18CCU301

CORPORATE ACCOUNTING

Semester – III

8H – 6C

Instruction Hours / week L: 6 T: 2 P: 0

Marks: Internal: 40 External: 60 Total: 100

End Semester Exam: 3 Hours

COURSE OBJECTIVES:

To make the students

1. To understand the accounting process for Share capital and debenture and its application
2. To prepare final accounts for corporates
3. To understand the accounting standard and its application in inter-holding companies
4. To solve problems relating to Holding Company Accounts, Liquidation of Companies and various other Accounts
5. To understand and apply accounting process for Banking industry.

COURSE OUTCOMES:

Learners should be able to

1. Comprehend and apply the accounting process related corporate accounting
2. Prepare final accounts for corporate entity.
3. Understand the accounting standard and apply the same for corporate entity and amalgamation.
4. Understand the difference of banking balance sheet and non-banking balance sheet
5. Enhance the problem-solving skills, analytical skills and communication skills in the accounting context.

Unit IAccounting 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

Unit IIFinal 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 IIIAmalgamation 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 VAccounts 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). Cash Flow Statement - Concept of Funds - Preparation of Cash Flow Statement as per Indian Accounting Standard (Ind- AS): 7.

SUGGESTED READINGS :

1. Reddy & Moorthy (2013), "*Corporate Accounting*" MarghamPublications, Chennai
2. M.C. Shukla, T.S. Grewal, and S.C. Gupta (2016) *Advanced Accounts*. Vol.-II. – 19th Edition S. Chand & Co., New Delhi.
3. Dr S N Maheshwari, CA Sharad K Maheshwari & Dr Suneel K Maheshwari (2018) *Corporate Accounting*.- 6th Edition Vikas Publishing , New Delhi.
4. Jain, S.P. and K.L. Narang. (2015) *Corporate Accounting*. 8th Edition Vol - I Kalyani Publishers, New Delhi.
5. Jain, S.P. and K.L. Narang. (2014) Advanced Accountancy (*Corporate Accounting*). 8th Edition Vol - I Kalyani Publishers, New Delhi.
6. CA & Dr. P C Tulsian & CA Bharat Tulsian (2016), *Corporate Accounting 2nd Edition*, S.Chand

KARPAGAM ACADEMY OF HIGHER EDUCATION
(DEEMED TO BE UNIVERSITY)
(ESTABLISHED UNDER SEC. 3 OF UGC ACT, 1956)
COIMBATORE – 21
DEPARTMENT OF COMMERCE
LECTURE PLAN

STAFF NAME : Dr. R. Murugan and Mrs. K.Kavitha
SUBJECT NAME : CORPORATE ACCOUNTING SUB.CODE : 18CCU301
SEMESTER : II CLASS : II BCOM. (CA)

UNIT I

S. No.	Lecture Duration (Hr)	Topics to be covered	Support Materials
1	1	Accounting for Share Capital and Debentures – Introduction to Company	R 1 : Pg. No. 1.2 – 1.13
2	1	Issue of Shares Meaning and Kinds of Shares	R 1 : Pg. No. 1.13 – 1.34
3	1	Problems to be worked out on issue of shares for cash consideration and for consideration other than cash	R 1 : Pg. No. 1.47 – 1.49
4	1	Problems to be worked out on issue of Shares at Par, Discount and Premium	R 1 : Pg. No. 1.52 – 1.63
5	1	Problems to be worked out on Pro-rata Allotment	R 1 : Pg. No. 1.54 – 1.55
6	1	Problems to be worked out on Forfeiture of Shares	R 1 : Pg. No. 1.73 – 1.82
7	1	Problems to be worked out on reissue of forfeited shares - when all forfeited shares were reissued (T)	R 1 : Pg. No. 1.82 – 1.87
8	1	Problems to be worked out on reissue of shares when all forfeited shares were not fully reissued	R 1 : Pg. No. 1.83
9	1	Concept and Process of Book Building	
10	1	Issue of Right and Bonus Shares Buy back of shares	R 1 : Pg. No. 1.34 – 1.46
11	1	Redemption of Preference Shares – Introduction	R 1 : Pg. No. 3.1 – 3.10
12	1	Problems to be worked out on Redemption without fresh issue of shares	R 1 : Pg. No. 3.10 –3.14
13	1	Problems to be worked out on Redemption at a premium, partly out of profits and partly out of fresh issue (T)	R 1 : Pg. No. 3.14 – 3.22
14	1	Problems to be worked out on Redemption at a premium and of fresh issue of Preference Shares and partly out of profits	R 1 : Pg. No. 3.14 – 3.22
15	1	Issue of Debentures Problems to be worked out on Debentures issued	R 1 : Pg. No. 4.1 – 4.8

		at par, premium and discount(T)	
16	1	Redemption of debentures Problems to be worked out on Redemption by conversion (T)	R 1 : Pg. No. 4.33 – 4.36
17	1	Problems to be worked out on Redemption in installments	R 1 : Pg. No. 4.36 – 4.37
18	1	Problems to be worked out on Redemption out of Profits (T)	R 1 : Pg. No. 4.37 – 4.41
19	1	Problems to be worked out on Open Market Buying Method	R 1 : Pg. No. 4.41 – 4.50
20	1	Problems to be worked out on Open Market Buying Method	R 1 : Pg. No. 4.41 – 4.50
21	1	Recapitulation and discussion of Important questions	
		Total	**21 Hours**
		UNIT - II	
1	1	**Final Accounts: Introduction**	R 1 : Pg. No. 7.1 – 7.2
2	1	Preparation of Profit and Loss Account Form of Statement of Profit and Loss Account	R 1 : Pg. No. 7.2 – 7.5
3	1	Problems to be worked out in Profit and Loss Account	R 1 : Pg. No. 7.33 – 7.82
4	1	Problems to be worked out in Profit and Loss Account (T)	R 1 : Pg. No. 7.33 – 7.82
5	1	Preparation of Balance Sheet of Corporate Entities Form of Statement of Balance Sheet	R 1 : Pg. No. 7.5 – 7.15
6	1	Problems to be worked out in Balance Sheet	R 1 : Pg. No. 7.33 – 7.82
7	1	Problems to be worked out in Balance Sheet(T)	R 1 : Pg. No. 7.33 – 7.82
8	1	Disposal of Company Profits 1. Disposal in the forms of dividend 2. Transferring the profits to reserve funds/retained earnings.	R 1 : Pg. No. 7.15 – 7.24
9	1	Valuation of Goodwill Introduction	R 1 : Pg. No. 8.1 – 8.11
10	1	Problems to be worked out in Average Profit Method	R 1 : Pg. No. 8.17 – 8.20
11	1	Problems to be worked out in Super Profit Method (T)	R 1 : Pg. No. 8.23 – 8.43
12	1	Problems to be worked out in Capitalisation Method	R 1 : Pg. No. 8.43 – 8.45
13	1	Valuation of Shares	R 1 : Pg. No. 8.12 – 8.16
14	1	Concepts and Calculation	R 1 : Pg. No. 8.12 – 8.16
15	1	Problems to be worked out in Net Assets Method	R 1 : Pg. No. 8.46 – 8.56
16	1	Problems to be worked out in Yield Method (T)	R 1 : Pg. No. 8.57 – 8.69
17	1	Problems to be worked out in Fair Value Method	R 1 : Pg. No. 8.69 – 8.76

18	1	Recapitulation and discussion of Important questions	
Total			**18 Hours**
UNIT – III			
1	1	**Amalgamation of Companies: Introduction**	R 1 : Pg. No. 10.1 – 10.3
2	1	Concepts and Accounting Treatment as per Accounting Standard: 14 (ICAI)	R 1 : Pg. No. 10.1 – 10.3
3	1	Types of Amalgamation I. Amalgamation in the Nature of Merger II. Amalgamation in the Nature of Purchase	R 1 : Pg. No. 10.3 – 10.4
4	1	Methods of Accounting for Amalgamation 1. Pooling of Interest Method 2. Purchase Method	R 1 : Pg. No. 10.10 – 10.12
5	1	Problems to be worked out in the Nature of Merger	R 1 : Pg. No. 10.31 – 10.51
6	1	Problems to be worked out in the Nature of Merger	R 1 : Pg. No. 10.31 – 10.51
7	1	Problems to be worked out in the Nature of Merger (T)	R 1 : Pg. No. 10.31 – 10.51
8	1	Problems to be worked out in the Nature of Purchase	R 1 : Pg. No. 10.52 – 10.66
9	1	Problems to be worked out in the Nature of Purchase	R 1 : Pg. No. 10.52 – 10.66
10	1	Problems to be worked out in the Nature of Purchase (T)	R 1 : Pg. No. 10.52 – 10.66
11	1	Internal Reconstruction - Introduction	R 1 : Pg. No. 9.1 – 9.2
12	1	Concepts and Accounting Treatment Accounting entries for Reduction of Capital	R 1 : Pg. No. 9.2 – 9.10
13	1	Problems to be worked out in the Alteration of Share Capital	R 1 : Pg. No. 9.11 – 9.13
14	1	Problems to be worked out in the Alteration of Share Capital	R 1 : Pg. No. 9.11 – 9.13
15	1	Problems to be worked out in the Alteration of Share Capital (T)	R 1 : Pg. No. 9.11 – 9.13
16	1	Problems to be worked out in the Reduction of Capital	R 1 : Pg. No. 9.13 – 9.32
17	1	Problems to be worked out in the Reduction of Capital (T)	R 1 : Pg. No. 9.13 – 9.32
18	1	Recapitulation and discussion of Important questions	
Total			**18 Hours**
UNIT - IV			

1	1	**Accounts of Holding Companies/Parent Companies : Introduction**	R 1 : Pg. No. 14.1 – 14.3
2	1	Procedure for Preparation of Consolidated Balance Sheet	R 1 : Pg. No. 14.3 – 14.12
3	1	Procedure for Preparation of Consolidated Balance Sheet	R 1 : Pg. No. 14.3 – 14.12
4	1	Procedure for Preparation of Consolidated Balance Sheet	R 1 : Pg. No. 14.3 – 14.12
5	1	Steps involved in preparation of Consolidated Balance Sheet	R 1 : Pg. No. 14.12 – 14.15
6	1	Format of Consolidated Balance Sheet with one Subsidiary Company	R 1 : Pg. No. 14.16 – 14.17
7	1	Preparation of Consolidated Balance Sheet with one Subsidiary Company	R 1 : Pg. No. 14.16 – 14.17
8	1	Problems to be worked out on Balance Sheet with Goodwill	R 1 : Pg. No. 14.17 – 14.19
9	1	Problems to be worked out on Balance Sheet with Goodwill (T)	R 1 : Pg. No. 14.17 – 14.19
10	1	Problems to be worked out on Balance Sheet with Goodwill	R 1 : Pg. No. 14.17 – 14.19
11	1	Problems to be worked out on Balance Sheet with unrealized profit in stock	R 1 : Pg. No. 14.20 – 14.23
12	1	Problems to be worked out on Balance Sheet with unrealized profit in stock (T)	R 1 : Pg. No. 14.20 – 14.23
13	1	Problems to be worked out on Balance Sheet with Mutual obligation in bill	R 1 : Pg. No. 14.23 – 14.27
14	1	Problems to be worked out on Balance Sheet with Mutual obligation in bill (T)	R 1 : Pg. No. 14.23 – 14.27
15	1	Problems to be worked out on Balance Sheet with Capital Expenses	R 1 : Pg. No. 14.27 – 14.30
16	1	Problems to be worked out on Balance Sheet with Capital Expenses (T)	R 1 : Pg. No. 14.27 – 14.30
17	1	Relevant Provisions of Accounting Standard: 21 (ICAI).	R 1 : Pg. No. 14.50 – 14.52
18	1	Recapitulation and discussion of Important questions	
Total			18 Hrs
UNIT - V			
1	1	**Accounts of Banking Companies: Introduction**	R 1 : Pg. No. 12.1 – 12.3
2	1	Types of Banking	R 1 : Pg. No. 12.3 – 12.6
3	1	Difference Between Balance sheet of Banking and Non-banking Companies	W 1

4	1	Prudential Norms Asset Structure of a Commercial Bank	W 1
5	1	Non-Performing Assets (NPA)	R 1 : Pg. No. 12.30 – 12.33
6	1	Format of Profit and Loss Account	R 1 : Pg. No. 12.6 – 12.8
7	1	Guidelines of RBI for Profit and Loss Account	R 1 : Pg. No. 12.8 – 12.10
8	1	Format of Balance Sheet	R 1 : Pg. No. 12.10 – 12.15
9	1	Guidelines of RBI for Balance Sheet	R 1 : Pg. No. 12.16 – 12.23
10	1	Problems to be worked out on Profit and Loss Account	R 1 : Pg. No. 12.38 – 12.52
11	1	Problems to be worked out on Profit and Loss Account (T)	R 1 : Pg. No. 12.38 – 12.52
12	1	Problems to be worked out on Balance Sheet	R 1 : Pg. No. 12.54 – 12.60
13	1	Problems to be worked out on Balance Sheet (T)	R 1 : Pg. No. 12.54 – 12.60
14	1	Cash Flow Statement Concept of Funds	W 1
15	1	Problems to be worked out on Cash Flow Statement (T)	R 1 : Pg. No. 12.54 – 12.60
16	1	Preparation of Cash Flow Statement as per Indian Accounting Standard (Ind- AS): 7	W 1
17	1	Preparation of Cash Flow Statement as per Indian Accounting Standard (Ind- AS): 7 (T)	W 1
18	1	Recapitulation and discussion of Important questions	
19	1	Discussion of previous year End Semester Exam Question Paper	
20	1	Discussion of previous year End Semester Exam Question Paper	
21	1	Discussion of previous year End Semester Exam Question Paper	
		Total	21 Hrs

R 1 : Reddy T.S. & Murthy. A. (2013). Corporate Accounting . Chennai. Margham Publications
Websites
W 1 : http://www.allbankingsolutions.com/Banking-Tutor/asset-classification.shtml

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, divisable 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 personswho individully 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 sportsclubs 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 registred under the Companies Act and the members just like partners have unlimited liablity 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 registred 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) Refister 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) Minuts 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 companycan 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-convertable 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, is 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 Dr. To Share Capital Account (Being the share allotment money on ..... shares @ Rs. ...... per share as per resolution dated ....)		Xxx	 xxx
4.	On receipt of allotment money: Bank Account Dr. To Share Allotment Account (Being the receipt of share allotment money)		 xxx	 xxx
5.	On making the first call due from the shareholdewrs: Share first Call Account Dr. To Share Capital Acccount (Being the first call money due on ... shares @ Rs. ....per share as per resolution of the directors dated ...)		 xxx	 xxx
6.	On receipt of the first call money: Bank Account Dr. To Share First Call Account (Being the receipt of share first call money)		 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 Dr. 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. Equity Share Allotment Account Dr. To Equity Share Capital Account (Being capitalisation of application money @ Rs. 2 per share and allotment money due @ Rs. 3 per share on 80,000 equity shares alloted)		1,60,000 2,40,000	 4,00,000
3.	Bank Account Dr. To Equity Share Allotment Account (Being the receipt of allotment money on 80,000 equity shares @ Rs. 3 per share)		2,40,000	 2,40,000
4.	Equity Share First and Final Call Account Dr. To Equity Share Capital Account (Being the first and final call due on 80,000 equity shares @ Rs. 5 per share)		4,00,000	 4,00,000
5.	Bank Account Dr. To Equity Share First and final Call Account (Being the receipt of first and final call on 80,000 equity shares @ Rs. 5 per share)		4,00,000	 4,00,000

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 seperate 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 preliminery 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 exceed10% 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:** Share AllotmentAccount Dr. Discount on the Issue of Shares Account Dr. To Share Capital Account		Rs. xxx xxx	Rs. 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 shuc 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 alloted 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 transfered 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 forfit 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 secreatary by registred notice, the Board of Directors pass a resolution to the effect that such shares be forfited. Shares once forfited becomes the property of the company and may be sold on suchterms as directors think fit. Upon forfiture, 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 Forfited 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 companyfor 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 forfiture 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 Forfited 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 forfited shares if there is no balance in shares forfited 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

			Rs.	Rs.
1.	Equity Share Capital Account Dr. 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 forfited)		4,500	 1,500 500 2,500
2.	Bank Account Dr. Discount on Issue of Shares Account Dr. Shares Forfeited Dr. To Equity Share Capital Account (Being reissue of 500 forfeited shares @ Rs. 7 per share credited as Rs. 9 per share paid-up)		3,500 500 500	 4,500
3.	Shares Forfeited Account Dr. To Capital Reserve (Being profit on reissue of forfeited shares transferred to capital reserve account)		2,000	 2,000

Illustration 4: A holds 200 equity shares of Rs. 10 each on which he paid Re. 1 per swhare 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 applicaation 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.

1.	Equity Share Capital Account Dr. 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)		8,000	 600 1,000 2,000 4,400
2.	Bank Account Dr. 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)		11,000	 10.000 1,000
3.	Shares Forfeited Account Dr. To Capital Reserve Account (Being balance of shares forfeited account taking as capital profit transferred to Capital Reserve Account)		4,400	 4,400

Forfiture 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:

(a) Calculate the total number of shares applied for on the basis of allotted shares.

(b) 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.

(c) Deduct the amount due on application on alloted shares and calculate balance, i.e., money received in advance and to be adjusted on allotment.

(d) 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 abs 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 recoed the above transactions.

Solution **In the books of X Limited**

JOURNAL

			Rs.	Rs.
1.	Bank Account Dr. To Equity Share ApplicationAccount (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 alloted 5shares applied 6		
If alloted 800 shares applied 960		
Surplus money on application (160 X 2) =	320	
Amount of allotment due = 800 X 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 equql calls of Rs. 7.50 per share. Subscription list (which was opened on 6th March, 2009) totalled 51,0000 shares. The Board of Directors rejected one application for 1,000 swhares and alloted shares on the remaining applications on pro-rata basis on 1st April, 2009.First calls was made three after allotment where as 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 allotmrnt 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 50,000	-- 25,000	Rs. 4,000 2,00,000	Rs. -- 1,00,000	Rs. -- 1,00,000	Rs. 4,000 --
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 1-14	By Bank Account	50,000
		2,54,000			2,54,000

10% Preference Share first Call Account

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

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.
			Apr.1	By 10% Preference Share Application & Allotment Account	2,50,000
	To Balance c/d	6,25,000	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 expiory of stipulated period whether the companyis 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 acumulated 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 equql 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. To Preference Share Capital Account		xxx	 xxx
(b)	Bank Account Dr. To Preference Shares Final Call Account		xxx	 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. Premium on Redemption Account Dr. To Preference Shareholders Account or Preference Shares Redemption Account		xxx xxx	 xxx

3.Make entry for issue of equity sharesw 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. Discount on Issue of Shares Account Dr. To Equity Share Capital Account To Securities Premium Account		xxx xxx	 xxx 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. To Premium on Redemption Account		xxx	xxx

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. To Capital Redemption Reserve Accoint		xxx	xxx

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

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

	Preference Shareholders Account (Or) Preference Share Redemption Account Dr. To Bank Account		xxx	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. To New Share Capital Account		xxx	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 Bouus to Equity Shareholders Account		xxx	 xxx
(2)	**When issue of bonus shares is made:** Bonus to Equity Shareholders Account Dr. Equity Share Capital Account		 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	99,000		
(On 50 shares @ Rs. 20 each)			
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 os 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 furfeiture 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. Premium on Redemption Account Dr. To Preference Shareholders Account (Being the amount due to redeemable preference shareholders on redemption)		1,00,000 10,000	 1,10,000
	Preference Shareholders Account Dr. To Bank Account (Being amount paid on redemption of 1,000 Redeemable Preference Shares)		1,10,000	 1,10,000

BALANCE SHEET OF RELIANCE LIMITED. (after redemption)

Liabilities	Rs	Assets	Rs.
Share Capital: 54,500 equity shares of Rs. 10 each fully paid.	5,45,000	Fixed Assets: Other assets	8,10,000
Reserves and Surplus:		Current Assets 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 To Pref. Shares Calls in Arrears To Red Pref. Share Capital	4,500 800 500	By Balance c/d	25,800
	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 Current Assets	22,00,000 8,00,000
10,000 Equity Shares of Rs. 100 each	10,00,000		
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 ownersip 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 sufferss beavy 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. **Restrections on issue at a discount:** There are no restrections 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 allotmrent.

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

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 extention 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-tehth 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 per: (a) On issue of debentures: Bank Account Dr. To Debentures Account		Rs. xxx	Rs. xxx
	(b) On redemption of debentures:			

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

V.	When debentures are issued at a discount but repayable at a premium: (a) On issue of debentures: Bank Account Dr. Loss on the Issue od Debentures Account Dr. To Debentures Account To Premium on Issue of Debentures A/C		 xxx xxx	 xxx xxx
	(b) On redemption of debentures: Debentures Account Dr. Premium on Redemption of Debentures A/c Dr. To Bank account		 xxx xxx	 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 utisised 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. To Bank Account		Rs. xxx	Rs. xxx
2.	Entry for transfer of profit: Profit and Loss Appropriation Account Dr. To Debenture Redemption Reserve Account		 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. To General Reserve Account		 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 acailable 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 convertable debentures. In case of partly convertable debentures, Debenture Redemption Reserve is to be created for the non-convertable part in the same way as applicable for fylly non-convertable 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 eaxh 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. Discount on Issue of Debentures Account Dr. To 6% Debentures Account (being debentureholders of Rs. 1,44,000 (redemption value Rs. 1,46,880) issued new 6% Debentures at Rs. 96)		1,46,880 6,120	 1,53,000
	Debentureholders Account Dr. To Bank Account (Being Debentureholders of Rs. 85,000 (redemption value Rs. 86,700) paid in cash)		86,700	 86,700
(2)	Total amount required for Redemption is Rs. 4,08,000, i.e., (4,00,000 X 102/100)			

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 relatin to such a company as refrences 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	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 Advertisment	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 OF............ CO. 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 year not provided for	Xxx	By Net Profit for the year b/d	Xxx
		By Amount withdrawn from General Reserve or any other reserve	Xxx
To Interim Dividend	Xxx		
To Proposed dividend	Xxx	By Provision such as Income Tax provision no longer required	Xxx
To Surplus (Balance figure) carried to Balance Sheet	Xxx		
	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 previous 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:** 1Fixed 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 ……………….

(1)	Schedule No. (2)	Figures as at the end of current financial year (3)	Figures as at the end of previous financial year (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 informarion 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 registred 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 1st November, 2008	3,92,500
Stock, 1st 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 1st April, 2008	35,000

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

(a) Depriciate Plant and Machinery by 15%.
(b) Write off Rs. 5,000 from Preliminary Expenses.
(c) Provide for half year's debenture interest due.
(d) Leave Bad and Doubtful Debts Provision at 5% on Sundry Debtors.
(e) Provide for Income Tax @ 50%.
(f) 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	28,05,000
4,00,000 Equity Shares of Rs.10		--------------	
per share	40,00,000	Fixtures	72,000
Subscribed & Paid up Capital:		**Investments:**	Nil
4,00,000 Equity Shares		**Current Assets, Loans and**	
Of Rs. 10 per share 40,00,000		**Advances :**	
Less: Calls in arrears 75,000	39,25,000	**A.Current Assets:**	
-------------		Cash in hand	7,500
Reserves and Surplus:		Cash at Bank	3,99,000
General Reserve	2,50,000	Sundry Debtors 8,70,000	
Profit and Loss account	50,000	Less: Provision for	
Secured Loans:		Doubtful Debts 43,500	8,26,500
12% Debentures 30,00,000		-----------	
Add: Interest due 1,80,000	31,80,000	Stock	9,50,000
-------------		**B.Loans and Advances:**	Nil
Unsecured Loans:	Nil		
Current Liabilities &		**Miscellaneous Expenditure:**	
Provisions:		Preliminary Expenses 50,000	
A. Current Liabilities:		Less: Written Off 5,000	45,000
Sundry Creditors	4,00,000	---------	
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	2,50,000	

-			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 : -

(a) Miscellaneous Expenses included Rs. 5,000 audit fees and Rs. 700 for out of pocket expenses paid to the auditors.

(b) 2,000 Equity Shares were issued for consideration other than cash.

(c) Debtors of Rs. 52,000 are due for more than six months.

(d) 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 hypothication 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	3,50,000
Each (of the above shares, 2,000		------------	
equity shares are allotted as fully		Plant & Machinery 7,00,000	
paid up pursuant to a contract		Less: Depreciation 1,75,000	5,25,000
without payment being received in		------------	
cash)		Furniture at cost 62,500	
Less; Calls-in-arrear	1,000	Less: Depreciation 12,500	50,000
	9,99,000	----------	
Reserves and Surplus :		**Investments :**	Nil
General Reserve	2,10,000	**Current Assets, Loans and**	
Profit and Loss Account	1,00,000	**Advances :**	
Secured Loans :		**A. Current Assets:**	
Loan from State		Stock:	
Financial Corporation 1,42,500		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 Provisions :		(a) Debtors outstanding For more than six Months 52,000	
A. Current Liabilities :			
Sundry Creditors for goods and Expenses	2,00,000	(b) Other Debtors 1,48,000 -----------	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 Provided for:		(b) Others 2,000 -----------	2,47,000
1. Bills receivable for Rs. 2,75,000 maturing on 30th June, 2008 have been discounted.		**B. Loans and Advances:**	
		Advances	42,700
2. The company had contract for the erection of machinery at Rs. 1,50,000 which is still incomplete.		**Miscellaneous Expenditure :**	
		Preliminary Expenses	13,300
	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, 1st 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, 31st 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:

(a) Stock on 31st March, 2009 was valued at Rs. 8,80,000.
(b) Make a provision for income tax @ 50%.
(c) Depreciate Plant and Machinery @ 15%, Furniture and Fittings @ 10% and Patents and Trade marks @ 5%.
(d) On 31st March, 2009, outstanding rent amounted to Rs. 8,000 while outstanding salaries totalled Rs. 9,000.
(e) 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.
(f) Make a provision for doubtful debts amounting to Rs. 5,100.
(g) Provide fo 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. **Cr.**

		Rs.		Rs.
To Stock, 1st April,2008		7,50,000	By Sales	34,00,000
To Purchases	24,50,000		By Stock, 31st 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**		
		42,80,000		42,80,000
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
			1,50,000
To Dividend paid for 2007 – 08	90,000	By Balance b/d	2,83,500
To Transfer to General Reserve 5% of Net Profit	14,180	By Net Profit for the year b/d	
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 1,70,000	1,53,000
Balance as on 1st April, 2008 1,55,000		Less: Depreciation 17,000	
Add: Aditions		-----------	
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 option 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 vied 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 :

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

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

Average Profit X Number of years of Purchase

= 5,50,000 X 2 = 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

$$\text{Average Profits} = \frac{\text{Total profits after reducing loss}}{\text{Total No. of years including loss}}$$

$$= \frac{3,55,000}{7} = \text{Rs. } 50,714.2857$$

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 :

$$\text{Average Profits} = \frac{6,00,000 + 7,50,000 + 7,20,000 + 6,90,000}{4} = 6,90,000$$

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 X 3 = Rs. 18,00,000

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

Year ending 31st 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

$$\text{Average Profit} = \frac{\text{Total Profit}}{\text{No. of Years}} = \frac{51,24,000}{5} = 10,24,800$$

	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	
	6,72,000	
Profit before Tax	3,52,800	
Less: Income Tax @ 50%	1,76,400	
Profit after Tax	1,76,400	
Less: Preference Dividend @ 8% on Rs. 12,00,000	96,000	
Future Average Maintainable Profit		80,400

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

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

(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:

(a) Ascertain the average net profit which it is expected will be earned in future;

(b) Capitalise this net profit at the rate which is considered a suitable return on capital invested in a business of the type under consideration;

(c) Find the value of the net tangible assets used in the business, i.e., assets less outside liabilities; and

(d) 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 Shares	4,00,000	Fixed Assets	5,00,000
		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

$$\text{Intrinsic Value per share} = \frac{\text{Net Assets}}{\text{Number of Equity Shares}}$$

$$= \frac{\text{Rs. } 3,70,000}{40,000} = \text{Rs. } 9.25.$$

(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 :**

$$\text{Expected Return} = \frac{\text{Expected Profits}}{\text{Equity Capital}} \; 100$$

$$= \frac{41,400}{4,00,000} \times 100 = 10.35\%$$

3. **Calculation of Yield Value of Share :**

$$\frac{\text{Expected Rate}}{\text{Normal Rate}} \times \text{Paid up Value of share}$$

$$= \frac{10.35}{10} \; 10$$

= Rs. 10.35.

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

$$\text{Therefore, Intrinsic Value per Equity Share} = \frac{\text{Rs. } 48{,}150}{4{,}500} = \text{Rs. } 10.70$$

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

$$\text{Expected Rate of Dividend} = \frac{\text{Expected Profit}}{\text{Equity Share Capital}} \times 100$$

$$= \frac{\text{Rs. } 4{,}950}{\text{Rs. } 45{,}000} \times 100 = 11\%$$

$$\text{Value per Equity Share} = \frac{\text{Expected Rate of Dividend}}{\text{Normal Rate of Profit}} \times \text{Paid up Value of share}$$

$$= \frac{11\%}{9\%} \times \text{Rs. } 10 = \text{Rs. } 12.22$$

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 shoot 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

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 :

$60{,}000 \times \frac{15}{10}$ = 90,000 shares of Rs. 10 each, Rs. 8 paid up	7,20,000
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

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 expensses, 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)

(6) For liquidation expenses

(a) If the expenses are to be met by the transferor company

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

(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

(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 Transfereor 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 Liablities

To Profit and Loss Account

To Reserve Account

To Liquidators of the Transfereor 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 transfree 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 :

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)	7,50,000	
A/c Dr		5,00,000
To equity share capital (fully		2,50,000
paid) A/c		
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		

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

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	56600
	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 a agreed to amalgamate .A new company Siva ram 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

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

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

		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		

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

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

Absorption –Net payment method

1. 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	38,01,000	
To sundry assets		38,01,000
Sundry creditors A/c Dr	3,00,000	
12 % debenture A/c	10,00,000	
To realisation A/c		13,00,000
A Ltd A/c Dr	30,00,000	
To realisation A/c		30,00,000
Bank A/c Dr	14,00,000	
Share in A ltd Dr	16,00,000	
To A ltd A/c		30,00,000
A Ltd A/c Dr	15,000	
To bank A/c		15,000
Bank A/c Dr	15,000	

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**

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**

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**

Books of S.S Ltd (transferee company)

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

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	20,00,000	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**

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

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 *120-100000=Rs20000 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*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

		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 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 = Rs.2,40,000

In the books of W Ltd (transferee company)

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

To sundry assets A/c		5000

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

TOTAL	**86,000**	**58,500**	**TOTAL**	**86,000**	**58,500**

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 1/3rd of their holding

      (II) 8% preference shares fully paid, to the extent of 1/5th 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:

(i) 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

(ii) The Equity Shareholders agree that their shares be reduced to a fully paid value of Rs. 5 each

(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.

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 firms 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.

i) Where the first mentioned company is any other company, holds more than half in nominal value of its Equity share capitals.

ii) 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 holdingcompany.

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 addicting of 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.

It 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 loose 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 form 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.

i) 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.

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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

Liabilities	*H Ltd.* Rs.	*S Ltd.* Rs.	*Assets*	*H Ltd.* Rs.	*S. Ltd.* Rs.
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 [illegible]	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

Liabilities			*Assets*	*Rs.*
Share Capital:			Sundry Assets:	
10,000 Shares of Rs. 10 each			H Ltd.	1,50,000
fully paid		1,00,000	S Ltd.	80,000
Sundry Creditors:				
H Ltd.	1,00,000			
S Ltd.	30,000	1,30,000		
		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 [illegible] date of acquisition, the price paid for goodwill would be arrived at as follows[illegible]

	[illegible]
Cost of Shares	2,00,00[illegible]
Less: Net worth of Equity (Capital: Rs 1,00,000 + Reserve: Rs 25,000 [illegible] P & L A/c Rs 15,000)	1[illegible]0
Paid for Goodwill	[illegible]

Consolidated B[illegible]e S[illegible] at 31s[illegible]c.

	Rs.		Rs.
Share Capital	5,00,000	[illegible]ndry Assets (Rs. 7[illegible]00 + 1,90,000)	9,40,000
Profit & Loss	1,00,000		
Creditors (Rs 3,50,000 + [illegible],000)	[illegible]00,000	Go[illegible]ll	60,000

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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		
Profit % Loss	2,000	1,000	S Ltd.	7,500	
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	32,000
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	9,000
	Less: Price paid for		7,500
	Investment		1,500

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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 : 3/4 = Rs. 4,500 and 1/4 = 1,500

Post-acquisition profit Rs. 12,000 : 3/4 = Rs. 9,000 and 1/4 = Rs. 3,000

Minority Interest :	Rs.
1/4th of capital	5,000
Pre-acquisition Reserve	1,500
Post-acquisition Profit	3,000
	9,500
Add : 1/4th of Revaluation Profit	500
	10,000

	Rs.	Rs.
Goodwill or Cost of Control :		
Cost of acquiring 3/4th of share capital		15,000
Less : Equity paid-up capital	15,000	
Pre-acquisition Reserve	4,500	
Revaluation Profit	1,500	21,000
Capital Reserve :		6,000

NB : Unrealised profit on goods worth Rs. 5,000 bought from S Ltd. at a profit of 25% on cost

125% = Rs. 5,000

$25\% = \text{Rs. } \frac{5,000 \times 25}{125} = \text{Rs. } 1,000$

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	
			Plant	1,000	6,000
Reserves	4,000	3,000	Stock	4,000	6,000
Bills Payable	2,000	1,000	Shares in S Ltd	6,000	
Creditors	5,000	4,000	Debtors	5,000	3,000
Profit & Loss A/c	4,000	2,000	Bills Receivable	3,000	2,000
			Cash	2,000	1,000
	25,000	18,000		25,000	18,000

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 Load 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.

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SOLUTION:

Consolidated Balance Sheet
as on 31st Dec. 2004

Liabilites		*Rs.*	*Assets*		*Rs.*
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	7,000
Profit & Loss A/c			Stock H Ltd.	4,000	
H Ltd.	4,000		S Ltd.	6,000	10,000
S Ltd.	937.50	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	5,000
Less: Inter Co. Bills	500	2,500			
Creditors:			Bills Receivable:		
H Ltd.	5,000		H Ltd.	3,000	
S Ltd.	4,000		S Ltd.	2,000	
	9,000			5,000	
Less: Inter Co. dealings			*Less:* Inter Co. Bills	500	4,500
(2,000 + 1,000)	3,000	6,000	Cash: H Ltd.	2,000	
Minority Interest		3,250	S Ltd.	1,000	3,000
		33,500			33,500

Working:

	Capital	Revenue
Analysis of Profits of S Ltd.		
Reserves (Rs 3,000 - Rs 500)	2,500	
Profit for the year (Rs 2,000 + 500)	1,250	1,250
	3,750	1,250
Less: Minority Interest	937.50	312.50
Holding Company's share	2,812.50	937.50
Cost of Control Capital reserve		
Amount paid for shares		Rs 6,000
Less: Paid up value of shares	6,000	
Share of capital Profit	2,812.50	8,812.50
Capital Reserve		2812.50
Minority Interest		
Paid up value of shares		2000.00
Add: Share of Capital Profit		937.50
Share of Revenue Profit		312.50
Minority Interest		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.

Liabilities	*X Ltd.*	*Y Ltd.*	*Assets*	*X Ltd.*	*Y Ltd.*
	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	3,10000

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

Liabilities		*Rs.*	*Assets*		*Rs.*
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	3,30,000
Profit & Loss A/c	1,00,000		Stock :		
Add : Holding Co's. share	15,000	1,15,000	X Ltd.	1,00,000	
Capital Reserve		57,500	Y Ltd.	80,000	1,80,000
Creditors :			Debtors :		
X Ltd.	80,000		X Ltd.	1,00,000	
Y Ltd.	40,000		Y Ltd.	40,000	
	1,20,000			1,40,000	
Less : Mutual Obligation	20,000	1,00,000	Less : Mutual Obligation	20,000	1,20,000
Bills Payable :			Bills Receivable :		
X Ltd.	50,000		X Ltd.	40,000	
Y Ltd.	20,000		Y Ltd.	45,000	
	70,000			85,000	
Less : Mutuaal Obligation	10,000	60,000	Less : Mutual Obligation	10,000	75,000
Current Account :			Bank :		
X Ltd.	20,000		X Ltd.	60,000	
Less : Mutual Obligation	20,000	–	Y Ltd.	20,000	80,000
Minority Interest		57,500	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:	1,10,000

Holding Company's share Rs. 1,10000 × 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 :	57,500

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		1,57,500
Capital Reserve		57,500

Problem 7 (Cost of Control):

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

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

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 Balane 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	6,70,000
Minority Interest	34,000			
	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 × Rs 10)	20,000
Add: 2,000 $\times \frac{2}{5}$ = 800 Bonus shares of Rs 10 each	8,000
Add: Share in Reserves (Rs. 30,000 $\times \frac{2,000}{10,000}$)	6,000
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.
Pref. 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

Liabilities	*Rs.*	*Assets*	*Rs.*
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
		34,000
Less : Face value of Equity Shres	22,500	
Less : Face value of Pref. Shares	2,500	
	25,000	

Less : Shares of Loss $\frac{1,000 \times 3^*}{4}$		– 750	24,250
	Goodwill		9,750

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

2. **Consolidated Profit :**

		Rs.
Profit of A Ltd.	Rs.	5,000
Profit of B Ltd. as per B/S	5,000	
Add : Reserves	1,000	
Add : Loss of prior period	1,000	
	Rs. 7,000	
Share of A Ltd. is the profit $\left(\frac{7,000 \times 3}{4}\right)$		5,250
		10,250

3. **Minority Interest :**

	Rs.
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
	10,750
Less : Loss of prior Period $\left(\frac{1,000 \times 1}{4}\right)$	– 250
	10,500

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	2,53,000	1,28,000
			Share in the Moon Co. Ltd.	1,00,000	
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	35,000	27,500			
Moon Co. Ltd.	9,000				
	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.

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SOLUTION :

CONSOLIDATED BALANCE SHEET OF SUN CO. LTD. AND ITS SUBSIDIARY MOON CO. LTD.
as at 1st January, 2007

Liabilities	*Rs.*	*Assets*	*Rs.*
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.

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			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 invesments	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

₹

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
(2) *Current liabilities*		
(a) Trade payables	3	1,40,000
		7,40,000
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
		6,80,000	2,60,000
II. Assets			
Sundry assets		4,70,000	2,60,000
Non-current investments	3	2,10,000	
		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		
H Ltd.	1,00,000	
3. Non-current Investments		
100% Equity Shares in S Ltd.	2,10,000	

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 :—

Consalidated 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
		7,40,000

II. Assets		
Sundry assets	4	7,30,000
Intangible assets	5	**10,000**
		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. **Reserve and Surplus**		
Reserve – H Ltd.		1,00,000
3. **Trade Payables**		
H Ltd.	80,000	
S Ltd.	60,000	1,40,000
4. **Sundry Assets**		
H Ltd.	4,7[illegible]00	
S Ltd.	[illegible]00	7,30,000
5. **Intangible Assets**		
Goodwill		10,000

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
		6,00,000	2,60,000
II. Assets			
Sundry assets		5,00,000	2,60,000
Non-current investments	3	**1,20,000**	
		6,20,000	2,60,000

Notes:	*H Ltd.* ₹	*S Ltd.* ₹
1. **Share Capital**		
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**		
60% Equity Shares in S Ltd; at cost	1,20,000	

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
		8,20,000
II. Assets		
Sundry assets	4	8,20,000

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 of H Ltd.		1,00,000
3.	**Trade Payables**		
		₹	
	H Ltd.	80,000	
	S Ltd.	60,000	1,40,000
4.	**Sundry Assets**		
	H Ltd.	5,60,000	
	S Ltd.	2,60,000	8,20,000

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
		7,40,000	3,39,000
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
		7,40,000	3,39,000

Notes:

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

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.

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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
	48,000
Less : Preliminary Expenses	6 ,000
	42,000

(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	35,000	By Net Profit for the year (balancing figure)	37,000
	45,000		45,000

(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	25,200	1,45,200
		17,200

(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	14,800
	1,11,600

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 × 40/10014,000	
	1,14,000
Less : 40% of Preliminary Expenses ₹ 6,000 × 40/100	2,400
	1,11,600

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	1,40,000
Total		9,33,800

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

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		1,00,000
Statement of Profit and Loss	₹	
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		9,10,000	3,74,000
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
		9,10,000	3,74,000

Notes:

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

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
	60,000		60,000
		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 × 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

H Ltd.'s share = ₹ 30,000 × 70/100 = ₹ 21,000

Minority shareholders' share = ₹ 30,000 × 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	10,000
	90,000
Less: Preliminary Expenses	6,000
	84,000

H Ltd.'s share = ₹ 84,000 × 70/100 = ₹ 58,800

Minority shareholders' share = ₹ 84,000 × 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	1,98,800
		61,200

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(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
	94,200

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
	96,000
Less: 30% of Preliminary Expenses, ₹ 6,000 × 30/100	1,800
	94,200

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		10,85,200
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		10,85,200

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

3. **Trade Payables**		
H Ltd.		90,000
S Ltd.		60,000
		1,50,000
4. **Tangible Assets**		
Machinery		
H Ltd.	3,00,000	
S Ltd.	1,00,000	4,00,000
Furniture		
H Ltd.	70,000	
S Ltd.	45,000	1,15,000
		5,15,000
5. **Intangible Assets**		
Goodwill		61,200
6. **Inventories**		
H Ltd.	[illegible],000	
S Ltd.	[illegible],89,000	3,64,000
7. **Trade Receivables**		
H Ltd.	[illegible]	
S Ltd.	30,[illegible]	[illegible]00
8. **Cash and Cash Equivalents**		
H Ltd.	50,000	
S Ltd.	[illegible],000	60,000

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
	10,00,000	3,00,000
2. Reserves and Surlpus		
Geneal Reserves	3,00,000	40,000
Surplus i.e credit balance of Profit and Loss A/c	1,00,000	39,000
	4,00,000	79,000
3. Non-current Investments		
80% Equity Shares in S Ltd.	1,95,000	
30% Preference Shares in S Ltd.	30,500	
	2,25,500	

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

	₹
Revenue Profit	45,000
Less: Preference Dividend on ₹ 1,00,000 @ 10% per annum for 1 year	10,000
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	4,000
	34,000

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		30,500
		2,25,500
Less: Paid up value of 80% equity shares	1,60,000	
Paid up value of 30% preference shares	30,000	
H Ltd.'s share of capital profits	27,200	2,17,200
		8,300

(*iv*) *Calculation of Minority Interest :*

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

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	10,00,000
Reserves and Surplus	2	4,31,000
Minority interest [working note (iv)]		1,30,800
Current liabilities		
Trade payables	3	2,77,000
		18,38,000
II. Assets		
Sundry assets	4	18,30,500
Intangible assets	5	8,300
		18,38,800

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			
Shareholders' funds			
Share capital	1	8,00,000	2,00,000
Reserves and surplus	2	2,40,000	1,25,000
Current liabilities			
Trade payables		1,20,000	80,000
Total		[illegible]0,000	4,05,000
II. Assets			
Non-current assets			
Fixed assets			
Tangible assets		5,[illegible]00	[illegible],000
Non-current investments		2,80,[illegible]	
Current assets			
Inventories		[illegible]05,000	1,77,000
Other Current a[illegible]s		[illegible]5,000	1,28,000
[illegible]tal		11,60,000	4,05,000

Notes:

	H Ltd.	S Ltd.
1. **Share Capital**	₹	₹
Issued, Subscribed and Paid up:		
Equity Shares of ₹ 10 each, fully paid	8,00,000	2,00,000
2. **Reserves and Surlpus**		
General Reserve	1,50,000	70,000
Surplus i.e credit balance of Profit and Loss A/c	90,000	55,000
	2,40,000	1,25,000
3. **Non-current Investments**		
75% Equity Shares in S Ltd. at cost	2,80,000	

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*) *Capital Profits* :

	₹
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	15,000
	95,000

H Ltd.'s share = ₹ 95,000 × 75/100 = ₹ 71,250
Minority shareholders' share = ₹ 95,000 × 25/100 = ₹ 23,750

(*ii*) *Revenue Profits* :

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*) *Unrealised profit in respect of stock with H Ltd.* :

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*) *Cost of control or goodwill* :

	₹	
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	71,250	2,21,250
Goodwill		58,750

(*v*) *Minority Interest :*

	₹
Paid up value of 25% shares of S Ltd.	50,000
Add : Share in capital profits	23,750
Add : Share in reserve profits	7,500
	81,250

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	13,750
	81,250

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

₹

Particulars	*Note No.*	*Amount as at 31st march, 2012*
I. Equity and Liabilities		
Shareholders' funds		
Share Capital	1	8,00,000
Reserves and Surplus	2	2,60,000
Minority interest [working note (v)]		81,250
Current liabilities		
Trade payables	3	2,00,000
Total		13,41,250
II. Assets		
Non-current assets		
Fixed assets		
Tangible assets	4	6,50,000
Intangible assets	5	58,750
Current assets		
Inventories	6	2,79,500
Other current assets	7	3,53,000
Total		13,41,250

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

6. Inventories	
H Ltd.	1,05,000
S Ltd.	1,77,000
	2,82,000
Less: Unrealised profit	2,500
	2,79,500
7. Other current Assets	
H Ltd.	2,25,000
S Ltd.	1,28,000
	3,53,000

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		12,30,000	3,65,000
II. Assets			
Non-current assets			
Fixed assets			
Tangible assets	4	8,00,000	2,20,000
Non-current investments	5	1,55,000	

Current assets			
Inventories		1,00,000	50,000
Trade receivables	6	85,000	55,000
Cash and cash equivalents	7	90,000	40,000
Total		12,30,000	3,65,000

Notes:

	H Ltd.	S Ltd.
	₹	₹
1. Share Capital		
Issued, Subscribed and Paid up:		
Fully paid Equity Shares of ₹ 10 each	9,00,000	2,50,000
2. Reserves and Surlpus		
General Reserves	1,60,000	40,000
Surplus i.e credit balance of Profit and Loss A/c	80,000	25,000
	2,40,000	65,000
3. Trade Payables		
Total of accounts of Credit Suppliers	50,000	30,000
Bills Payable	40,000	20,000
	90,000	50,000
4. Tangible Assets		
Machinery	7,00,000	1,50,000
Furniture	1,00,000	70,000
	8,00,000	2,20,000
5. Non-current Investments		
15,000 Equity Shares in S Ltd., at cost	1,55,000	
6. Trade Receivables		
Total of accounts of credit customers	60,000	35,000
Bills Receivables	25,000	20,000
	85,000	55,000
7. Cash and Cash Equivalents		
Balance with Bank	90,000	40,000

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) *Capital Profits :*

	₹
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
	50,000

H Ltd.'s share = ₹ 50,000 × (15,000/25,000) = ₹ 30,000.
Minority shareholders' share = ₹ 50,000 – ₹ 30,000 = ₹ 20,000.

(ii) *Revenue Profit :*

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) *Capital Reserve on acquisition of shares :*

Paid up value of 15,000 shares of S Ltd.	1,50,000
H Ltd.'s share of capital profits	30,000
	1,80,000
Less: Cost of shares	1,55,000
Capital Reserve	25,000

(iv) *Minority Interest :*

Paid up value of 10,000 shares held by minority shareholders	1,00,000
Capital Profits	20,000
Revenue Profits	6,000
	1,26,000

Alternatively :

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
	1,26,000

(v) *Unrealised profit in respect of inventories:*
=(₹ 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		
Shareholders' funds		
Share Capital	1	9,00,000
Reserves and surplus	2	2,73,500
Minority interest [working note (iv)]		1,26,000
Current liabilities		
Trade payables	3	1,29,000
Total		14,28,500
II. Assets		
Non-current assets		
Fixed assets	4	10,20,000
Current assets		
Inventories	5	1,49,500
Trade receivables	6	1,29,000
Cash and cash equivalents	7	1,30,000
Total		14,28,500

Notes:

		₹
1. **Share Capital**		
Issued, Subscribed and Paid up:		
90,000 Equity Shares of ₹ 10 each, fully paid		9,00,000
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	9,000	
	89,000	
Less: Unrealised profit	500	88,500
		2,73,500
3. **Trade Payables**		
Total of list of credit suppliers		
H Ltd.	50,000	
S Ltd.	30,000	
	80,000	
Less: Mutual Owings	4,000	76,000
Bills Payable		
H Ltd.	40,000	
S Ltd.	20,000	
	60,000	
Less: Mutual Owings	7,000	53,000
		1,29,000
4. **Tangible Assets**		
Machinery		
H Ltd.	7,00,000	
S Ltd.	1,50,000	8,50,000
Furniture		
H Ltd.	1,00,000	
S Ltd.	70,000	1,70,000
		10,20,000
5. **Inventories**		
H Ltd.	1,00,000	
S Ltd.	50,000	
	1,50,000	
Less: Unrealised Profit	500	1,49,500
6. **Trade Receivables**		
Total of list of credit customers		
Credit customers		
H Ltd	60,000	
S Ltd.	35,000	
	95,000	
Less: Mutual Owings	4,000	91,000
Bills Payable		
H Ltd.	25,000	
S Ltd.	20,000	
	45,000	

Less: Mutual Owings	7,000	38,000
		1,29,000
7. Cash and Cash Equivalents		
Balance with Bank		
H Ltd.	90,000	
S Ltd.	40,000	1,30,000

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
		8,90,000	3,95,000
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
		8,90,000	3,95,000

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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	5,00,000	2,00,000
2. Reserves and Surplus		
General Reserve (as at 31st March, 2011)	1,30,000	55,000
Surplus	1,60,000	65,000
	2,90,000	1,20,000
3. Trade Payables		
Trade Creditors	1,00,000	75,000
4. Tangible Assets		
Machinery	2,50,000	
Furniture	85,000	50,000
	3,35,000	50,000
5. Intangible Assets		
Goodwill	30,000	20,000
6. Non-current Investments		
Equity Shares in S Ltd; at cost	1,70,000	
7. Trade Receivables		
Trade Debtors	65,000	58,000
8. Cash and Cash Equivalents		
Balance with Bank	80,000	37,000

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
	88,400		88,400

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
	1,70,000		1,70,000
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/fd	1,60,000
To Balance c/d	1,48,000		
	1,60,000		1,60,000
		By Balance b/d	1,48,000

(iii) *Capital Profits :*

	₹
General Reserve	55,000
Profit & Loss account ₹ 52,000 – ₹ 2,00,000 × 10/100 – 2000	30,000
	85,000

H Ltd.'s share = ₹ 85,000 × 12,000/20,000 = ₹ 51,000

Minority shareholders' share = ₹ 85,000 – ₹ 51,000 = ₹ 34,000.

(iv) *Capital Profit on acquisition of shares :*

Paid up value of 12,000 shares	1,20,000
Add: H Ltd.'s share of capital profits	51,000
	1,71,000
Less: Balance of Shares in S Ltd. Account after deduction of dividend received out of pre-acquisition profits	1,58,000
	13,000

(v) *Minority Interest :*

Paid up value of 8,000 shares	80,000
Capital Profits	34,000
Current year's profit	14,000
	1,28,000

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	2,99,000
Minority interest		1,28,000
Current liabilities		
Trade payable	3	1,75,000
Total		11,02,000
II. Assets		
Non-current assets		
Fixed assets		
Tangible assets	4	3,85,000
Intangible assets	5	37,000
Current assets		
Inventories	6	4,40,000
Trade receivables	7	1,23,000
Cash and cash equivalents	8	1,17,000
Total		11,02,000

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		
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	21,000	1,69,000
		2,99,000
3. Trade Payables		
Trade Creditors		
H Ltd.	1,00,000	
S Ltd.	75,000	1,75,000
4. Tangible Assets		
Machinery		
H Ltd.	2,50,000	2,50,000
Furniture		
H Ltd.	85,000	
S Ltd.	50,000	1,35,000
		3,85,000
5. Intangible Assets		
Goodwill		
H Ltd.	30,000	
S Ltd.	20,000	
	50,000	
Less: Capital Reserve on acquisition of shares [working Note (iv)]	13,000	37,000
6. Inventories		
H Ltd.	2,10,000	
S Ltd.	2,30,000	4,40,000
7. Trade Receivables		
Trade Debtors		
H Ltd.	65,000	
S Ltd.	58,000	1,23,000
8. Cash and Cash Equivalents		
Balance with Bank		
H Ltd.	80,000	
S Ltd.	37,000	1,17,000

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	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.

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

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
	1,05,000		1,05,000
		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	20,000	
		1,70,000

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	12,500
	20,000

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		10,000
		3,50,000
Less: Paid up value of 80% shares in S Ltd.	2,00,000	
Add: H Ltd.'s share of Capital Profits	1,36,000	3,36,000
		14,000

(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	4,000
	88,000

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	7,50,000
Reserves and surplus	2	6,96,000
Minority interest [Working Note (vi)]		88,000
Current liabilities		
Trade payable	3	1,30,000
Total		16,64,000
II. Assets		
Non-current assets		
Fixed assets		
Tangible assets	4	10,05,000
Intangible assets [Working Note (v)]	5	14,000
Current assets		
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 Ld.	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.	65,000	2,15,000
		10,05,000
5. Intangible Assets		
Goodwill		14,000
6. Inventories		
H Ltd.	1,45,000	
S Ltd.	1,61,000	3,06,000
7. Trade Receivables		
Trade Debtors		
H Ltd	85,000	
S Ltd.	79,000	1,64,000
8. Cash and Cash Equivalents		
Balance with Bank		
H Ltd.	1,20,000	

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 inD 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.

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:

(i) H Ltd. acquired the shares on 31st July, 1995.
(ii) S Ltd. earned profit of Rs. 45,000 for the year ended 31st March, 1996.
(iii) 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**

a) 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.
b) All the bills payable of S Ltd. were accepted in favour of H Ltd.
c) The stocks of H Ltd. includes Rs.50,000 purchased from S Ltd. The profit added was 25% on cost.

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 it's 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. sowed 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.

UNIT - V

Accounts of Banking Companies : Difference between Balance Sheet of Banking and Non – banking Companies – Prudential Norms – Assets Structure of a Commerceial Bank – Non – performing Assets (NPA). Cash Flow Statement – Concept of Funds – Preparation of Cash Flow Statement as per Indian Accounting Standard (Ind. – AS)7

ACCOUNTS OF BANKING COMPANIES

In India, banking companies are governed by the Banking Regulation Act 1949. Section 5 of the Act defines banking as "the accepting, for the purpose of lending or investment, of deposits of money from the public repayable on demand or otherwise and withdrawable by cheque, draft, and order or otherwise".

Business of banking companies

In addition to the business of banking, a banking company may engage in any one or more of the following business:

i. The borrowing, raising, or taking up of money
ii. The lending or advancing of money either upon or without security
iii. The drawing, making, accepting, discounting, buying, selling, collecting and dealing in b bills of exchange, hundies, promissory notes, coupons, drafts, bills of lading, railway receipts, warrants, debentures, certificates, scrips and other instruments, and securities whether transferable or negotiable or not.
iv. The granting and issuing of letter of credit, travelers cheques and circular notes
v. On receiving of all kinds of bonds, scrips or valuables on deposit or for safe custody or otherwise.
vi. The buying, selling and dealing in bullion
vii. The collecting and transmitting of money and securities
viii. Contracting for public and private loans and negotiating and issuing the same
ix. Carrying on and transacting every kind of guarantees and indemnity business
x. Undertaking and executing trusts, etc…

Important provisions of the Banking Regulation Act 1949

1. **Statutory Reserve**

As per Section 17, banking companies incorporated in India hall transfer every year at least 25% of its profit before any dividend is declared to a Statutory reserve (Reserve fund) until the amount of the reserve together with the security premium Account is equal to the paid up capital.

2. **Cash Reserve Ratio (CRR)**

Banks are required to maintain with the Reserve Bank of India a cash reserve of at least 3% of the total of its demand and time liabilities in India.

3. **Statutory Liquidity Ratio (SLR)**
   Banks are also required to maintain atleas6t 25% of the demand and time liabilities in the form of liquid assets like cash, gold or unencumbered. SLR may vary in a range of 25% to 40%.
4. **Non – Banking Assets**
   These are the assets which are not used in the ordinary course of business of banking, but they are such immovable and movable properties which come under the possession o t he banking company for recovering the amount due from customers.
5. **Minimum Capital and Reserves**
   In case of a banking company incorporated in India, the sum of its paid up capital and reserves shall not be less than the amount mentioned below:
   a. If it has places of business in more than one state Rs.500000, and if any such place of business is situated in Mumbai or Kolkata or in both, Rs.1000000.
   b. If it has all its places of business in one state, none of which is Mumbai or Kolkata,Rs.100000 in respect of its principal place of business plus Rs.10000 for each additional place of business in the same district plus Rs.25000 for each place of business elsewhere in the state(the maximum amount required being Rs.500000).

Accounting System

The accounting system of a banking company is different from that of a trading or manufacturing company. The main features of a bank's accounting system are as follows:

1. Entries in the personal ledgers are made directly from the vouchers
2. From such entries in the personal ledgers each day summary sheets in total are prepared which are posted to the control accounts in the general ledger.
3. The general ledger's trial balance is extracted and agreed every day.
4. All entries in the personal ledgers and summary sheets are checked by persons other than those who have recorded entries. It helps in detection of mistakes.
5. A trial balance of detailed personal ledgers is prepared periodically and gets agreed with the general ledger control accounts.
6. Two vouchers are prepared for every transaction not involving cash.

Books maintained by banks

1. Receiving Cashier's Counter Cash Book.
2. Paying Cashier's Counter Cash Book.
3. Current Accounts Ledger.
4. Saving Bank Accounts Ledger.
5. Fixed Deposit Accounts Ledger.
6. Investment ledger.
7. Bills Discounted and Purchased Ledger.
8. Loan Ledger.
9. Cash Credit Ledger.

10. Customers' Acceptances, endorsements and Guarantee Ledger.
11. Recurring Deposits Accounts Ledger, etc.

The Slip System

This is not a system of book keeping, but a method of rapidly posting entries to books kept on double entry system. In this system, posting is made from slips prepared inside the organization itself or from slips filled in by its customers. In a banking company, the main slips are pay-in-slips, withdrawal slips and cheques and all these slips are filled in by clients of the bank.

Advantages of Slip system

1. It makes accounts reliable.
2. Slips are the basis of auditing.
3. The bank saves a lot of clerical labour as most of the slips are filled in by its customers.
4. There is no need for keeping subsidiary books.

Disadvantages of Slip system

1. Slips may be lost, destroyed or misappropriated as these are loose.
2. In the absence of subsidiary books, books cannot be verified.
3. It is very difficult and expensive to keep date wise record of a large number of slips.
4. Customers feel difficulty on account of slip system.

Final Accounts of Banks

As per Section 29, a banking comp[any incorporated in India, is required to prepare, at the end of each accounting year, a Balance sheet and profit and Loss Account as on the last working day of the year.

Profit and Loss Account

A banking company is required to prepare its Profit and Loss Account according to Form B in the Third Schedule to the Banking Regulation Act, 1949. Form B is given as follows:

Form B

Form of Profit & Loss Account for the year ended 31st March

(000s 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	15		
Interest expended	16		
Operating expenses			
Provisions and contingencies			
Total			
III. Profit/ Loss			
Net profit / loss for the year(I-II) Profit/loss brought forward			
Total			
IV. Appropriations			
Transfer to statutory reserves Transfer to other reserves Transfer to government/ proposed Dividend			
Balance carried over to Balance sheet			
Total			

SCHEDULE 13 – INTEREST EARNED (000s omitted)

	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		

SCHEDULE 14 – OTHER INCOME (000s omitted)

	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, buildings and other assets Less: Loss on sale of land, buildings 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(000s omitted)

	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

(000s omitted)

	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 stationary IV. Advertisement and publicity V. Depreciation on bank's property VI. Directors' fees, allowances and expenses VII. Auditor's fees, allowances and expenses (including branch auditors) VIII. Law charges IX. Postages, telegrams, telephones, etc X. Repairs and maintenance XI. Insurance XII. Other expenditure		
Total		

Illustration 1

Following figures have been obtained from the books of Rai Bank Ltd for the year ending 31st March 2011(figures in '000):
Issued and subscribed capital Rs.1000, Interest and discount earned Rs.3800, Commission and exchange earned Rs.195, Interest paid Rs.2000, Salaries and wages Rs.210, Directors fees Rs.35, Rent and taxes Rs.70, Postage and telegrams Rs.61, Profit on sale of investments Rs.240, Loss on sale of investments Rs.38, Rent received Rs. 62, Depreciation Rs.31, Stationary Rs.60 and Auditors fees Rs.8.
Additional information:

a. The profit and loss account had a balance of Rs.10,00,000 on 1st April 2010.
b. An advance of Rs.12,00,000 has become doubtful and it is expected that only 50% of the amount due can be recovered from the security.

c. The provision of tax is made at 50%.
d. A dividend of 10% is proposed.
Prepare Profit and Loss Account of Rai Bank Ltd for the year ending 31st March 2011.

Solution:

Rai Bank Ltd Profit and Loss Account
For the year ending 31st March 2011 (000s omitted)

	Schedule No	Year ended 31.3.2011	Year ended 31.3.2010
I. Income			
Interest earned	13	3800	
Other income	14	459	
Total		4259	
II. Expenditure			
Interest expended	15	2000	
Operating expenses	16	475	
Provisions and contingencies		1192	
Total		3667	
III. Profit/ Loss			
Net profit / loss for the year(I-II)		592	
Profit/loss brought forward		1000	
Total		1592	
IV. Appropriations			
Transfer to statutory reserves (592x25%)		148	
Transfer to other reserves		-----	
Proposed Dividend		100	
Balance carried over to Balance sheet		1344	
Total		1592	

SCHEDULE 13 – INTEREST EARNED (000s omitted)

	Year ended 31.3.2011	Year ended 31.3.2010
I. Interest/ discount on advances/bills	3800	

Total	3800	

SCHEDULE 14 – OTHER INCOME (000s omitted)

	Year ended 31.3.2011	Year ended 31.3.2010
I. Commission, exchange and brokerage	195	
II. Profit on sale of investments	240	
Less: Loss on sale of investments	(38)	
	62	
III. Miscellaneous income (Rent received)		
Total	459	

SCHEDULE 15 – INTEREST EXPENDED (000s omitted)

	Year ended 31.3.2011	Year ended 31.3.2010
I. Interest on deposits	2000	
Total	2000	

SCHEDULE 16– OPERATING EXPENSES
(000s omitted)

	Year ended 31.3.2011	Year ended 31.3.2010
I. Payments to and provisions for employees	210	
II. Rent, taxes and lighting	70	
III. Printing and stationary	60	
IV. Depreciation on bank's property	31	
V. Directors' fees, allowances and expenses	35	
VI. Auditor's fees, allowances and expenses (including branch auditors)	8	
VII. Postages, telegrams, telephones, etc	61	
Total	475	

Illustration 2

From the following information, prepare the Profit and loss Account of the National Bank for the year ended 31st March 2011(figures in '000):

Interest on loans Rs.518, Interest on cash credits Rs.446, Discount on bills discounted (net) Rs.390, Interest on Overdrafts Rs.108, Interest on Savings bank Account Rs.220, Interest on fixed deposits Rs.554, Commission, exchange and brokerage Rs.16.40, Rent, taxes and lighting Rs.36, Auditors fees Rs.2.40, Postage, telegrams and telephones Rs.2.80, Sundry charges Rs.2, Directors fees Rs.6, Printing and stationery Rs.0.40, Law charges Rs.1.40, payment to employees Rs.108, Locker rent Rs.0.70, Transfer fees Rs.1.40, Depreciation on bank's property Rs.10 and Advertisement an publicity Rs.1.40.

Additional information: Rebate on bills discounted Rs.98000 and provide for bad debts Rs.58000.

Solution:

National Bank Ltd
Profit and Loss
Account
For the year ending 31st March 2011 (000s omitted)

	Schedule No	Year ended 31.3.2011	Year ended 31.3.2010
I. Income			
Interest earned	13	1364.00	
Other income	14	18.50	
Total		1382.50	
II. Expenditure			
Interest expended	15	774.00	
Operating expenses	16	170.40	
Provisions and contingencies		58.00	
Total		1002.40	
III. Profit/ Loss			
Net profit / loss for the year(I-II)		380.10	
Profit/loss brought forward		--------	
Total		380.10	
IV. Appropriations			
Transfer to statutory reserves (380.10x25%)		95.03	
Transfer to other reserves		-----	
Transfer to government/ proposed Dividend		-----	
Balance carried over to Balance		285.07	
		380.10	

sheet Total			

SCHEDULE 13 – INTEREST EARNED (000s omitted)

	Year ended 31.3.2011	Year ended 31.3.2010
I. Interest/ discount on advances/bills(518+446+390+108-98)	1364.00	
II. Income on investments	----	
III. Interest on balances with Reserve Bank of India and other inter-bank funds	-----	
IV. Others	-----	
Total	1364.00	

SCHEDULE 14 – OTHER INCOME (000s omitted)

	Year ended 31.3.2011	Year ended 31.3.2010
I. Commission, exchange and brokerage	16.40	
II. Lockers Rent	0.70	
III. Transfer fees	1.40	
Total	18.50	

SCHEDULE 15 – INTEREST EXPENDED (000s omitted)

	Year ended 31.3.2011	Year ended 31.3.2010
I. Interest on deposits(220+554)	774.00	
Total	774.00	

SCHEDULE 16– OPERATING EXPENSES (000s omitted)

	Year ended 31.3.2011	Year ended 31.3.2010

I. Payments to and provisions for employees	108.00	
II. Rent, taxes and lighting	36.00	
III. Printing and stationary	0.40	
IV. Advertisement and publicity	1.40	
V. Depreciation on bank's property	10.00	
VI. Directors' fees, allowances and expenses	6.00	
VII. Auditor's fees, allowances and expenses (including branch auditors)	2.40	
VIII. Law charges	1.40	
IX. Postages, telegrams, telephones, etc	2.80	
X. Other expenditure	2.00	
Total	170.40	

Balance Sheet

The balance sheet of a banking company is prepared according to Form A in Third Schedule which is as follows:

BALANCE SHEET OF …… (Here enter name of the banking company)
as on 31st March (Year) (000s omitted)

	Schedule No	As on 31.3..(Current Year)	As on 31.3.(Previous Year)
Capital & Liabilities			
Capital	1		
Reserves & Surplus	2		
Deposits	3		
Borrowings	4		
Other Liabilities and Provisions	5		
Total			
Assets			
Cash and balances with RBI	6		
Balances with banks & money at call and short notice	7		
Investments	8		
Advances	9		
Fixed Assets	10		

Other Assets	11		
Total			
Contingent liabilities	12		
Bills for collection			

SCHEDULE 1 – CAPITAL

	As on 31.3..(Current Year)	As on 31.3.(Previous Year)
I. For Nationalized Banks Capital (Fully owned by Central Government Total II. For Banks Incorporated Outside India Capital (The amount brought in by banks by way of start-up capital as prescribed by RBI should be shown under this head) Amount of deposit kept with the RBI under section 1(2) of Banking Regulations Act, 1949		
Total		
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		

SCHEDULE 2 – RESERVES & 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 & Other Reserves Opening Balance Additions during the year Deductions during the year V. Balance in Profit and Loss Account Total (I+II+III+IV+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. Saving Bank Deposits III. Term Deposits (i) From Banks (ii) From Others		
Total (I+II+III)		
B. (i) Deposits of branches in India (ii) Deposits of branches outside India		
Total		

SCHEDULE 4 – BORROWINGS

	As on 31.3..(Current Year)	As on 31.3.(Previous Year)
I. Borrowings in India (i) Reserve Bank of India (ii) Other banks (iii) Other institutions and agencies II. Borrowings outside India		
Total		

Secured borrowings included in I & II above – Rs.

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 accounts (ii) In other deposit accounts		
Total (I &II)		

SCHEDULE 7 – BALANCES WITH BANKS & 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		
II. Outside India		
(i) In current accounts (ii) In other deposit accounts (iii) Money at call and short notice 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		
II. Investments outside India in (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 repayable 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 (CI+CII)		

SCHEDULE 10 – FIXED ASSETS

	As on 31.3..(Current Year)	As on 31.3.(Previous Year)
I. Premises		
At cost 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 on 31st March of the preceding year		
Additions during the year		
Deductions during the year		
Depreciation to date		
Total		

SCHEDULE 11 – OTHER ASSETS

	As on 31.3..(Current Year)	As on 31.3.(Previous Year)
I. Inter-office adjustments (net) II. Interest accrued III. Tax p[aid in advance/ tax deducted at source IV. Stationery and stamps V. Non-banking assets acquired in satisfaction of claims VI. Others		
Total		

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 partly paid investments III. Liability on account of outstanding forward exchange contracts IV. Guarantees given on behalf of constituents (i) In India (ii) Outside India V. Acceptances, endorsements and other obligations VI. Other items for which the bank is contingently liable		
Total		

Explanation of some items relating to Balance Sheet

1. Money at call and short notice: It represents temporary loans to bill brokers, stock brokers and other banks. If the loan is given for one day, it is called “money at call” and if the loan cannot be called back on demand and will require at least a notice of three days for calling back, it is called “money at short notice”.
2. Advances: Advances include Bills discounted and purchased, loans, cash credit and overdraft.
3. Inter - office adjustments: Every head office will have a number of transactions with its branches. The head office makes necessary adjustments in its books on the

receipt of information from the branches. On the date of balance sheet some transaction may remain unadjusted in the books of the head office. Such entries are recorded in the balance sheet under the sub-heading 'Branch Adjustments' and may appear on the assets side under the heading 'Other Assets' if it has a debit balance and on t e liabilities side under the heading 'Other Liabilities' if it has a credit balance.

4. Bills for Collection: When the bank receives bills receivables from its customers for collection, it keeps them till maturity. On the date of maturity when bills are collected, customers account is credited with the amount collected. If some bills remain outstanding, such bills are treated by the banks as outstanding bills for collection. It is shown as 'Contingent Liability (Schedule 12)'.
5. Acceptance, endorsement and other obligation: This represents bank's liability on account of bills endorsed or accepted on behalf of its customers. For greater security, the drawer of bill wants acceptance of the drawee's bank. The bank incurs a liability by accepting bills on behalf of customers. On the maturity of bill, the bank pays and collects the amount from its customers. At the end of the accounting period, if tee is any outstanding bills it is shown on the 'Contingent Liability (Schedule 12)'.

Illustration 3

From the following particulars, prepare the final accounts of Jaya Bank Ltd for the year ended 31st March 2011.

Share capital		500000
Reserve Fund		1000000
Fixed deposit		2000000
Savings bank deposit		3000000
Current accounts		7000000
Borrowed from the bank		200000
Investments	3000000	
Premises	1200000	
Cash in hand	60000	
Cash at bank	2800000	
Money at call and short notice	300000	
Interest accrued and paid	200000	
Salaries	80000	
Rent	30000	
Profit and Loss Account (01.04.2010)		160000
Interest earned		450000
Bills discounted	500000	

Bills payable		800000
Loans, advances, overdraft and credits	7000000	
Unclaimed dividends		30000
Sundry creditors		30000
	------------	--------------
	15170000	15170000
	--------------	---------------

The bank had the bills for Rs.1400000 as collection for its constituents and also acceptance and endorsements for them amounting to Rs.400000.

Solution :

Profit and Loss Account of Jaya Bank Ltd.
For the year ended 31st March 2011

(000s omitted)

	Schedule No	Year ended 31.3.2011	Year ended 31.3.2010
I. Income			
Interest earned	13	450	
Other income	14		
Total		450	
II. Expenditure			
Interest expended	15	200	
Operating expenses	16	110	
Provisions and contingencies		-----	
Total		310	
III. Profit/ Loss			
Net profit / loss for the year(I-II)		140	
Profit/loss brought forward		160	
Total		300	
IV. Appropriations			
Transfer to statutory reserves (140x25%)		35	
Transfer to other reserves			
Transfer to government/ proposed Dividend			
Balance carried over to Balance sheet		265	
Total		300	

SCHEDULE 13 –INTEREST EARNED (000s omitted)

	Year ended 31.3.2011	Year ended 31.3.2010
I. Interest/ discount on advances/bills	450	
Total	450	

SCHEDULE 14 – OTHER INCOME (000s omitted)

	Year ended 31.3.2011	Year ended 31.3.2010
I. Commission, exchange and brokerage II. Profit on sale of investments Less: Loss on sale of investments III. Miscellaneous income (Rent received)		
Total	-----------	

SCHEDULE 15 – INTEREST EXPENDED (000s omitted)

	Year ended 31.3.2011	Year ended 31.3.2010
I. Interest on deposits	200	
Total	200	

SCHEDULE 16 – OPERATING EXPENSES (000s omitted)

	Year ended 31.3.2011	Year ended 31.3.2010
I. Payments to and provisions for employees II. Rent, taxes and lighting	80 30	
Total	110	

Balance Sheet of Jaya Bank Ltd as on 31st March 2011 (000s omitted)

	Schedule No	As on 31.3.2011	As on 31.3.2010
Capital & Liabilities			
Capital	1	500	
Reserves & Surplus	2	1300	
Deposits	3	12000	
Borrowings	4	200	
Other Liabilities and Provisions	5	860	
Total		14860	

Assets			
Cash and balances with RBI	6	60	
Balances with banks & money at call and short notice	7	3100	
Investments	8	3000	
Advances	9	7500	
Fixed Assets	10	1200	
Other Assets	11	------	
Total		14860	
Contingent liabilities	12	400	
Bills for collection		1400	

SCHEDULE 1 - CAPITAL

	As on 31.3.2011	As on 31.3.2010
Authorised capital: Shares of Rs.10 each Issued capital: Shares of Rs.10 each Subscribed capital: Shares of Rs.10 each Called up capital: Shares of Rs.10each Rs.5 each fully paid	500	
Less: Calls unpaid Add: Forfeited shares		
Total	500	

SCHEDULE 2 – RESERVES & SURPLUS

		As on 31.3.2011	As on 31.3.2010
I. Statutory Reserves			
Opening Balance	1000		
Additions during the year	35	1035	
II. Capital Reserves			
III. Securities Premium			
IV. Revenue & Other Reserves			
V. Balance in Profit and Loss Account		265	

Total (I+II+III+IV+V)	1300	

SCHEDULE 3 – DEPOSITS

	As on 31.3.2011	As on 31.3.2010
A.		
I. Demand Deposits	7000	
II. Saving Bank Deposits	3000	
III. Term Deposits	2000	
Total (I+II+III)	12000	
B.		
(i) Deposits of branches in India		
(ii) Deposits of branches outside India		
Total	12000	

SCHEDULE 4 – BORROWINGS

	As on 31.3.2011	As on 31.3.2010
I. Borrowings in India		
Reserve Bank of India Other banks	200	
Other institutions and agencies		
II. Borrowings outside India		
Total	200	

SCHEDULE 5 – OTHER LIABILITIES AND PROVISIONS

	As on 31.3.2011	As on 31.3.2010
I. Bills payable	800	
II. Inter-office adjustments (net)		
III. Interest accrued		
IV. Others (including provisions)30+30	60	
Total	860	

SCHEDULE 6 – CASH AND BALANCES WITH RESERVE BANK OF INDIA

	As on 31.3.2011	As on 31.3.2010
I. Cash in hand (including foreign currency notes)	60	
II. Balances with Reserve Bank of India		
(iii) In current accounts		
(iv) In other deposit accounts		
Total (I &II)	60	

SCHEDULE 7 – BALANCES WITH BANKS & MONEY AT CALL & SHORT NOTICE

	As on 31.3.2011	As on 31.3.2010
I. In India		
Balances with banks	2800	
Money at call and short notice	300	
Total	3100	
II. Outside India	-------	
Grand Total (I+II)	3100	

SCHEDULE 8 – INVESTMENTS

	As on 31.3.2011	As on 31.3.2010
I. Investments in India	3000	
II. Investments outside India		
Total	3000	

SCHEDULE 9 – ADVANCES

	As on 31.3.2011	As on 31.3.2010
A.		
(i) Bills purchased and discounted	500	
(ii) cash credits, overdrafts and loans repayable on demand	7000	

(iii) Term loans	7500	
Total		

SCHEDULE 10 – FIXED ASSETS

	As on 31.3.2011	As on 31.3.2010
I. Premises At cost on 31st March of the preceding year II. Other fixed Assets (including furniture and fixtures)	1200	
At cost on 31st March of the preceding year Total	1200	

SCHEDULE 11 – OTHER ASSETS

	As on 31.3.2011	As on 31.3.2010
I. Inter-office adjustments (net) II. Interest accrued III. Tax p[aid in advance/ tax deducted at source IV. Stationery and stamps V. Non-banking assets acquired in satisfaction of claims		
VI. Others Total	---------	

SCHEDULE 12 – CONTINGENT LIABILITIES

	As on 31.3.2011	As on 31.3.2010
I. Claims against the bank not acknowledged as debts		
II. Liability for partly paid investments		
III. Liability on account of outstanding forward exchange contracts		
IV. Guarantees given on behalf of constituents		
(iii) In India		
(iv) Outside India		
V. Acceptances, endorsements and other obligations	400	
VI. Other items for which the		

bank is contingently liable	400	
Total		

Non-Performing Assets (NPA)

Bank advances can be classified as Performing Assets and Non-Performing Assets (NPA). An asset becomes NPA when it ceases to generate income for the bank. NPA means a credit facility in respect of which interest and/or principal repayment installments is in arrears for more than 90 days. Interest income from NPA is considered as income as and when it is received rather than on accrual basis.

Asset Classification

Bank's loans and advances are to be classified into two broad categories- Standard assets and Non-Performing Assets. NPAs are subdivided into three- Substandard, Doubtful and Loss Assets. These may be explained as follows:

1. Standard Assets – Standard assets are those which do not carry more than the normal credit risk attached to the business. These are assets which are not NPAs.
2. Sub-standard Assets – These have been classified as NPA for a period not exceeding 12 months.
3. Doubtful Assets - Doubtful Assets are those which have remained NPA for a period exceeding 12 months.
4. Loss Assets – Loss assets are those assets in which loss has been identified by the bank, auditors or RBI but the amount has not been written off wholly or partly. These assets are irrecoverable.

Rebate on bills discounted or unexpired discounts

The whole amount of discount on bills discounted may no t be related to that accounting year. A part of it may be related to next accounting period. This is so because at the close of the accounting year, some of the bills discounted may not have matured. In short rebate on bills discounted means the unearned amount or discount received for those bills which mature after the date of closing the final accounts. It is also called unexpired discount or discount received in advance. It is carried forward to next year by passing the following entry:

Interest and discount A/c Dr

To Rebate on bills discounted.

If rebate on bills discounted is given in trial balance, it should e taken to Balance sheet under "Other Liabilities and Provisions". If it is given under adjustments, it should be deducted from "Interest and Discount" in Profit and loss Account and should be taken to Balance sheet under "Other Liabilities and Provisions".

At the commencement of next accounting year it is transferred to Interest and Discount Account by reversing the above entry.

Illustration 4

In respect 0f the following transactions of Best Bank Ltd pass necessary journal entries as well as their treatment in the P&L A/c and Balance Sheet for the year ended 31st March 2011.

The following bills are discounted at 5%.

Discounted on	Amount Rs.	Terms (months)
23.12.2011	50000	3
19.09.2011	100000	4
20.10.2011	400000	3
30.11.2011	30000	5

Solution:

Calculation of Rebate on bills discounted

Due date	No. of days after 31.12.11	Amount Rs.	Rate of discount %	Unexpired Discount
26.03.2011	85	50000	5	50000x5/100x85/365= 582
22.01.2011	22	100000	5	100000x5/100x22/365= 301
23.01.2011	23	400000	5	400000x5/100x23/365= 1260
03.05.2011	123	30000	5	30000x5/100x123/365= 506
				2649

Rebate on bills discounted =
2649 Journal entry:

Interest and discount A/c	Dr	2649	
To Rebate on bills discounted.			2649

Rebate on bills discounted Rs.2649 will be deducted from "Interest and Discount" in P&L A/c. it will also appear on the liability side of Balance sheet under the heading "Other liabilities and provisions".

Illustration 5

The following are the ledger balances of the National Bank Ltd. Prepare P&L A/c and Balance Sheet as on 31st March 2011 as per the requirements of The Banking Regulation Act.

Share capital (20000 shares of Rs.100 each)	2000000
Reserve Fund investments	1000000
General expenses	182000
Current accounts	20244000
Interest paid	161000
Savings bank account	2920000
Fixed deposits	4000000

Profit and loss Account(on 31st March 2010)	230000
Discount received	180000
Rebate on bills discounted	64000
Commission, exchange and brokerage	44000
Cash	227000
Interest received	532000
Cash with RBI	2012000
Owing by foreign correspondents	200000
Short loans	6482000
Loans and advance to customers	15585000
Investments	9883000
Bills discounted	6228000
Premises	2218000

Adjustments:

1. Provision for bad and doubtful debts required Rs.129000
2. The bank had bills for collection for its constituents Rs.500000and acceptances, endorsements and guarantees Rs.1600000.
3. The P&L A/c balance is the balance left on that account after the payment of interim dividend amounting to Rs.200000.

Solution:

Profit and Loss Account of National Bank Ltd.
For the year ended 31st March 2011 (000s omitted)

	Schedule No	Year ended 31.3.2011	Year ended 31.3.2010
I. Income			
Interest earned	13	712	
Other income	14	44	
Total		756	
II. Expenditure			
Interest expended	15	161	
Operating expenses	16	182	
Provisions and contingencies		129	
Total		472	

III. Profit/ Loss Net profit / loss for the year(I-II) Profit/loss brought forward		284 430	
Total		714	
IV. Appropriations Transfer to statutory reserves (284x25%) Transfer to other reserves Interim Dividend paid Balance carried over to Balance sheet		71 200 443	
Total		714	

SCHEDULE 13 – INTEREST EARNED (000s omitted)

	Year ended 31.3.2011	Year ended 31.3.2010
I. Interest/ discount on advances/bills	712	
Total	712	

SCHEDULE 14 – OTHER INCOME (000s omitted)

	Year ended 31.3.2011	Year ended 31.3.2010
I. Commission, exchange and brokerage II. Profit on sale of investments Less: Loss on sale of investments III. Miscellaneous income (Rent received)	44	
Total	44	

SCHEDULE 15 – INTEREST EXPENDED (000s omitted)

	Year ended 31.3.2011	Year ended 31.3.2010
I. Interest on deposits	161	
Total	161	

SCHEDULE 16– OPERATING EXPENSES

(000s omitted)

	Year ended 31.3.2011	Year ended 31.3.2010
I. Payments to and provisions for employees	182	
II. General expenses	182	
Total		

Balance Sheet of National Bank Ltd as on 31st March 2011 (000s omitted)

	Schedule No	As on 31.3.2011	As on 31.3.2010
Capital & Liabilities			
Capital	1	2000	
Reserves & Surplus	2	1514	
Deposits	3	27164	
Borrowings	4	6482	
Other Liabilities and Provisions	5	193	
Total		37353	
Assets			
Cash and balances with RBI	6	2239	
Balances with banks & money at call and short notice	7	200	
Investments	8	10883	
Advances	9	21813	
Fixed Assets	10	2218	
Other Assets	11	------	
Total		37353	
Contingent liabilities	12	1600	
Bills for collection		500	

SCHEDULE 1 - CAPITAL

	As on 31.3.2011	As on 31.3.2010
Authorised capital: 20000 Shares of Rs.100 each Issued capital: 20000 Shares of Rs.100 each Subscribed capital: 20000 Shares of Rs.100 each	2000	

Called up capital: 20000 Shares of Rs.100 each Rs.100 each fully paid Less: Calls unpaid Add: Forfeited shares Total	2000	

SCHEDULE 2 – RESERVES & SURPLUS

		As on 31.3.2011	As on 31.3.2010
I. Statutory Reserves			
Opening Balance	1000		
Additions during the year	71	1071	
II. Capital Reserves			
III. Securities Premium			
IV. Revenue & Other Reserves			
V. Balance in Profit and Loss Account		443	
Total (I+II+III+IV+V)		1514	

SCHEDULE 3 – DEPOSITS

	As on 31.3.2011	As on 31.3.2010
A.		
I. Demand Deposits	20244	
II. Saving Bank Deposits	2920	
III. Term Deposits	4000	
Total (I+II+III)	27164	
B. (i) Deposits of branches in India (ii) Deposits of branches outside India		
Total	27164	

SCHEDULE 4 – BORROWINGS

	As on 31.3.2011	As on 31.3.2010
I. Borrowings in India Reserve Bank of India Other banks Other institutions and agencies III. Borrowings outside India	6482	
Total	6482	

SCHEDULE 5 – OTHER LIABILITIES AND PROVISIONS

	As on 31.3.2011	As on 31.3.2010
I. Others (including provisions) Rebate on bills discounted 64 Provisions 129	193	
Total	193	

SCHEDULE 6 – CASH AND BALANCES WITH RESERVE BANK OF INDIA

	As on 31.3.2011	As on 31.3.2010
I. Cash in hand (including foreign currency notes)	227	
II. Balances with Reserve Bank of India (i) In current accounts (ii) In other deposit accounts	2012	
Total (I &II)	2239	

SCHEDULE 7 – BALANCES WITH BANKS & MONEY AT CALL & SHORT NOTICE

	As on 31.3.2011	As on 31.3.2010
I. In India Balances with banks Money at call and short notice		

Total	200	
II. Outside India	200	
Grand Total (I+II)		

SCHEDULE 8 – INVESTMENTS

		As on 31.3.2011	As on 31.3.2010
I. Investments in India			
Investments	9883		
Reserve Fund Investment	1000	10883	
Total		10883	

SCHEDULE 9 – ADVANCES

	As on 31.3.2011	As on 31.3.2010
A.		
(i) Bills purchased and discounted	6228	
(ii) cash credits, overdrafts and loans repayable on demand	1558	
(iii) Term loans	5	
Total	21813	

SCHEDULE 10 – FIXED ASSETS

	As on 31.3.2011	As on 31.3.2010
I. Premises		
At cost on 31st March of the preceding year	2218	
II. Other fixed Assets (including furniture and fixtures)		
At cost on 31st March of the preceding year	2218	
Total		

SCHEDULE 11 – OTHER ASSETS

	As on 31.3.2011	As on 31.3.2010
I. Inter-office adjustments (net) II. Interest accrued III. Tax p[aid in advance/ tax deducted at source IV. Stationery and stamps V. Non-banking assets acquired in satisfaction of claims VI. Others		
Total	---------	

SCHEDULE 12 – CONTINGENT LIABILITIES

	As on 31.3.2011	As on 31.3.2010
Acceptances, endorsements and other obligations	1600	
Total	1600	

POSSIBLE QUESTIONS
PART – A

1. Banking companies are governed in India by _______
   a) Banking Regulation Act b) Indian Companies Act
   c) Reserve Bank of India Act d) Partnership Act
2. Electronic payment system is an ?
   a) Software b) Hardware
   c) Application d) Package
3. Every Banking Company is required to close its accounts on _________________
   a) 31st December **b) 31st March**
   c) 30th June d) 30th September
4. Provisions for doubtful debts is shown under 'Provisions for Contingencies' in the _________ of banking company
   a) **Profit and Loss A/c** b) Balance Sheet
   c) P & L Appropriation A/c d) Revenue Account
5. SLR stands for _______
   a) Savings Level Ratio **b) Statutory Liquidity Ratio**
   c) Standard Liquidity Ratio d) Standard Level Ratio
6. ______is a form of agreement between two parties in which one party agrees to make good for loss of another.
   a) Contract **b) Insurance**
   c) Banking d) Mutual fund
7. When a bank returns a cheque unpaid, it is called?
   a) Payment of the cheque b) Drawing of the cheque
   c) Dishonour of the cheque d) Taking of the cheque
8. Provision for income tax is shown in the Bank Accounts under the head ___________
   a) Borrowings **b) Other Liabilities**
   c) Operating expenses d) Contingent Liabilities
9. The P&L A/c of Banking Companies are prepared as per _______ of Banking Regulation Act
   a) Form A of Schedule III **b) Form B of Schedule III**
   c) Form A of Schedule VI d) Form B of Schedule VI
10. If cheque is crossed an account payee, this is direction of, to __________
    a) Payee, paying banker b) Payee, collecting bank
    c) Drawer, paying bank **d) Drawer, collecting bank**
11. Letter of Credit and Endorsement are shown in the Bank accounts under the head _________
    a) Bills Payable **b) Contingent liabilities**
    c) Bills for collection d) Other Assets
12. According to present Regulation of the RBI, a banking company is to maintain a minimum of ___________ Percent as Cash Reserve over its time and demand liabilities
    a) 15% **b) 5%**

c) 25% d) 20%

13. The electronic funds transfer using a two-way communications system is referred to as a
    a) Pay or cheque **b) Wire transfer**
    c) Depository transfer cheque d) Payable through draft
14. Lockers rent is shown in the P&L A/c of Bank under the head ___________
    a) Schedule 15 b) Schedule 12
    c) Schedule 13 **d) Schedule 14**
15. Profit and Loss Account of General Insurance Companies are prepared in _______
    a) Form A-PL b) Form B-RA
    c) Form B-PL **d) Form B-BS**
16. In life insurance revenue account, schedule 4 is named as ______________
    a) Premium b) Operating Expenses
    c) Benefits paid d) Commission
17. NPA stands for_________
    a) Non- Performing Assets b) Normal Performing Assets
    c) National Performing Asset d) Notional Performing Assets
18. Which is the first change in banking sector of India after independence?
    a) Nationalization of Banks **b) Social control on Banks**
    c) Establishment of SBI d) Establishment of RBI
19. The usual deposit accounts of banks are ______________
    a) Current accounts, electricity accounts and insurance premium accounts
    b) Current accounts, post office savings, bank accounts and term deposit accounts
    c) Loan accounts, savings bank accounts and term deposit accounts
    d) Current accounts, savings bank accounts and term deposit accounts
20. Banks in India are under the general supervision of ______________
    a) SBI **b) RBI**
    c) SEBI d) ABI

PART- B

1. Define Banking.
2. State any four businesses of Banking Companies.
3. Write short note on Statutory Liquidity Ratio
4. Write a short note on Non – performing Assets.
5. What do you understand by the term Cash Reserves?

PART - C

1. 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
Interested 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

2. 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	1,000

		outside India)	
Current and Deposit Accounts	56,000	Investment Fluctuation Fund	100
Bills for Collection	100		

3. 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.

4. 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.

5. From the following information, prepare Profit and Loss Account of Swadesh Bank Ltd., for the year ended 37st 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 Governement Securities	5
Loss on Sale of Furniture	2	Postage and Telegrams	2
Depriciation	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

6. From the following information, prepare the Profit and Loss A/c of ABC Bank Ltd., for the year ended on 31st March, 2072 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.

7. 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	200	Postage and Telegrams	2

Discounted			
Interest on Current Accounts	45	Sundry Charges	2
Printing and Advertisements	3		

8. 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.) 1st 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.

9. From the books of accounts of New 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	**20,00,000**
Loan to Vijaya Bank Ltd., fully secured	**6,00,000**
Debts due to officers (excluding directors, fully secured)	**4,00,000**
Loans to non – corporate sector – fully secured	**18,00,000**
Loans to Nagarik Bank Ltd., fully secured	**8,00,000**

Debts due by Manoj, director of the bank – fully secured	**2,00,000**
Debts considered good which are unsecured	**10,00,000**
Debts due by companies in which the directors are interested, fully secured	**12,00,000**
Maximum Amount of debts at any time during the year	**30,00,000**
Doubtful Debts	**1,00,000**
Provision for bad and doubtful debts	**1,50,000**
Maximum amount of debts due by officers and directors at any time during the year	**10,00,000**

You are required to show how the items are statutorily required to be entered in the Balance Sheet of the bank.

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	UNIT 1					
	QUESTION	**Option 1**	**Option 2**	**Option3**	**Option4**	**Answer**
1	Share allotment is a _______________	Personal a/c	Real a/c	Impersonal a/c	Nominal a/c	**Personal a/c**
2	Share application A/c is a ____________	Personal a/c	Real a/c	Nominal a/c	Impersonal a/c	**Personal a/c**
3	The minimum share application money is_____________	5% of the face value of share	10% of the issue price of share	Rs.1 per share	15% of the face value of share	**5% of the face value of share**
4	Premium received on issue of share a/c is shown on__________	Asset side of balance sheet	Liabilities side of b/s	Credit side of P&L a/c	Debit side of P&l a/c	**Liabilities side of b/s**
5	Premium on issue of share can be used for______________	Distribution of dividend	Writing off capital	Transferring to general	Paying fees to directors	**Writing off capital**
6	The rate of discount on share cannot exceed____________	3%	6%	5%	10%	**10%**
7	Discount on issue of share a/c is shown on______________	Asset side of B/S	Liabilities side of b/s	Debit side of p/L	Credit side of p/L a/c	**Asset side of B/S**
8	Interest on calls paid in advance has to be paid @______________	4%	6%	7%	9%	**6%**
9	Discount on issue of share is a___________	Revenue loss	Capital loss	Deferred revenue expenditure	General reserve	**Capital loss**
10	Interest @__________is charged on call-in-arrear according the companies act.	5%	9%	3%	12%	**5%**
11	When shares are forfeited the share capital a/c is debited by_____________	Paid up capital	Called up amount	Calls in-arrear	Nominal value of such share	**Called up amount**
12	Discount on reissue of forfeited shares should not exceed__________	5% subscribed capital	10% reissued capital	10% subscribed capital	The amount received so far on forfeited share	**The amount received so far on forfeited share**

13	The profit on re-issue of forfeited shares is transferred to ___________	General reserve	Capital redemption reserve a/c	Capital reserve	Profit&loss a/c	**Capital reserve**
14	If the share of Rs.10 and which Rs.8 has been called and Rs.5 has been received is forfeited share capital a/c in the case will be debited with ____________	Rs.2	Rs.5	Rs.8	Rs.10	**Rs.8**
15	Rights shares are those share which are_____________	Issued by a newly formed company	Fixed offered to the existing share holders	Issued to the directors of the company	Issued to holders of convestible debentures	**Fixed offered to the existing share holders**
16	The difference between subscried capital and called-up capital__________	Uncalled capital	Calls-in-arrears	Paid-upcapital	Calls-in-advance	**Uncalled capital**
17	Owners of company are called___________	Debentures	Dividend	Share holder	Lands	**Share holder**
18	Calls in advance do not form part of___________capital	Paid up capital	Called up amount	Calls in arrear	Nominal value of such shares	**Paid up capital**
19	Call money on share should not exceed___________of the Face value of shares.	25%	50%	10%	1%	**25%**
20	___________have got preference as regards dividend on refund of capital or both.	Preference share holder	Equity share holder	Bond holders	Debenture holder	**Preference share holder**
21	The objects of the company are given in the__________of associations	Memorandum	Voluntary	article	Involuntary	**Memorandum**
22	A new company cannot issue share as______________	Par	Premium	Discount	Par or discount	**Discount**
23	The allotment of share be completed within ________days of the issue of the prospectus	90	100	120	24	**120**
24	The difference between subscribed capital and called up Capital________	Paid up capital	Calls in arrear	Calls in advance	Uncalled capital	**Uncalled capital**
25	Rights share means the shares which are__________	Issued to prometers for their service	Issued to holders of convertible debentures	Issued to directors of the company	Offered to the existing share holders	**Offered to the existing share holders**
26	Unless otherwise stated a preferences share is always deemed to be__________	Un cumulative	non-participing	paticipating	Non convertible	**non-participing**

27	A company is a__________association of a person	Voluntary	Primary	Involuntary	Limited	**Voluntary**
28	The capital divisible into parts known as_________	Share	Share capital	Subscribed share capital	Issued capital	**Share**
29	The company gets with the _________liability	Share	Share capital	Subscribed share capital	Issued capital	**Share capital**
30	A company has a __________succession	Separate	Common	Perpetual	Legal	**Perpetual**
31	The partnership business is regulated by the Indian partnership act___________	1956	1959	1932	1949	**1932**
32	A company of private is registered with minimum___________Members	One	Two	Ten	Fifty	**Two**
33	The profit of the company are disposed of it the form of _____________	Dividend	Bonus shares	Assets	Stock	**Dividend**
34	The profit of the partnership business are distributed among the partners into agreed with___________	Ratio	Equally	Percentages	Ratio and Equally	**Ratio and Equally**
35	Companies registered under the companies act are known as___________companies	Registered	Unregistered	Special	Ordinary	**Registered**
36	Limited companies can be limited by__________	Share	Debentures	Dividend	Non	**Share**
37	A company is required to add words___________as part of its name	Limited company	Unlimited company	Private	Public limited	**Private**
38	According to sec.617 a company of which not less than _______of the paid up share capital	50	51	49	52	**50**
39	Preferences share as that part of the ______________	Capital	Share capital	Deferred share	Preferences share	**Share capital**
40	Deferred share are also known as______________shares	Founder’s shares	Management	Partners	Shareholders	**Founder’s shares**
41	Authorized capital is also known as_________capital	Registered	Unregistered	Nominal	Registered and Nominal	**Registered and Nominal**
42	Subscribed capital refer to the part of ___________capital	Issue	Called up	Paid up	Authorized	**Issue**

43	Called up capital refer to the part of the_________capital	Issue	Subscribed	Authorized	Forfeited	**Subscribed**
44	Paid-up capital it refer to the part of the________capital	Paid up	Call up	Subscribed	Issue	**Call up**
45	The shares are forfeited for __________of calls	Payment	Non payment	Paid	Unpaid	**Non payment**
46	The application is required to remit at least________of the Nominal value of shares	5%	10%	20%	25%	**5%**
47	The amount not paid is called__________	Calls in arrear	Paid up capital	Uncalled capital	Call in advance	**Calls in arrear**
48	The shares are allotted the amount due on allotment is transferred to ____________account	Capital	Share capital	Share allotment	share application	**Share allotment**
49	The company has required to pay interest on such call-in advance__________	5%	6%	4%	10%	**5%**
50	The share is issued at a price which is above its face value is called____	Premium	Discount	Par	Premium or discount	**Premium**
51	The process of cancellation of default share is called__________	Forfeiture	Issue	Reissue	calls in advance	**Forfeiture**
52	The reissue of shares _____than face value	More than face value	Less than face value	Equal	More or Less	**Less than face value**
53	The person to undertake up the whole of portion of the share is called________	Under writing	Under writer	Firm under writing	Pure Under writing	**Under writer**
54	The _________person to undertake the shares which is not issued to public	Under writing	Under writer	Shareholder	Special	**Under writer**
55	The percentage of underwriter commission payable to equity is Share __________	2.5	2%	1%	1.50%	**2.5**
56	Fully paid of share capital is called ___________	Share	Stock	Share dividend	Debenture	**Stock**
57	Forfeiture share amount transferred to________ reserve a/c	Capital reserve	General reserve	Share capital	Redemption	**Capital reserve**
58	Raja ltd. Issued shares of Rs.100 each at Rs.95. The Underwriting commission will be paid on	Rs.100	Rs.95	Rs.195	Rs.50	**Rs.95**
59	Bank A/c is_________when the net amount due from the underwriters on the shares taken up by therm is received	Debited	credited	Assets	liabilities	**Debited**

60	An underwriter amy reduce his burden of buying shares through entering an agreement with another person known as ____________	broker	sub underwirter	jobber	underwriter	**sub underwirter**

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UNIT II

S. No.	QUESTION	Option 1	Option 2	Option3	Option4	Answer
1	In the balance sheet of a limited company assets are arranged in the order of	Liability	Permanency	Neither of the two	Either liability of performance	**Permanency**
2	Dividend are usually paid on	Authorized capital	Subscribed capital	Paid up capital	Called up capital	**Paid up capital**
3	Goodwill is shown in asset side of the 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	In the asset side of the company's balance 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	heading unsecured loans	Under the heading reserves 2s surplus	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	reserve	Insurance fund	**Revaluation reserve**

10	In the liabilities side of the company's 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	When the proposed dividend exceeds 20% 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	The maximum remuneration payable to a pant time director (with out managing director(s)or whole time director (s) or manager) should not exceed	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 altenative from 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 lead	Current liabilities	Current asset	Fixed asset	Miscellaneous expenses	**Fixed asset**
19	When P/L a/c is divided into two parts I.e P/L a/c & P/L appropriation a/c the items which are shown in the P/L a/c are termed as items appear in	Below the line	Above the line	Up line	Lower side	**Above the line**

20	When P/L is split up into two pants I.e P/L a/c of P /L app a/c the item which are appearing on the P/L app a/c are termed as items appropriation	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	According to sec 198 of the company's of act 1956 the maximum total Managerial remuneration should not exceed of the net profit	11%	7.50%	12.20%	5%	**11%**
25	If the proposed dividend exceeds 15%but 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	If the proposed dividend lies between 11 ½% and 15% the percents of profits to be P/L to general reserve is	5%	6%	11%	25%	**5%**
27	Where the dividend proposed exceeds 10% but not 12 ½% of the paid up capital the amount to be to the reserves shall not be less than of the current profits	2 ½%	1 ½%	3 ½%	4 ½%	**2 ½%**
28	The part of the profits of a company which is dividend by the company amount its share holder by way return on share holding is known as	Dividend	Interim dividend	Income tax	Dividend	**Dividend**

29	The dividend which is declared at any time 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	Managers is	1%	2%	3%	5%	**5%**
35	All the directors assisted by managing director whole time director on manager	5%	10%	3%	1%	**1%**
36	All the directors when the company is not having managing director of whole time director or manager	3%	5%	1%	10%	**3%**
37	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**
38	Depreciation provide on the company’s	Fixed asset	Current asset	Current liability	Investment	**Fixed asset**
39	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 goods	**Raw material, Component & spare parts and capital goods**
40	Dividend must be paid within days of declaration	Asset side	Liability side	Debit side	Credit side	**Asset side**
41	Dividend must be paid within ______ days of declaration	42	52	32	15	**42**

42	_____ should not be considered for dividend purpose	Calls in arrear	Calls in advance	Prepaid expenses	Outstanding expenses	**Calls in advance**
43	Interim dividend paid between_____gereral meeting	One	Two	Five	Three	**Two**
44	___ are deducted from the called up capital 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**
45	____reterns to the amount of dividend not collected by the shareholder form the company	Interim dividend	Dividend tax	Unclaimed dividend	Interest dividend	**Unclaimed dividend**
46	Securities premium is shown on the_____side of the balance sheet	Asset	Liabilities	Debit	Credit	**Liabilities**
47	Interim dividend is generally paid for_______months	One	Seven	Six	Eight	**Six**
48	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**
49	________of the company does not forbid such distribution	Board of director	Articles of association	Share holder	Share capital	**Articles of association**
50	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**
51	Diminishing value method is also known as_________	Annuity method	Straight line method	Written down value method	Depletion method	**Written down value method**
52	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**
53	Profit and loss appropriation a/c is a _______expenses	Future	Prepaid	Outstanding	Yet paid	**Future**
54	Discount and cost of issue of debenture is shown on the _______side	Liabilities	Asset	Debit	Credit	**Asset**
55	The actual amount of tax is paid after finding out of________	Profit	Loss	Purchase	Sales	**Profit**

56	Journal entries of provision for taxation	Profit and loss a/c dr to provision for taxation a/c	Provision for taxation a/c dr to profit and loss a/c	Cash a/c dr to provision for taxation a/c	Bank a/c dr to cash a/c	**Profit and loss a/c dr to provision for taxation a/c**
57	Dividend out of profit is transferred to________	General reserve	Capital reserve	Reserve fund	Interest	**Capital reserve**
58	Payment cannot be used for________	Repayment of dividend	Payment of dividend	Debenture share	Debenture interest	**Payment of dividend**
59	Any dividend declared by a company at its annual general meeting is known as_____	Final or nominal dividend	Share dividend	Reserve	Final or personal dividend	**Final or nominal dividend**
60	Accrued income is comes under	Profit or loss a/c dr	Trading a/c dr	Trading a/c cr	Profit or loss a/c cr	**Profit or loss a/c cr**

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II B. Com. (CA)						
	Corporate Accounting (18CCU301)					
	UNIT 3					
S.NO	**QUESTION**	**Option 1**	**Option 2**	**Option3**	**Option4**	**Answer**
1	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	___________	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	include cash and securities agreed to be given by the transferee company to transferor company's	Shareholders	Shareholders & debentures	debentures and shareholders	Debentures	**Shareholders**
6	may be shown as "Reimbursement" in transferor company's books, if the expenses are agreed to be paid by	Transferor company	Transferee company	transferor and transferee the companies	X company	**Transferee company**
7	transferor company and debited to goodwill account under the purchase mehtod of accounting for amalgamation should be written	2 years	8 years	20 years	5 years	**5 years**
8	(Institute of chartered Accountants of India) has developed As________ to bring uniformity in accounitng for amalgamation in India.	As14	As16	As20	As 15	**As14**
9	amalgamation in the nature of merger is called __________ mehtod.	Purchasing method	Pooling of Interest	payment method	Net asset method	**Pooling of Interest**
10	and above the share capital of the transferor company should be adjusted in __________ in transferee company's books.	Reserves	Assets	Capital	secured loan	**Reserves**
11	ascertaning purchase consideration are both based on the ___________ taken over.	Net assets	Net liability	capital employed	current asset	**Net assets**
12	together to form a new company ,is called ________	Amalgamation	Absorption	External reconstruction	internal reconstruction	**Amalgamation**
13	business of one or more existing companies , is called	Amalgamation	Absorption	external reconstruction	Internal reconstruction	**Absorption**
14	new company is formed with the same shareholders to take over its business, is called	Absorption	amalgamation	internal reconstruction	external reconstruction	**external reconstruction**

15	company if it is authorised by the ____________	Memorandum of association	Articles of association	shareholders	board of directors	**Articles of association**
16	implemented only after getting permission from _________	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	proportionatel y	**Increases**
18	the capital stock, then the account to be credited is _____________	Preference share capital A/c	equity share capital A/c	Equity capital Stock A/c	No entry is required	**Equity capital Stock A/c**
19	balance in capital reduction A/c if any should be transferred to ________	share capital A/c	Capital Reserve A/c	General Reserve A/c	Good will A/c	**Capital Reserve A/c**
20	of internal reconstruction will be credited to ________	capital reserveA/c	Capital reduction A/c	share capital A/c	General reserve A/c	**Capital reduction A/c**
21	shares surrended by shareholdersis transferred to ______	Capital reserve A/c	General reserve A/c	surrendered shares A/c	sharecapital A/c	**surrendered shares A/c**
22	of internal reconstruction , will be charged to __________	good will A/c	capital reduction A/c	revaluation a/c	share capital A/c	**capital reduction A/c**
23	shares of Rs10 each fully paid. It decides to convert its capital into 80000 equity shares of Rs5 each. It is a case of ________	Decrease in unissued sharecapital	sub-division of sharecapital	consolidation of share capital	division of capital	**sub-division of sharecapital**
24	the selling company for taking over business is called ______________	purchasing consideration	sale consideration	cash consideration	business consideration	**purchasing consideration**
25	(Institute of chartered Accountants of India) has developed As________ to bring uniformity in accounitng for amalgamation in India.	As14	As16	As20	As 15	**As14**
26	limited company to alter the capital	95	90	94	91	**94**
27	him within ________ of the date of passing of such resolution.	32	34	30	41	**30**
28	alteration must be notified to the registrar of companies.	80	9	94	95	**95**
29	reduction of share capital.	AOA	MOA	AOC	MOC	**AOA**
30	In the general body meeting, a _______ must be passed for reduction of share capital.	ordinary meeting	special resolution	annual meeting	general resolution	**special resolution**
31	any surplus amount in capital reduction is transferred to ________	reserve account	capital reserve account	General Reserve A/c	redemption A/c	**capital reserve account**
32	Intrinsic value method is also called as _________	share exchange method	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 the ___________	purchasing company	vendor company	creditor company	seller company	**purchasing company**
34	_________values.	marked value	market value	book value	any value	**market value**
35	liquidated must be ________	opened	started	closed	begin	**closed**
36	capital nature appear on the _________of the balance sheet.	Liabilities	Assets	fixed assets	current asset	**Liabilities**
37	outsiders except shareholders.	liabilites	external laibilities	current liabilities	reserve	**external laibilities**
38	facilities amalgamation, absorption and external reconstruction.	495	465	494	490	**494**
39	amalgamated into another company.	transferee company	company	company	company	**transferor company**
40	________ _______ method the price paid in the agreement directly.	net payment method	net asset method	Liumpsum method	Intrinsic value method	**Lumpsum method**
41	deemed as the purchase consideration under the net asset method.	net paymanet method	net asset method	Lumpsum method	Intrinsic value method	**net asset method**
42	_________values.	marked value	market value	book value	any value	**market value**
43	ascertaning purchase consideration are both based on the ___________ taken over.	Net assets	Net liability	capital employed	current asset	**Net assets**
44	in____________	cash	loan	bonds	goods	**cash**
45	the basis of ___________ value .	face value	Intrinsic value	agreed value	mormal value	**Intrinsic value**
46	________section of the companies Act specify the provision relating to amalgamation.	390&396A	391&392A	350& 350A(4)	346& 360A	**390&396A**
47	are __________	cancelled	entered	uncalled	Paid	**cancelled**
48	_______- of acompany	asset	liabilities	reserves	structure	**Capital structure**
49	provisions of section __________ of the companies Act 1956.	99to 100	89to 90	100 to 105	60 to 67	**100 to 105**
50	___________ to enable the company to reduce its share capital.	ordinary resolution	special resolution	annual resolution	general resolution	**special resolution**
51	immediately by transferring their value to capital reduction account.	paid	unpaid	called	Cancelled	**Cancelled**
52	of liabilities taken over is ________	net assets	net payment	purchasing method	yield method	**net assets**
53	capital nature appear on the _________of the balance sheet.	Liabilities	Assets	fixed assets	current asset	**Liabilities**
54	outsiders except shareholders.	liabilites	external laibilities	current liabilities	reserve	**external laibilities**
55	they belong to the shareholders.	future	net	accumulated	gross	**accumulated**
56	and selling companies govern the mode of ascertaining the __________	purchase	cashier	net asset	purchase consideration	**purchase consideration**

57	more companies requires th eapproval of a ___________	creditors winding up	members	court	Unsecured creditors	**court**
58	Fictitious assets are called as ______--	profit	loss	good name	current asset	**loss**
59	may appear on the __________ of the balance sheet.	Liabilities	share capital	Assets	current liabilities	**Liabilities**
60	liquidated must be ________	opened	started	closed	begin	**closed**

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UNIT 4

S.No	QUESTION	Option 1	Option 2	Option3	Option4	Answer
1	A company should purchase more than ___________shares of another company in order to become a holding company	50%	60%	75%	80%	50%
2	The Profit included in the closing stock on the date of consolidation is known as__________	Unrealised Profit	Capital Reserve	Capital Reserve	Cost of Control	Unrealised Profit
3	Minority Interest shown on the ________________	Liabilities side of Balance Sheet	Assets side of Balance Sheet	Both the side of Balance Sheet	None of the Above	Liabilities side of Balance Sheet
4	A contingent liability is shown as a ______________in CBS	Assets side	Foot note	Liability Side	None of the Above	Foot notes
5	The holding Co., shares of Revenue Profit of the Subsidiary is added to____________	Profit and Losss A/c in balancesheet	Liabilities side of Balance Sheet	Assets side of Balance Sheet	Both the side of Balance Sheet	Profit and Losss A/c in balancesheet
6	While Preparing a consolidated Balancesheet investments of the holding company in the equality shares of the subsidiary is replaced by the _________ and _________ of the Subsidiary.	Assets, Liabilities	Liabilities, Assets	Profit and loss account, Liabilities	Profit and loss account, Assets	Assets, Liabilities
7	Dividends paid out of Capital Profit must be credited to _____ a/c by the holding company	Bank A/c	profit & loss A/c	Investment A/c	Dividend A/c	Investment A/c
8	Interim dividend pertaining to pre-acquisition period is adjusted to ________	Revenue Profit	Cost of control	Capital Reserve	Goodwill	Cost of control
9	Goods-in-transit and cash in transit should be entered on the ________ of the CBS	Assets side	liabilities side	Both the side of Balance Sheet	None of the Above	Assets side
10	Dividends paid out of Revenue Profit must be credited to _____ a/c by the holding company	Bank A/c	profit & loss A/c	Investment A/c	Dividend A/c	profit & loss A/c

11	Bonus Shares issued out of ________ will have no effect on CBS	Unrealised Profit	Capital profit	Realised Profit	Revenue Profit	Capital profit
12	Pre - acquisition Profit are also called___________	Unrealised Profit	Capital profit	Realised Profit	Revenue Profit	Capital profit
13	Post- acquisition Profit are also called___________	Unrealised Profit	Capital profit	Realised Profit	Revenue Profit	Revenue Profit
14	Preparation of consolidated Balance Sheet of Holding Co. and its subsidiary company as per	As 11	As 21	As 22	As 23	As 21
15	The share of outsiders in the Net Assets in subsidiary company is known as under :	outsiders liability	Assets	subsidiary company's liability	Minority Interest	Minority Interest
16	Pre-acquisition profit in subsidiary company is considered as :	Revenue profit	Capital profit	Goodwill	Minority Interest	Capital profit
17	Excess of cost of investment over paid up value of the shares is considered as:	Revenue profit	Capital profit	Goodwill	Minority Interest	Goodwill
18	Excess of paid up value of the shares over cost of investment is considered as:	Revenue profit	Capital Reserve	Goodwill	Minority Interest	Capital Reserve
19	Profit earned before acquisition of share is treated as	Capital profit	Revenue profit	General Reserve	Revaluation Loss	Capital profit
20	Profit earned after acquisition of share is treated as	Capital profit	Revenue profit	General Reserve	Revaluation Loss	Revenue profit
21	Preparation of consolidated statement as per AS 21 is	Optional	Mandatory for listed Companies	Mandatory for Pvt. Ltd.	Companies Ltd. partnership firm	Mandatory for listed Companies
22	Holding Co. share in revenue profits of subsidiary company is adjusted in :	Cost of control	Shown on Assets side of Balance sheet	Profit and loss account	Minority Interest	Profit and loss account
23	Unrealised profit on goods sold and included in stock is deducted from :	Capital profit	Revenue profit	General Reserve	Revaluation Loss	Revenue profit
24	Face value debentures of subsidiary co. held by Holding Company is deducted from :	Debentures	Cost of control	Minority interest	Debentures in consolidated balance sheet	Cost of control

25	Consolidated financial statements are prepared on the principle:	In form the companies are one entity; in substance they are separate.	In form the companies are separate; in substance they are one.	In form and substance the companies are one entity.	In form and substance the companies are separate.	In form and substance the companies are one entity.
26	Minority Interest includes :	Share in share capital	Share in Capital profit	Share in Revenue profit	All of the above	All of the above
27	Pre-acquisition dividend received by Holding company is credited to	profit & loss A/c	Capital profit	Investment A/c	Dividend A/c	Investment A/c
28	Post Acquisition dividend received by Holding Company is debited to :	Bank A/c	profit & loss A/c	Investment A/c	Dividend A/c	profit & loss A/c
29	A holding company is one which holds more than____________	2/3rd Share Capital of Subsidiary Company	50% Share Capital of Subsidiary Company	75% Share Capital of Subsidiary Company	2/3rd Share Capital of Government Company	50% Share Capital of Subsidiary Company
30	A company in which more than 50% of shares are held by another company is termed as __________	Holding Company	Subsidiary Company	Government Company	Public Company	Subsidiary Company
31	Profit earned by a subsidiary company upto the date of acquisition of shares by the holding company are called__________	Revenue Profit	Capital profit	Revaluation Profit	Realisation Profit	Capital profit
32	Profits made by a subsidiary company after the date of purchase of shares by the holding company are known as___________	Revenue Profit	Capital profit	Revaluation Profit	Realisation Profit	Revenue Profit
33	The term Minority Intrest represents__________	The shareholders holding 50% of shares in subsidiary co	The intrest of outsiders in the subsidiary co	The company which holds more than 50% in subsidiary co	None of the Above	The intrest of outsiders in the subsidiary co
34	The excess price paid by a holding company to acquire 'controlling interest' in the subsidiary company is transferred to__________	Capital Reserve	Goodwill A/C	Capital Reserve	Cost of Control	Goodwill A/C

35	To excess of the share in net assets of the subsidiary over and above the price paid for the investments is shown as_________	Capital Reserve	Goodwill A/C	Revenue Reserve	Cost of Control	Capital Reserve
36	Unrealised profit included in stock is__________________	deducted from stock in Combined Balance Sheet	deducted from P&L A/c balance in Combined Balance Sheet liabilities sides	deducted from P&L A/c balance in Combined Balance Sheet	shown separately in assets side of CBS	deducted from P&L A/c balance in Combined Balance Sheet
37	Any loss or Profit on Revaluation of assets and Outside Liabilities is____________	Treated as revenue profit/Loss	Ignored in CBS	Treated as capital profit/Loss and adjusted in the respective assets/liabilities in CBS	shown separately in assets side of CBS	Treated as capital profit/Loss and adjusted in the respective assets/liabilities in CBS
38	Bonus Shares issued out of post acquisition side of CBS	Have no effect on CBS	Decrease the total of assets side of CBS	Increase the goodwill to the extent of the holding company's share of the bonus.	Decrease the revenue Profit	Decrease the revenue Profit
39	The other Company controls the composition of its board of directors is called___________	Holding Company	Subsidiary Company	Government Company	Public Company	Subsidiary Company
40	A company in which more than 50% of shares are held by another company is termed as:	Holding Company	Subsidiary Company	Government Company	Public Company	Holding Company
41	Holding company acquires _____________equity shares in a subsidiary, representing the controlling intrest	Majority	Minority	25% of equity Shares	40% of Equity Shares	Majority
42	_____________is the excess paid by the holding company to acquire controlling intrest in the subsidiary company	Debentures	Cost of control	Minority interest	Debentures in consolidated balance sheet	Cost of control
43	On acquisition of business, which one 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)

44	Abnormal loss which occurred is usually debited to ____________	Profit and loss account	Cash balance	Bank balance	Liabilities side of balancesheet	Profit and loss account
45	___________ refers to the claim of the minority or outside shareholders in the net assets of the subsidiary company	Minority Intrest	Majority Intrest	Cost of control	Debentures	Minority Intrest
46	Consolidated financial statements are prepared by a parent company, merging the accounting data of itself and its_________	Holding Company	Subsidiary Company	Government Company	Public Company	Subsidiary Company
47	The revenue from sale to externel customers as reported in the profit and loss account is known as _________	Enterprice Revenue	Segment Revenue	Segment Assets	None of the Above	Enterprice Revenue
48	Assets which are acquired for own use and not for resale are known as________	Fixed Assets	Wasting Assets	Current Assets	Fictitious Assets	Fixed Assets
49	Holding companies is also called __________	Parent Companies	Subsidiary Company	Government Company	Public Company	Parent Companies
50	__________ are in addition to the separate financial statements of the parent enterprise	Consolidated financial statements	Profit and Loss A/c	Income Statement	Cash flow Statement	Consolidated financial statements
51	A ________ which presents concolidated financial statements should consolidate all subisidiaries, domestic as well as foreign	Parent Enterprise	Subsidiary Company	Government Company	Public Company	Holding Company
52	The names of the __________ of which reporting dates and different from that of the parent and the difference in reporting dates	Subsidiaries	Parent Enterprise	Government Company	Public Company	Subsidiaries
53	Investments in subsidiaries should be accounted for in accordance with _____, accounting for investments	As-13	As-11	As-12	As-14	As-13
54	As-21 is applied in the preparation and presentation of ___________ for a group of enterprises.	Profit and Loss A/c	Consolidated financial statements	Income Statement	Cash flow Statement	Consolidated financial statements

55	___________ is to lay down principles and procedures for preparation and presentation of consolidated financial statements.	AS -22	AS -23	AS -21	AS -24	AS -21
56	The acquire in a business combination is also called__________	Parent Enterprise	Subsidiary Company	Government Company	Public Company	Subsidiary Company
57	For transferring liabilities take over____________is debited	Assets A/c	Realization A/c	Liabilities A/c	None of the Above	Liabilities A/c
58	Bonds represents the ____________	Managers share in the business	investment by shareholders in business	Long term borrowings of business	trade creditors	Long term borrowings of business
59	The long term assets that have no physical existence but are rights that have value is known as _____________	Current Assets	Fixed Assets	Intangible assets	Investments	Intangible assets
60	The assets that can be converted into cash within a short period are known as ___________	Current Assets	Fixed Assets	Intangible assets	Investments	Current Assets

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B. COM. (CA)
CORPORATE ACCOUNTING - 18CCU301
UNIT - V

S. No.	Questions	Option 1	Option 2	Option 3	Option 4	Answer
1	. ……..is called a factory of credit.	Company	Firm	Bank	HUF	Bank
2	Banking companies are governed in India by ……….	Banking Regulation Act	Indian Companies Act	Reserve Bank of India Act	Partnership Act	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	Standard Level Ratio	Statutory Liquidity Ratio
5	The method of rapidly posting entries in the books of banks is called as ……….	Single Entry	Cash Method	Slip System	Double Entry	Slip System
6	The P&L A/c of Banking Companies are prepared as per …………of Banking Regulation Act	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 reserves.	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	Notional Performing Assets	Non- Performing Assets
11	Schedule 1 is concerned with …………	Cash and balance with RBI	Capital	Reserves and Surplus	Investments	Capital
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 to make good for loss of another.	Contract	Insurance	Banking	Mutual fund	Insurance
17	In which year, MICR system for cheque was implemented in India?	1987	1996	1990	1993	1987
18	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
19	----------- was not nationalized in 1969	Punjab National Bank	Oriental Bank of Commerce	Bank of Baroda	Union Bank of India	Oriental Bank of Commerce
20	Electronic payment system is an ?	Software	Hardware	Application	Package	Application
21	Which is the first bank to launch Debit card in India?	Standard Chartered Bank	Citi Bank	ABN Amro Bank	American Express Bank	Citi Bank
22	Which was the first Joint Stock Bank established by an Indian establishment?	Bank of Bombay	Oudh Commercial Bank	Bank of Hindustan	Hindustan CommercialBank	Bank of Hindustan

23	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
24	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
25	What are the major change in banking sector of India after nationalization of Banks?	Expansion of bank branches	Cut throat competition in Banking sector	Introduction of Banking Regulation Act	Establishment of RBI	Expansion of bank branches
26	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
27	The reasonable period allowed in India for the presentation of a cheque is	1 year	3 months	9 months	depending upon custom	3 months
28	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
29	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
30	-------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
31	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
32	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

33	The usual deposit accounts of banks are	Current accounts, electricity accounts and insurance premium accounts	Current accounts, post office savings, bank accounts and term deposit accounts	Loan accounts, savings bank accounts and term deposit accounts	Current accounts, savings bank accounts and term deposit accounts	Current accounts, savings bank accounts and term deposit accounts
34	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 per bank's choice	Repayable after an agreed period
35	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
36	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 term deposit accounts	The rate of interest on current accounts and savings accounts are the same	No interest is paid on any deposit by the bank	No interest is paid on current deposit accounts
37	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
38	Largest shareholder (in percentage shareholding) of a Nationalized bank is ?	RBI	NABARD	Government of India	LIC	Government of India
39	An institution whose principle business is accepting deposits and forwarding loans is called	Mutual Fund Business	Company	Bank	Ombudsman	Bank
40	Which of the following term do not represent any part of Banking technology?	NEFT	RTGS	ITC	EPS	ITC

41	The chief activities of bank do not include	Providing loans	Accepting deposits	Providing lockers	Selling real estate properties	Selling real estate properties
42	Every Banking Company is required to close its accounts on _________________	31st December	31st March	30th June	30th September	31st March
43	The Percentage of profit to be trasferred to statements reserve by the banking company is ___________	25%	15%	20%	10%	25%
44	An Asset which does not generate income to the banker is termed as ____________	Performing Asset	Non- Performing Assets	Fixed Asset	Current Asset	Non- Performing Assets
45	A Non - banking Asset is ____________	an Investment	an item of office appliances	Any asset acquired from the debtors in satisfaction of claim	Money at call and short notice	Any asset acquired from the debtors in satisfaction of claim
46	Provision for income tax is shown in the Bank Accounts under the head ___________	Borrowings	Other Liabilities	Operating expenses	Contingent Liabilities	Other Liabilities
47	The heading other assets does not include ________	Stationary and Stamps	Interest Accrued	Gold	Silver	Gold
48	Demand Drafts and Telegraphic transfers are shown in the Bank Accounds under the head _____________	Contingent lia bilities	Bills Payable	Loans and Advances	Borrowings In India	Bills Payable
49	Letter of Credit and Endorsement are shown in the Bank accouns under the head _____________	Bills Payable	Contingent liabiliti es	Bills for collection	Other Assets	Contingent liabilities
50	Building acquired in satisfaction of a claim and interest accrues but not due on investments are shown in the Banks Balance Sheet under the head ____________	Fixed Assets	Investments	Advances	Other Assets	Other Assets
51	Banking Companies are governed by the _______________ Act, 1949	Companies	Partneship	Banking Regulations	Banking	Banking Regulations

52	Banks in India are under the general supervision of _______________	SBI	RBI	SEBI	ABI	RBI
53	The bases for recording bank transactions are the ______________ prepared by customers and sometimes by bank staff	Slips	Bills	cheque	drafts	Slips
54	All appropriation of the Profit are shown in Ivth part of ______________	P & L A/c	Balance Sheet	P & L Appropriation A/c	Reveue Account	P & L A/c
55	Lockers rent is shown in the P&L A/c of Bank under the head ________________	Schedule 15	Schedule 12	Schedule 13	Schedule 14	Schedule 14
56	At present, the SLR for a banking company in India, as per the regulations of the Rbi is _____________	25%	15%	20%	10%	25%
57	According to present Regulation of the RBI, a banking company is to maintain a minimum of ____________ Percent as Cash Reserve over its time and demand liabilities	15%	5%	25%	20%	5%
58	Schedule 13 relates to __________	Interest Expended	Interest Earned	Other Income	Operating Expenses	Interest Earned
59	Schedule 15 relates to _______	Interest Expended	Interest Earned	Other Income	Operating Expenses	Interested Expended
60	Provisions for doubtful debts is shown under 'Provisions for Contingencies' in the _____________ of banking company	P & L A/c	Balance Sheet	P & L Appropriation A/c	Reveue Account	P & L A/c