.12.1995

(Rs. in'000)

	Schedule No.	As on 31.12.1995 (Rs. in'000)
Capital and Liabilities		
Capital	1	2,000
Reserves and surplus	2	3,950
Deposits	3	56,000
Borrowings	4	40
Other liabilities and provisions	5	2,010
Total		64,000
Assets		
Cash and balance with RBI	6	6,000
Balance with banks & money at call and short notice	7	13,000
Investments	8	7,000
Advances	9	37,000
Fixed assets	10	1,000
Other assets	11	Nil
Total		64,000
Contingent liabilities	12	5,600
Bills for collection	-	Nil

Prepared by K.Kavitha, SampathKumar and R.Jayalakshmi, Asst Prof, Dept of Commerce, KAHE

KARPAGAM ACADEMY OF HIGHER EDUCATION, COIMBATORE**Class: ILBCOM.CA****Course Code: 17CCU301****Unit V****Course Name: Corporate Accounting****Semester: III****Year: 2017 - 2020 Batch**

Working notes:

Schedule 1: Capital	(Rs. in'000)
Authorised, issued and subscribed share capital 4,00,000 shares of Rs.10 each	4,000
Called up and paid up capital 4,00,000 shares of Rs.10 each, Rs.5 called and paid	2,000
Total	2,000

Schedule 2: Reserves and surplus	(Rs. in'000)
Reserve	3,000
Profit and loss A/c	850
Investment fluctuation fund	100
Total	3,950

Schedule 3: Deposits	(Rs. in'000)
Current and Deposit account	56,000
Total	56,000

Schedule 4: Borrowings	(Rs. in'000)
Short loans	40
Total	40

Schedule 5: Other liabilities and provisions	(Rs. in'000)
Telegraphic transfers payable	800
Bank drafts payable	1,200
Rebate on bills discounted	10
Total	2,010

Schedule 6: Cash and balance with RBI	(Rs. in'000)
Cash with RBI	4,000
Cash in hand	2,000
Total	6,000

KARPAGAM ACADEMY OF HIGHER EDUCATION, COIMBATORE**Class: IILBCOM.CA****Course Code: 17CCU301****Unit V****Course Name: Corporate Accounting****Semester: III****Year: 2017 - 2020 Batch**

Schedule 7: Balance with banks and money at call and short notice	(Rs. in'000)
Money at call and short notice	9,000
Cash with other banks	4,000
Total	13,000

Schedule 8: Investments	(Rs. in'000)
Investments	7,000
Total	

Schedule 9: Advances	(Rs. in'000)
Loans and advances	10,000
Bills discounted	15,000
Cash credits	10,000
Overdrafts	1,000
Bills purchased	1,000
Total	37,000

Schedule 10: Fixed Assets	(Rs. in'000)
Premises	1,000
Total	1,000

Schedule 11: Other assets	(Rs. in'000)
Other assets	Nil
Total	Nil

Schedule 12: Contingent liabilities	(Rs. in'000)
Endorsement on bills for collection	100
Liability for customers acceptances	5,000
Letters of credit issued	500
Bills for collection	Nil
Total	5,600

Notes: The contra items were shown on both sides of the balance sheet in the old form. After 1991, only one figure is taken as contingent liability and the contra item is ignored.

KARPAGAM ACADEMY OF HIGHER EDUCATION, COIMBATORE

Class: ILBCOM.CA

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POSSIBLE QUESTION

PART – B (2 MARKS)

1. What do you understand by the term Capital Profits?
2. What do you understand by the term Cash Reserves?
3. State any four business of Banking Companies.
4. Write a short note on Non – performing Assets.
5. What do you understand by the term ‘Contingent Liabilities’?
6. What is Rebate on bills discounted?
7. What is statutory reserve?
8. What do you understand by contingent liability?
9. Write a short note on Standard Assets.
10. Write a short note on bills for collection.

PART – C (6 MARKS)

1. From the following particulars, prepare profit & loss account of Krishna Bank Ltd. for 1999-2000.

	Rs.
Interest on loans	34900
Interest on fixed deposits	36500
Rebate on bills discounted	4800
Commission charged on customers	910
Office expenses	15500
Discount on Bills discounted	19400
Interest on cash credits	22400
Balance of profit & Loss A/c.	1200
Rent & taxes	1800
Interest on overdraft	12800
Director's remuneration	420
Interest on savings deposits accounts	6900
Postal expenses	150
Printing & stationery	390
Other expenses	180

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2. From the following particulars, prepare profit & loss account of Mysore Bank Ltd. for the year ended on 31.03.01

	Rs.
Interest on loans	51800
Interest on fixed deposits	55000
Commission received	1600
Salaries and allowances	10800
Discount on bills discounted	29200
Rebate on bills discounted	9800
Interest on cash credits	44600
Interest on current accounts	8400
Rent & Taxes	3600
Interest on overdrafts	30800
Director's fees	600
Auditor's fees	200
Interest on saving bank deposits	13600
Postage & telegrams	300
Printing & stationery	600
Locker rent	200
Transfer fees	100
Depreciation on bank properties	1000
Sundry charges	400

Other Information:

- i. Provision for bad debts Rs.8000
- ii. Provision for Income tax Rs.30000

3. From the following particulars, prepare profit & loss account of New Bank Ltd. for the year ended 31.03.96

	Rs.
Interest on loans	260000
Interest on cash credits	225000
Interest on fixed deposits	280000
Rent & Taxes	20000
Interest on overdrafts	56000
Commission charged to customers	9000
Director's and Auditor's Fees	4500
Establishment expenses	56000
Interest on saving bank accounts	70000
Discount on bills discounted	200000
Postage & Telegrams	1500
Printing & Advertisement	3000
Sundry charges	1800

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4. From the following information you are required to prepare profit & loss account of P.N. Bank for the year ended on 31.03.98 under the provisions of the act applicable thereto:

	Rs. (in '000)
Interest on loans	518
Interest on cash credits	446
Discount on bills discounted	390
Interest on overdrafts	108
Interest on saving bank deposits	220
Interest on fixed deposits	554
Commission, Exchange & Brokerage	16.4
Rent, Taxes & Lighting	36
Auditor's fees	2.4
Postage, telegrams & telephones	2.8
Sundry charges	2
Advertisement & Publicity	1.4
Director's fees	6
Printing & stationery	0.4
Law charges	1.4
Payment to Employees	108
Locker rent	0.7
Transfer fees	1.4
Depreciation on bank property	10

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5. From the following information, prepare profit & loss account of Thrifty Bank for the year ended 31.03.98

	Rs. (in '000)
Interest on loans	2590
Interest on fixed deposits	3170
Commission	82
Payment to employees	540
Discount on bills discounted	1060
Interest on Cash credits	2230
Rent, Taxes & Lighting	180
Interest on overdrafts	1540
Director's fees, Allowances & Expenses	30
Auditor's fees & Expenses	12
Interest on Savings Bank deposits	680
Postage, Telegrams & telephones	14
Printing & Stationery	29
Sundry charges	17

Additional Information:

- Provide for contingences Rs.200000
- Transfer Rs.1557000 to Reserve fund
- Transfer Rs.200000 to Central government

6. From the following balances, prepare the Balance Sheet of Lucky Bank Ltd., as on 31.03.02.

	Rs.		Rs.
Share capital (2000 shares)	200000	Money at call	900000
Premises	100000	Profit & Loss A/c. (cr.)	45000
Rebate on Bills Discounted	5000	Investments	700000
Traveller's Cheque	200000	Bills purchased	1500000
Deposits	5600000	Acceptances for customers	500000
Loans	2200000	Bills for collection	400000
Reserves	300000	Depreciation Fund on premises	10000
Cash in hand	30000	Cash with RBI	520000
Cash with other Bank	450000	Pension Fund	40000

The following were completely omitted while the above balances were calculated. They should be adjusted suitably.

- Travellers Cheque paid Rs.10000
- Money at call recovered Rs.20000

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7. Indian Bank Ltd. presents its ledger balances on 31.03.2015

	Rs.
loans	400000
Cash credits	100000
Overdrafts	70000
Premises	100000
Investments	800000
Salaries	56000
General Expenses	54000
Rent, Rates & Taxes	4600
Director's fees	3600
Stock of Stationery	17000
Bills purchased	92000
Cash in hand	200000
Cash with RBI	186000
Money at Call	160000
Share capital	1000000
Reserve fund	500000
Current A/c.	200000
Fixed deposit	250000
S.B. Deposit	50000
Cash certificates	50000
Profit/Loss A/c. 01.04.00 (Cr.)	32000
Interest & Discounts	256000
Interim Dividend	34000
Shares in company	100000
Recurring Deposits	40000

Other Information:

- i. Provide for doubtful debts Rs.10000
- ii. Interest receivable on investments Rs.16000
- iii. Unexpired discounts Rs.760
- iv. Interim dividend declared was 4% actual
- v. Endorsement and guarantee Rs.200000
- vi. Additions made to premises during the year Rs.10000
- vii. Depreciate premises at 5% on opening balance.

Prepare Profit & Loss A/c. and Balance Sheet.

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8. From the following balances extracted from the books of Srinidhi Bank Ltd., prepare Profit & Loss A/c. & Balance Sheet as at 31.03.03.

	Debit	Credit
Share capital		150000
General Reserve		61500
Profit & Loss A/c.		60000
Money at call and short notice	22500	
Deposits		889500
Cash in hand	30000	
Cash with RBI	45000	
Borrowings		90000
Bills Payable		24000
Staff Security Deposits		10500
Investments	96000	
Buildings	68400	
Balance with other banks	57000	
Cash credits	795000	
Interest on deposits and borrowings	118500	
Bills purchased	180000	
Discount on bills		15000
Commission and Brokerage		13500
Interest on loans		175500
Income from investments		8700
Salary and other expenses	72000	
Audit fees	5100	
Postage, printing & stationery	6300	
Depreciation on Assets	2400	
	14,98,200	14,98,200

Other Information:

- Provide Rs.10000 for rebate on bills discounted
- Bills for collection Rs.150000 and endorsement Rs.140000
- Provide Income Tax @ 40% of Net Profits

KARPAGAM ACADEMY OF HIGHER EDUCATION, COIMBATORE**Class: ILBCOM.CA****Course Code: 17CCU301****Unit V****Course Name: Corporate Accounting****Semester: III****Year: 2017 - 2020 Batch**

9. Following is the Trial Balance of Modern Bank Ltd., as on 31.03.02. Prepare Bank final accounts.

Debit Balance:	Rs.
Premises	210000
Money at call and short notice	250000
Furniture	25000
Cash in hand	250000
Cash at Bank	300000
Investments	150000
Loan & cash credit	1123500
Interest on deposits	150000
Audit fees	5000
Salaries	40000
Director's fees	2500
Printing & Stationery	2500
Depreciation	5000
Non-Banking Assets	25000
Other Expenditure	1500
	25,40,000
Credit Balance:	
Interest & Discount	250000
Share Capital	500000
Reserve fund	250000
Deposit	750000
Telegraphic transfer	250000
Traveller's letter of credit	250000
Pay order and gift cheques	50000
Pension fund	75000
Borrowings from banks	50000
Unclaimed Dividend	30000
Rent	10000
Commission received	40000
Profit & Loss A/c.	30000
Bills payable	5000
	25,40,000

Other Information:

- Provide Rs.2500 for rebate on bills discounted
- Liabilities on bills rediscounted Rs.5000
- Bills for collection amounted to Rs.150000
- Provide Rs.500 for bad debts
- Provide for income tax Rs.2000
- Director's proposed 5% dividend on share capital
- Liabilities outstanding on forward exchange contract Rs.2500

KARPAGAM ACADEMY OF HIGHER EDUCATION, COIMBATORE**Class: ILBCOM.CA****Course Code: 17CCU301****Unit V****Course Name: Corporate Accounting****Semester: III****Year: 2017 - 2020 Batch**

10. The following are the balances of City Bank Ltd., you are required to prepare the Profit & Loss A/c. & the Balance Sheet as at 31.03.98

	Debit	Credit
Share capital: 2000 Equity shares of Rs.500 each Rs.150 paid up		300000
Bad debts written off	12500	
Reserve fund investments	200000	
General expenses	69500	
Current Accounts		2000000
Interest paid on deposits	16000	
Deposit accounts		700000
Profit & Loss A/c.		25000
Acceptances for customers	150000	
Discount received		58000
Endorsement and Guarantee	7500	
Commission & Exchange		5000
Cash on hand	25000	
Interest Received		25000
Cash in RBI	200000	
Endorsement and Guarantee		7500
Owings by foreign correspondents	20000	
Customers liability for acceptances		150000
Borrowings from banks		650000
Loans and Advances	1550000	
Investments	1000000	
Bills discounted	650000	
Premises	220000	
Statutory Reserve		200000
	41,20,500	41,20,500

Other Information:

- Interim dividend paid during the year Rs.20000
- Provide for rebate on bills discounted Rs.6000 and for income tax reserve Rs.15000.

KARPAGAM ACADEMY OF HIGHER EDUCATION, COIMBATORE**Class: ILBCOM.CA****Course Code: 17CCU301****Unit V****Course Name: Corporate Accounting****Semester: III****Year: 2017 - 2020 Batch**

11. From the following Trial Balance of Canara Bank Ltd., prepare the Profit & Loss A/c. for the year ending 31.03.99 & Balance Sheet as on that date

	Debit	Credit
Paid capital		1000000
Money at call and short notice	400000	
Reserve fund		250000
Cash on hand	500000	
Cash with RBI	200000	
Fixed deposits		1200000
Loans, cash creditors etc	1500000	
Investments	200000	
Borrowings from City Bank		300000
Pension fund		100000
Unclaimed Dividend		50000
Furniture less depreciation	80000	
Premises less depreciation	320000	
Rent		10000
Interest & discounts		600000
Commission received		60000
Salaries and allowances	90000	
Interest on deposits and borrowings	310000	
Audit fees	8000	
Directors fees	7000	
Depreciation on Bank property	9000	
Printing & stationery	4000	
Other expenses	2000	
Profit & loss A/c. 01.04.98		60000
	36,30,000	36,30,000

Other Information:

- Provide Rs.5000 for rebate on bills discounted
- Provide Rs.22000 for bad debts
- Bills for collection on behalf of customers Rs.50000
- Provide for taxation Rs.4000.

KARPAGAM ACADEMY OF HIGHER EDUCATION, COIMBATORE**Class: ILBCOM.CA****Course Code: 17CCU301****Unit V****Course Name: Corporate Accounting****Semester: III****Year: 2017 - 2020 Batch**

12. From the following trial balance of Indian Bank Ltd. as on 31.03.02. Prepare Bank Final accounts:

	Debit	Credit
Issued and paid-up capital shares of Rs.100/- each		1500000
Profit & Loss A/c. balance as on 01.04.01		40000
Fixed deposits		2600000
Savings Bank A/c.		2100000
Current A/c.		3400000
Commission & Exchange		102000
Bills Payable		100000
Interest & discount		600000
Investment Reserve		25000
Reserve fund		310000
Investment in government securities	575000	
Cash in hand and with RBI	700000	
Deposit with other banks	1245000	
Money at call and short notice	400000	
Loans, Advances & Overdrafts	7400000	
Furniture	45000	
Buildings	200000	
Salaries and allowances to staff	85000	
Interest on deposits and borrowings	175000	
Unexpired Insurance	450	
Stamps in hand	150	
Contribution to Provident fund	18400	
Director's fees	4500	
Audit fees	1500	
Printing & stationery	3550	
Rent, Rates & Taxes	6450	
Postage & telegram	800	
Branch adjustment		25000
Pension fund		58500
	1,08,60,800	1,08,60,800

Other Information:

- i. Market value of investments as on 31.03.02 was Rs.548000. The investments were written down to this figure
- ii. Provide for:
 - a. Taxation Rs.75000
 - b. Doubtful debts Rs.50000
 - c. Rebate on bills discounted Rs.25000
- iii. Acceptances, endorsements and other obligation Rs.250000
- iv. Depreciate Building at 2½ %

KARPAGAM ACADEMY OF HIGHER EDUCATION, COIMBATORE**Class: ILBCOM.CA****Course Code: 17CCU301****Unit V****Course Name: Corporate Accounting****Semester: III****Year: 2017 - 2020 Batch**

13. The following is the trial balance extracted from the books of Vysya Bank. You are required to prepare profit & loss A/c. and the balance sheet as at 31.03.04 after taking into consideration the adjustments given below:

	Debit	Credit
60000 Equity shares of Rs.10 each		600000
300000 8% Preferential shares of Rs.10 each		300000
Fixed deposit		350000
Savings Bank account		250000
Current A/c.		600000
Reserve fund		300000
Interest & discount		300000
Money at call & short notice	300000	
Cash in hand	300000	
Cash at bank	360000	
Investment in government	180000	
Loans & cash credits	1348200	
Furniture	30000	
Premises	252000	
Interest on deposits	180000	
Salaries	48000	
Audit fees	6000	
Director's fees	3000	
Depreciation on Bank property	6000	
Printing & stationery	3000	
Non-Banking Assets	30000	
Other Expenditure	1800	
Profit & Loss A/c. 01.04.03		42000
Unclaimed dividend		120000
Pension fund		36000
Borrowings		90000
Rent		12000
Commission		48000
	30,48,000	30,48,000

Other Information:

- Provide for bad debts Rs.10000
- Provide for rebate on bills discounted Rs.4000
- Acceptance on behalf of customers Rs.500000
- Bills for collection Rs.480000.

KARPAGAM ACADEMY OF HIGHER EDUCATION						
Coimbatore - 641021						
DEPARTMENT OF COMMERCE						
CORPORATE ACCOUNTING (17CCU301)						
UNIT V						
S. No.	Questions	Option 1	Option 2	Option3	Option4	Answer
1	. ....is called a factory of credit.	Company	Firm	Bank	None of these	Bank
2	Banking companies are governed in India by	Banking Regulation Act	Indian Companies Act	Reserve Bank of India Act	All of these	Banking Regulation Act
3	CRR stands for	Current Reserve Ratio	Capital Reserve Ratio	Cash Reserve Ratio	Capital Redemption Ratio	Cash Reserve Ratio
4	SLR stands for	Savings Level Ratio	Statutory Liquidity Ratio	Standard Liquidity Ratio	None of these	Statutory Liquidity Ratio
5	The method of rapidly posting entries in the books of banks is called as ...	Single Entry	Cash Method	Slip System	None of these	Slip System
6	The P&L A/c of Banking Companies are prepared as per .....of Bank	Form A of Schedule III	Form B of Schedule III	Form A of Schedule VI	Form B of Schedule VI	Form B of Schedule III
7	.....of profit is transferred to statutory	10%	20%	25%	30%	25%
8	Banks show the provision for income tax under the head	Contingent liabilities	Deposits	Other liabilities and provisions	Borrowings	Other liabilities and provisions
9	Rebate on bills discounted is	An income accrued but not received	A liability	An expense	Income received in advance	Income received in advance
10	NPA stands for.....	Non- Performing Assets	Normal Performing Assets	National Performing Asset	None of these	An income accrued but not received
11	Schedule 1 is concerned with	Cash and balance with RBI	Capital	Reserves and Surplus	Investments	Normal Performing Assets

12	..... is shown under Schedule 15.	Interest earned	Profit	Interest Expended	Appropriations	Interest Expended
13	Acceptance, endorsements and other obligations come under the head...	Provisions and Contingencies	Contingent liabilities	Deposits	Borrowings	Contingent liabilities
14	Assets are NPAs for a period not exceeding 12 months are called	Standard Assets	Substandard Assets	Doubtful Assets	Loss Assets	Substandard Assets
15	Assets are NPAs for a period exceeding 12 months are called	Standard Assets	Substandard Assets	Doubtful Assets	Loss Assets	Doubtful Assets
16	.....is a form of agreement between two parties in which one party agrees	Contract	Insurance	Banking	Mutual fund	Insurance
17	The agreement of insurance is called as	Policy	Premium	Annuity	None of these	Policy
18	The consideration in insurance for covering the risk is called	Claim	Premium	Annuity	None of these	Premium
19	.....is the party who undertakes the risk in insurance.	Insurer	Assurer	Underwriter	All of these	All of these
20	The party whose risk is covered in insurance is known as	Insurer	Insured	Underwriter	None of these	Insured
21	In, the insurer agrees to pay a certain sum of money to the policy	Fire Insurance	Marine Insurance	Burglary Insurance	Life Insurance	Life Insurance
22	General Insurance includes	Fire Insurance	Marine Insurance	Burglary Insurance	All of these	All of these
23	LIC was nationalized in	1935	1950	1956	1964	1956
24	Insurance business in India is regulated by	LIC	IRDA	RBI	SEBI	IRDA
25	Under, the sum assured is given to the beneficiary only on death	Whole Life Policy	Endowment Policy	Annuity	None of these	Whole Life Policy

26	.....is the amount payable to the insured on the happening of event.	Premium	Annuity	Claim	Policy	Claim
27	An annual payment which an insurer guarantees to pay for lump sum money	Premium	Annuity	Claim	Policy	Premium
28	The amount given to the policyholder due to his inability of paying further premium	Annuity	Bonus	Surrender value	Claim	Bonus
29	.....is an agreement between two insurance companies whereby one reinsures the risk of another	Reinsurance	Sub insurance	Shared Policy	None of these	Shared Policy
30	Revenue Account is also called	Shareholders' Account	Policyholders' Account	Creditors' Account	None of these	Creditors' Account
31	Valuation balance sheet is prepared by .....business.	Fire Insurance	Marine Insurance	Life Insurance	All of these	Fire Insurance
32	The commission earned by insurance companies from others for giving them business under	Commission on reinsurance accepted	Agents' commission	Commission on reinsurance ceded	None of these	Commission on reinsurance ceded
33	The commission given by insurance companies to others for receiving business under	Commission on reinsurance accepted	Agents' commission	Commission on reinsurance ceded	None of these	None of these
34	Profit and Loss Account of General Insurance Companies are prepared in ...	Form A-PL	Form B-RA	Form B-PL	Form B-BS	Form B-BS
35	The principle of subrogation is applicable to.....	Fire Insurance	Marine Insurance	Burglary Insurance	All of these	All of these
36	In which year, MICR system for cheque was implemented in India?	1987	1996	1990	1993	1987
37	Which is the first bank to introduce Credit card in India?	Bank of India	Global Trust Bank	IndusInd Bank	Central Bank of India	Central Bank of India
38	----- was not nationalized in 1969	Punjab National Bank	Oriental Bank of Commerce	Bank of Baroda	Union Bank of India	Oriental Bank of Commerce
39	Electronic payment system is an ?	Software	Hardware	Application	Package	Application

40	Which is the first bank to launch Debit card in India?	Standard Chartered Bank	Citi Bank	ABN Amro Bank	American Express Bank	Citi Bank
41	Which was the first Joint Stock Bank established by an Indian	Bank of Bombay	Oudh Commercial Bank	Bank of Hindustan	Hindustan Commercial Bank	Bank of Hindustan
42	Which is the first change in banking sector of India after independence?	Nationalization of Banks	Social control on Banks	Establishment of SBI	Establishment of RBI	Social control on Banks
43	When were the banks nationalized in our country?	On 1st July 1965	On 19th July 1969	On 19th July 1969 and 15th April 1980	On 16th April 1980 and 1st July 1965	On 19th July 1969 and 15th April 1980
44	What are the major change in banking sector of India after nationalization of	Expansion of bank branches	Cut throat competition in	Introduction of Banking Regulation	Establishment of RBI	Expansion of bank branches
45	The following one is absolutely essential for a special crossing	Two parallel transverse lines	Words "And company?"	Words "Not negotiable"	Name of a banker	Name of a banker
46	The reasonable period allowed in India for the presentation of a cheque	1 year	3 months	9 months	depending upon custom	3 months
47	If cheque is crossed an account payee, this is direction of, to	Payee, paying banker	Payee, collecting bank	Drawer, paying bank	Drawer, collecting bank	Drawer, collecting bank
48	Which of the following is not the form of E-banking?	Internet Banking	Direct Deposit in Bank	Electronic cheque conversion	Mobile banking	Direct Deposit in Bank
49	-----is the most favoured technology for secure Internet banking service	Public Key Instructions	Public Key Information	Public Key Infrastructure	People Key Infrastructure	Public Key Infrastructure
50	The electronic funds transfer using a two-way communications system is referred to as a	Pay or cheque	Wire transfer	Depository transfer cheque	Payable through draft	Wire transfer
51	Interest payable on savings bank accounts is?	Regulated by State Governments	De-regulated by RBI	Regulated by RBI	Regulated by Finance Minister	De-regulated by RBI
52	The usual deposit accounts of banks are	Current accounts, electricity accounts and insurance premium	Current accounts, post office savings, bank accounts and	Loan accounts, savings bank accounts and term	Current accounts, savings bank accounts and term deposit	Current accounts, savings bank accounts and term deposit
53	Fixed deposits and recurring deposits are?	Repayable after an agreed period	Repayable on demand	Not repayable	Repayable on demand or after an agreed period as	Repayable after an agreed period

54	Accounts are allowed to be operated by cheques in respect of?	Both savings bank accounts and fixed deposit accounts	Both Savings bank accounts and current accounts	Both savings bank accounts and loan accounts	Other savings bank accounts and cash accounts only	Both Savings bank accounts and current accounts
55	Which of the following is correct statement?	No interest is paid on current deposit accounts	Interest is paid on current accounts at the same rate as	The rate of interest on current accounts and savings accounts	No interest is paid on any deposit by the bank	No interest is paid on current deposit accounts
56	When a bank returns a cheque unpaid, it is called?	Payment of the cheque	Drawing of the cheque	Dishonour of the cheque	Taking of the cheque	Dishonour of the cheque
57	Largest shareholder (in percentage shareholding) of a Nationalized bank	RBI	NABARD	Government of India	LIC	Government of India
58	An institution whose principle business is accepting deposits and	Mutual Fund Business	Company	Bank	Ombudsman	Bank
59	Which of the following term do not represent any part of Banking	NEFT	RTGS	ITC	EPS	ITC
60	The chief activities of bank do not include	Providing loans	Accepting deposits	Providing lockers	Selling real estate properties	Selling real estate properties