Ex. No. : 1	PREPARE FORMAT AND PROCEDURE OF AMALGAMATION COMPANIES AS PER ACCOUNTING STANDARD 14
Date:	

Aim:

To Prepare the Format and Procedure of Amalgamation Companies as per Accounting Standard 14

Procedure:

Amalgamation

When two or more existing companies combine together to form a new company, it is amalgamation. All the combining companies are liquidated. A new company is floated to take over their business.

Meaning

According to Institute of Chartered Accountants of India, is mandatory in nature for all companies and is applicable to accounting periods commencing on our after 01.04.1995 the Standard specifies the procedure of accounting for amalgamations and the treatment of any resultant goodwill or reserves. The following terms have been used in the standard with meaning specified:

a) Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 1956 or any other statute which may be applicable to Companies.
b) Transferor Company means the Company which is amalgamated into another Company.
c) Transferee Company means the Company into which a transferor Company is amalgamated.

   Perusal of the above terms make it clear that the term ‘Amalgamation’ is used in AS: 14 includes Absorption also.

Types of Amalgamation:

Amalgamation falls into broad categories. In the first category are those amalgamations where there is a genuine ‘Pooling’, not merely of the assets and liabilities of the amalgamating companies but also of the Shareholders interests and of the business of these companies. Such amalgamations are amalgamations which are in the nature of ‘Merger’. The accounting treatment of such amalgamations should ensure that the resultant figures of Assets, Liabilities, Capital and Reserves more or less represent the sum of the relevant figures of the amalgamates Companies.

A) Amalgamation in the nature of Merger:

An Amalgamation should be considered to be an amalgamation in the nature of merger when all the following conditions are satisfied:

i) All the Assets and Liabilities of the Transferor Company became, after amalgamation, the Assets and Liabilities of the Transferee Company

ii) Shareholders holding not less than 90 % of the Face Value of the Equity Shares of the Transferor Company (Other than Equity Shares already held there in immediately before the amalgamation by the Transferee Company or its Subsidiaries or their Nominees) became Equity Shareholders of the Transferee Company by virtue of the amalgamation

iii) The consideration for the amalgamation receivable by those Equity Shareholders of the Transferor Company who agrees to become Equity Share Holders of the Transferee except that cash may be paid in respect of any fractional shares

iv) The business of the Transferee Company is intended to be carried on, after amalgamation, by the Transferee Company

v) No adjustment is intended to be made to the book values of the Assets and Liabilities of the Transferor Company when they are incorporates in the financial statement of the Transferee Company except to ensure uniformity of accounting policies.

B) Amalgamation in the nature of Purchase:

In the second category are those amalgamations which are in effect a mode by which one Company acquires another Company and or a consequence the Shareholders of the Company which is required normally do not continue to have a proportionate share in the equity of the combined Company or the business of the Company which is acquired is not intended to be continued, such amalgamation are amalgamations in the nature of ‘Purchase’.

So amalgamations which do not satisfy one or more conditions specified for amalgamations in the nature of merger should be treated as ‘Amalgamations in the nature of Purchase’.

Thus in amalgamation in the nature of purchase,

a) All the Assets and Liabilities of the selling Company may not be taken over
b) Less than 90 % of the Selling Company’s Shareholders may become Shareholders in the Purchasing Company
c) Consideration payable to Shareholders Selling Company may be in the form of shares or cash or in any other agreed form
d) Selling Company’s business may or may not be carried on in future
e) Assets and Liabilities taken over by the Purchasing Company may be shown at values other than book values at the discretion of the Purchase Consideration

Meaning

“Consideration for Amalgamation means the aggregate of the Shares and other Securities issued and the payment made in the form of cash or otherAssets”.

Computation of Purchase Consideration:

The purchase has two aspects. The amount of consideration and its form. They are usually governed by the terms of agreements between the Transferor (Selling) and Transferee (Purchasing) Companies.

The amount of Purchase Consideration can be computed under any of the following four methods, whichever is appropriate, based on the data given

a) Lumpsum Method
b) Net Payment Method
c) Net Assets Method
d) Intrinsic Value Method

a) Lumpsum Method:

The Purchase price is to be paid to shareholders may be mentioned in the agreement directly.

The lumpsum is to be taken as purchase consideration eliminating the need to compute it.

b) Net Payment Method:

The agreement between the selling and purchasing companies may specify the exact amount payable to the shareholders of the selling company in the form of cash or shares or debentures in the purchasing company. These agreed payments are added to ascertain the Purchase Consideration. The total of the payment represents the 'Net Payment' made by the Purchasing Company for the Shareholders of the Selling Company.

c) Net Assets Method:

Net Assets taken over by the Purchasing Company is deemed as the Purchase Consideration under the Net Assets Method.

Net Assets = Agreed Value of Assets taken over – Agreed value of Liabilities taken over

d) Intrinsic Value Method:

Under this method, the Purchase Consideration is ascertained on the basis of the ratio in which the shares of the Purchasing Company are exchanged with those of the selling company. The exchange ratio is generally, determined on the basis of 'Intrinsic values' of the respective companies shares.

$$\text{Intrinsic Value} = \frac{\text{Assets available for Equity Shareholders}}{\text{Number of Equity Shares}}$$

MODEL JOURNAL ENTRIES IN THE BOOKS OF TRANSFEROR COMPANY OR SELLING COMPANY

Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
	1. For transferring Assets to Realisation A/c Realisation A/c Dr. To Sundry Assets A/c (Individually at book value) [being transfer of Assets to Realisation A/c]		 **XXX**	 **XXX**
	2. For transferring Liabilities taken over Liabilities A/c Dr. To Realisation A/c [being transfer of liabilities taken over]		 **XXX**	 **XXX**
	3. For Purchase Consideration Receivables Purchasing Co's A/c Dr. To Realisation A/c [being purchase price receivable]		 **XXX**	 **XXX**
	4. For receiving the Purchase Consideration Bank A/c Dr. Shares in Purchasing Co. A/c Dr. Debentures in Purchasing Co. A/c Dr. To Purchasing Company A/c [being Purchase price received in the form of cash, shares, debentures from Purchasing Company]		 **XXX** **XXX** **XXX**	 **XXX**
	5. For realizing Assets not taken over Bank A/c Dr. To Realisation A/c [being assets not taken over realised]		 **XXX**	 **XXX**
	6. For payment of liabilities not taken over Liability A/c (Book value) Dr. Realisation A/c Dr. To Bank A/c To Realisation A/c [being repayment of liability at premium / discount]		 **XXX** **XXX**	 **XXX** **XXX**
	7. For payment of realization expenses a) If the expenses are to be borne by Selling Company Realisation A/c Dr. To Bank A/c [being payment of expenses of realization]		 **XXX**	 **XXX**
	b) If the expenses are to be borne by the Purchasing Company Purchasing Co's A/c Dr. To Bank A/c [being expense paid on behalf of Purchasing Company]		 **XXX**	 **XXX**

	c) When liquidation expenses are reimbursed			
	by the Purchasing Company			
	Bank A/c Dr.		**XXX**	
	To Purchasing Co A/c			**XXX**
	[being expenses paid reimbursed by the			
	purchasing company]			
	8. For discharging the Debentures			
	a) Repayable at a Premium			
	Debentures A/c Dr.		**XXX**	
	Realisation A/c Dr.		**XXX**	
	To Debentureholders A/c			**XXX**
	[being the amount of debentures and premium			
	payable credited to debenture holders]			
	Repayment at a discount			
	Debenture A/c Dr.			
	To Debentureholders A/c		**XXX**	
	To Realisation A/c			**XXX**
	[being transfer of debentures after adjusting			**XXX**
	discount on repayment]			
	b) For repayment to Debentureholders			
	Debentureholders A/c Dr.			
	To Bank A/c		**XXX**	
	To Debentures in Purchasing Co. A/c			**XXX**
	[being settlement of the claim of debenture			**XXX**
	holders]			
	9. For discharge of Preference Share Capital			
	a) For repayment at Premium			
	Preference Share Capital A/c Dr.		**XXX**	
	Realisation A/c Dr.		**XXX**	
	To Preference Shareholders A/c			**XXX**
	[being transfer of Preference Share Capital and			
	premium payable to the Preference Shareholdrers]			
	For payment at Discount			
	Preference Share Capital A/c Dr.			
	To Preference Shareholders A/c		**XXX**	
	To Realisation A/c			**XXX**
	[being transfer of Preference Share capital, after			**XXX**
	adjusting discount on repayment]			
	b) For payment to Preference Shareholders			
	Preference Shareholders A/c Dr.			
	To Bank A/c		**XXX**	
	To Shares in Purchasing Co. A/c			**XXX**
	[being settlement of the claim of Preference			**XXX**
	Shareholders]			
	10. For transfer of Equity Share capital and			
	Accumulated Profits			
	Equity Share Capital A/c Dr.		XXX	
	General Reserve A/c Dr.		XXX	
	Profit & Loss A/c Dr.		XXX	
	Any other reserves A/c Dr.		XXX	
	To Equity Shareholders A/c			XXX
	[being transfer of capital and accumulated			
	profits]			

	11. For transfer of Accumulated Losses Equity Shareholders A/c Dr. To Profit & Loss A/c To Preliminary Expenses A/c To Discount on issue of Share etc., A/c [being transfer of accumulated losses to the Equity shareholders]		**XXX**	**XXX** **XXX** **XXX**
	12. For realization Profit / Loss a) If there is profit on realisation Realisation A/c Dr. To Equity Shareholders A/c [being profit on realisation] b) If there is loss on realization Equity Shareholders A/c Dr. To Realisation A/c [being loss on realisation]		**XXX**	**XXX**
	13. For final payment to the Equity Shareholders Equity Shareholders A/c Dr. To Bank A/c To Shares in Purchasing Co. A/c [being final payment made to the equity shareholders]		**XXX**	**XXX**

MODEL JOURNAL ENTRIES IN THE BOOKS OF TRANSFEREE COMPANY OR PURCHASING COMPANY

Date	Particulars	L.F.	Debit Amount (Rs.)	Credit Amount (Rs.)
	1. For Purchase Consideration Business Purchase A/c Dr. To Liquidation of Transferor Co. A/c [being Purchase price payable]		 **XXX**	 **XXX**
	2. For Assets and Liabilities taken over Sundry Assets A/c Dr. Goodwill A/c Dr. To Sundry Liabilities A/c To Business Purchase A/c To Capital Reserve A/c [being Assets and liabilities taken over and goodwill / Capital reserve there on]		 **XXX**	 **XXX**
	3. For Payment of Purchase Price Liquidator of Selling Co. A/c Dr. To Bank A/c To Share Capital A/c To Securities Purchase A/c To Debentures A/c [being purchase price paid in the form of cash, shares and debentures]		 **XXX**	 **XXX** **XXX** **XXX** **XXX**
	4. For expenses of liquidation agreed to be paid by transferee co. Goodwill A/c Dr. To Bank A/c [being expenses agreed to be paid]		 **XXX**	 **XXX**
	5. For formation expenses of transferee co. Preliminary Expenses A/c Dr. To Bank A/c [being formation expenses paid]		 **XXX**	 **XXX**
	6. For Statutory reserves of the transferor company to be continued Amalgamation adjust A/c Dr. To Statutory Reserves A/c [being reserves to be continued]		 **XXX**	 **XXX**
	7. For settlement of debenture holders or creditors Debentures A/c Dr. Creditors A/c Dr. To Debentures A/c To Bank A/c [being settlement of transferor company's liabilities as per argument]		 **XXX** **XXX**	 **XXX** **XXX**

Illustration 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.

Solution:

Statement showing purchase consideration (net assets)

Particulars	M Ltd		N Ltd	
	Rs.	Rs.	Rs.	Rs.
Sundry Assets taken over		86,000		58,500
Less: Liabilities:				
Creditors	3,500		3,500	
+ Depreciation Fund		3,500	2,500	6,000
Purchase Consideration		82,500		52,500
Less: Equity shares issued equally 1,00,000/2		50,000		50,000
		32,500		**2,500**

Books of P Ltd (TRANSFER Company)
Journal Entries

Date	Particulars	LF	Dr	Cr
31-03-1997	Business Purchase A/c Dr To Liquidator of M Ltd To Liquidator of N Ltd (Being Purchase price payable to the Vendor)		1,35,000	 82,500 52,500
31-03-1997	Fixed Assets A/c Dr Stock A/c Dr Debtors A/c Dr Bank A/c Dr Goodwill A/c Dr To Creditors A/c To Depreciation fund A/c To Business Purchase A/c (Being assets and liabilities taken over from M Ltd and NLtd and goodwill thereon)		70,300 27,000 13,200 4,000 30,000	 7,000 2,500 1,35,000
31-03-1997	Liquidator of M Ltd A/c Dr To Equity Share Capital A/c To 9% Preference Share Capital A/c (Being payment of Purchase price)		82,500	 50,000 32,500
31-03-1997	Liquidator of N Ltd A/c Dr To Equity Share Capital A/c To 9% Preference Share Capital A/c (Being payment of Purchase price)		52,500	 50,000 2,500

Balance Sheet of P Ltd as on 31/3/1997

Liabilities	**Rs.**	**Rs.**	**Assets**	**Rs.**	**Rs.**
Share Capital:			**Fixed Assets:**		
Authorised:			Goodwill		30,000
10,000 equity shares of Rs.10 each		1,00,000	Other fixed assets	70,300	
10,000 9% preference shares of Rs. 10 each		1,00,000	Less: Depreciation Fund	2,500	67,800
Issued and Paid up:			**Current Assets:**		
10,000 equity shares of Rs.10 each fully paid		1,00,000	Stock		27,000
3,500 9% preference shares of Rs. 10 each fully paid		35,000	Debtors		13,200
(all the above shares were issued for consideration other than cash to vendor)			Bank		4,000
Current Liabilities:					
Creditors		7,000			
		1,42,000			**1,42,000**

Result:

Ex. No. : 2	PREPARE FORMAT AND PROCEDURE OF ACCOUNTING FOR HOLDING COMPANIES AS PER ACCOUNTING STANDARDS 21
Date:	

Aim:

To prepare format and procedure of accounting for holding companies as per accounting standards 21.

Procedure:

Meaning of "holding company" and "subsidiary".

(1) For the purposes of this Act, a company shall, subject to the provisions of sub-section (3), be deemed to be a subsidiary of another if, but only if,

(a) That other 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 respects as the holders of equity shares, exercises or controls more than half of the total voting power of such company ;

(ii) Where the first-mentioned company is any other company, holds more than half in nominal value of its equity share capital ; or

(c) The first-mentioned company is a subsidiary of any company which is that other's subsidiary.

Steps Involved in Preparation of Consolidated Balance Sheet

Step 1

Computation of holding---minority ratio:

For preparing CBS, holding----minority ratio is of utmost importance. it can be found out as explained below:

(a) The number of shares of the subsidiary co. held by the holding co. should be ascertained
(b) The number of shares hold by minority shareholders in the subsidiary should be noted.
(c) The ratio of their respective holding should be computed.
This ratio will be used in distribution of capital and revenue profits, capital and revenue dividends, Bonus shares etc.

Step 2
Ascertaining Pre-acquisition Profits or Capital profits:

P&L a/c balance and any reserve balance appearing in the Balance sheet of subsidiary Co. on the date of acquisition of shares by the holding Co. are to be considered as capital profits. They have to be calculated in a manner as explained above in the context of calculation and treatment of various items under the head "Capital profits and losses or Pre-acquisition profits or losses".

Step 3
Computation of post----acquisition profit or revenue profit:

The reserves created and the profits earned by the subsidiary company after the date of acquisition of shares by the holding company are to be taken as revenue profits. They have to be ascertained in manner as explained about in the context of calculation and the treatment under the head "Revenue profits or post acquisition profits" and "Revenue losses or post acquisition losses".

Step 4
Computation of Minority Interest:

Minority Interest refers to the claim of the minority or outside shareholders in the net assets of the subsidiary or in the share capital, reserves, profits etc., of the subsidiary Co. it has to be ascertained in a manner as explained above in the context of calculation and treatment under the head "Minority interest".

Step 5
Computation of Goodwill / Cost of control or Capital reserve:

As the holding company invest a huge sum of money in the shares of subsidiary company, it is necessary to find out the Profit or Loss on investment made before proceeding to consolidate the Balance sheets. If the holding Co. gets less than what it has invested in the shares of subsidiary; the excess amount paid should be taken as 'Cost of control or Goodwill'. On the other hand, if the holding Co. gets more than what it has invested in shares, the excess amount received should be taken as 'Capital Reserve'. It has to be calculated in a manner as explained above under the head "Cost of control or goodwill".

Step 6
Calculation and Elimination of unrealized profit included in stock:

The unrealized profit included in stock should be calculated and treated in the CBS in the manner explained above under the head "Provision for unrealized profits in stock".

Step 7
Elimination of Inter-company Debts:

The inter-company debts have to be cancelled as explained earlier under the head "Elimination of common transactions or mutual obligations or mutual indebtedness"

Consolidated Balance Sheet of Holding Co. and Subsidiary as on ……………………

Liabilities	Rs	Rs.	Assets	Rs.	Rs.
Share Capital:			**Fixed Assets:**		

Share Capital of Holding Company		XXX	(i) Cost of Control/Goodwill	XXX	
Reserves and Surplus:			Add: Goodwill in Balance sheet of Holding Company	XXX	
(i) Capital Reserves of Holding Company	XXX		Add: Goodwill in Balance sheet of Subsidiary Company	XXX	
Add: Share in Pre-acquisition Reserves & profits of Subsidiary	XXX			XXX	
	XXX		Less: Capital Reserve as per contra	XXX	XXX
Less: Goodwill as per contra	XXX	XXX	(ii) All other fixed assets of Holding Company	XXX	
(ii) Revenue Reserves of Holding Company	XXX		Add: All other fixed assets of Subsidiary Company	XXX	XXX
Add: Share in Revenue Reserves of Subsidiary	XXX	XXX	**Investments:**		
(iii) Profit and Loss A/c balance of Holding Company	XXX		Investments of Holding Company except investments in subsidiary	XXX	
Add: Share in Revenue Profits of Subsidiary	XXX		Add: Investments of Subsidiary Company	XXX	XXX
	XXX		**Current Assets, loans and Advances:**		
Less: Share in Unrealised profits	XXX	XXX	Current Assets, loans and Advances of Subsidiary Company	XXX	
Secured Loans:			Less: Inter - company Debts	XXX	
Secured loans of Holding company	XXX			XXX	
Add: Secured loans of subsidiary company	XXX	XXX	Less: Unrealised profits in Stock	XXX	XXX
Unsecured Loans:			**Miscellaneous Expenditure:**		
Unsecured loans of Holding company	XXX		Profit and Loss A/c of Holding Company		XXX
Add: Unsecured loans of Subsidiary company	XXX	XXX			
Current Liabilities and Provisions:					
(i) Current liabilities & Provisions of Holding Company	XXX				
Add: Current liabilities & Provisions of Subsidiary Company	XXX				
	XXX				

Less: Inter - Company Liabilities	XXX	XXX			
Minority Interest		XXX			
		XXX			XXX

Illustration 1:

The Balance Sheets of C Ltd and D Ltd as on 31/12/1986 are as follows:

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Share capital (in shares of Rs. 10 each)	2,00,000	1,00,000	Sundry Assets	1,32,500	1,38,200
General Reserve	18,000	20,000	Goodwill		20,000
Profit & Loss A/c	24,500	23,000	Shares in D Ltd at cost	1,40,000	
Creditors	30,000	15,200			
	2,72,500	**1,58,200**		**2,72,500**	**1,58,200**

In the case of 'D' Ltd., profit for the year ended 31st December 1986 is Rs.12,000 and transfer to reserve is Rs.5,000. The holding of C Ltd in D Ltd is 90% acquired on 30th June 1986.

Solution:

Holding – Minority Ratio

C Ltd acquired 90% of Shares in D Ltd

∴ Minority holding in D ltd =10%

Ratio = 90:10 or 9:1

Revenue Profits			
Profit for the current year, given			12,000
Profit made after June 30th or revenue profit	12,000x6/12		6,000
Holding Company's share	6,000x9/10		5,400
Minority's share	6,000x1/10		600
Capital Profits			
General Reserve of D Ltd		20,000	
Profit and loss Account of D Ltd		23,000	
		43,000	
Less: Revenue Profit		6,000	
Capital Profit		37,000	
Holding Company's share	37,000x9/10		33,300
Minority's share	37,000x1/10		3,700
Minority Interest			
Face value of the minority share	1,00,000x10/100		10,000
Add: Minority share of Capital Profit			3,700
Add: Minority share of Revenue Profit			600

		14,300
Cost of Control or Goodwill		
Amount paid by C Ltd for shares purchased in D Ltd		1,40,000
Less: Face value of shares purchased 1,00,000x90/100	90,000	
Less: holding company's share of capital profits	33,300	1,23,300
Goodwill		16,700
Add: Goodwill in D Ltd's Balance Sheet		20,000
Goodwill to be shown in consolidated Balance Sheet		36,700

Consolidated Balance Sheet of 'C' Ltd and its Subsidiary 'D' Ltd as on 31/12/1986

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Share Capital:			Goodwill		36,700
20,000 shares of Rs.10 each		2,00,000	**Sundry Assets:**		
General Reserve		18,000	C Ltd	1,32,500	
Profit & Loss A/c	24,500		D Ltd	1,38,200	2,70,700
Add: 'C' Ltd's share of revenue profit	5,400	29,000			
Creditors:					
C Ltd	30,000				
D Ltd	15,200	45,200			
Minority Interest		14,300			
		3,07,400			**3,07,400**

Result:

Ex. No.: 3	VALUATION OF GOODWILL
Date:	

Aim:

To prepare the valuation of goodwill in the company

Procedure:

Goodwill

Goodwill means the good name or the reputation of the business which attracts more customers and therefore, helps in earning more profits in future. It is an intangible real assets and not a fictitious one.

Goodwill is a valuable asset if the concern is profitable; on the other hand, valueless if the concern is a losing one.

Methods of Valuation of Goodwill

1. **Average Profit Method**

   Goodwill is valued on the basis of an agreed number of years purchased of the annual profits, calculated by reference to the recent years and having regard to the probable maintenance of such profit in future year.

   $$\text{Average profit} = \frac{Total\,Profit}{No.\,of\ years}$$

   Goodwill = Average profit x No. of years of purchase

Goodwill is to be valued at three years purchase of five year's average profits. The profits for the last five years of the firm were:

2000 - Rs. 4,200; 2001 - Rs. 4,500; 2002 - Rs. 4,700; 2003 - Rs. 4,600 and 2004 - Rs. 5,000.

Solution:

Total Profit = 4,200 + 4,500 + 4,700 + 4,600 + 5,000

= Rs. 23,000

Average profit = $\frac{Total\ Profit}{No.\ of\ years}$

= $\frac{23,000}{5}$

= Rs. 4,600

Goodwill = Average profit x No. of years of purchase

= 4,600 X 3

= Rs. 13,800

2. **Super Profit Method**

Average profit of the firm is compared with the normal profit on the invested capital in the firm. Excess of average profit over normal profit is known as super profit.

Average profit = $\frac{Total\ Profit}{No.\ of\ years}$

Normal profit = Capital employed x Normal rate of return

Super profit = Average profit – Normal profit

Value of Goodwill = Super profit x No. of years purchased

Illustration 2:

A firm earned net profits during the last three years as follows:

I Year	Rs. 36,000
II Year	Rs. 40,000
III Year	Rs. 44,000

The Capital investment of the firm is Rs.1,00,000. A fair return on the capital having regard to the risk involved is 10%.

Calculate the value of goodwill on the basis of three years purchase of Super profits.

Solution:

Total Profit = 36,000+40,000+44,000

= Rs. 1,20,000

Average profit = $\frac{Total\ Profit}{No.\ of\ years}$

$$= \frac{1,20,000}{3}$$

= Rs. 40,000

Normal profit = Capital employed x Normal rate of return

= 1,00,000 x 10/100

= Rs. 10,000

Super profit = Average profit – Normal profit

= 40,000 – 10,000

= Rs. 30,000

Goodwill = Super profit x No. of years purchased

= 30,000 x 3

= Rs. 90,000

3. **Capitalisation Method**

The total value of the business or capitalised value of the business is found out by capitalizing the expected average profits on the basis of normal rate of return. The value of the business and the value of goodwill is the difference between the capitalised value of the business and the actual capital employed in the business.

$$\text{Total capitalised value of the firm} = \frac{Actual\ Profit}{Normal\ rate\ of\ return}$$

Net tangible assets = Total tangible assets – Liabilities to outsiders

Value of goodwill = Total Capitalised value of business – Net tangible assets

Illustration 3:

A firm earns Rs.1,20,000 as its annual profits, the ratio of normal profit being 10%. The assets of the firm amount to Rs.14,40,000 and liabilities to Rs.4,80,000.

Find out the value of goodwill by capitalisation method.

$$\text{Total capitalised value of the firm} = \frac{Actual\ Profit}{Normal\ rate\ of\ return}$$

$$= \frac{1,20,000}{10}$$

$$= \frac{1,20,000}{10} x\,100$$

= Rs.12,00,000

Net tangible assets = Total tangible assets – Liabilities to outsiders

= 14,40,000 – 4,80,000

= Rs.9,60,000

Goodwill = Total Capitalised value of business – Net assets

= 12,00,000 – 9,60,000

= Rs.2,40,000

Result:

Ex. No. : 4	FINANCIAL REPORTING STANDARDS 10 – VALUATION OF GOODWILL
Date :	

Aim:

To understand Financial Reporting Standards 10 – Valuation of Goodwill

Procedure:

International Financial Reporting Standards, usually called IFRS, are standards issued by the IFRS Foundation and the International Accounting Standards Board (IASB) to provide a common global language for business affairs so that company accounts are understandable and comparable across international boundaries.

The general principle of FRS 10 regarding goodwill arising on acquisition (purchased goodwill) is that it is neither an asset like other assets nor an immediate loss in value. Other intangible assets may be recognised as assets when access to the economic benefits that they represent is controlled by the reporting entity.

The rules regarding capitalisation are:

- Purchased goodwill should be capitalised
- Purchased intangible assets should be capitalised
- Internally generated goodwill should not be capitalised
- Internally generated intangible assets should only be capitalised where they have a readily ascertainable market value.

Purchased goodwill and intangible assets should be amortised over their useful economic life. There is a rebuttable presumption that this will not exceed 20 years but in some instances the useful economic life may be viewed as longer than 20 years or indeed indefinite (therefore no amortisation).

Purchased goodwill and intangibles should be subject to impairment reviews:

- If useful economic life is less than 20 year's impairment review at end of first financial year after purchase.
- If useful economic life is greater than 20 years impairment review every year.

Negative goodwill should be recognised and shown on the balance sheet directly below the goodwill heading.

Result:

Ex. No. : 5	PREPARATION OF FINAL ACCOUNTS OF COMPANIES AS PER ACCOUNTING STANDARDS
Date :	

Aim:

To prepare Final Accounts for Companies

Procedure:

Final accounts gives an idea about the profitability and financial position of a business to its management, owners, and other interested parties. All business transactions are first recorded in a journal. They are then transferred to a ledger and balanced. These final tallies are prepared for a specific period. The preparation of a final accounting is the last stage of the accounting cycle. It determines the financial position of the business.

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
To Salaries	xxx			
To Rent	xxx	By Gross Profit b/d		xxx
To Discount	xxx	By Interest Received		xxx
To Commission	xxx	By Rent Received		xxx
To Advertisment	xxx	By Discount		xxx
To General Expenses	xxx	By Commission		xxx
To Directors' Fees	xxx	By Profit on sale of Assets		xxx
To Bad Debts	xxx			
To Loss on sale of assets	xxx			
To Depreciation	xxx			
To Preliminary Expenses	xxx			
To Provision for Income Tax	xxx			
To Net Profit c/d	xxx			
	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
To Interim Dividend	Xxx	By Amount withdrawn from General Reserve or any other reserve	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)

Liabilities	**Rs.**	**Rs.**	**Assets**	**Rs.**	**Rs.**
Share Capital:			**Fixed Assets:**		

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 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			(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 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		

not due on loans **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			9. Advances and loans to partnership 10. Bills of 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**		

Illustration 1:

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	90,000	
Share Capital		10,00,000
Debtors and Creditors	2,75,000	1,75,000
Plant and Machinery	2,90,000	
Cash at Bank	4,62,000	
General Reserve		1,55,000

Patents and Trade Mark Bills Receivable and Bills Payable	48,000 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 mark @ 5%.
(d) On 31st March, 2009, outstanding rent amounted to Rs. 8,000 while outstanding salaries totaled 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	By Discount	30,000

ToRent	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 Balance as on 1st April, 2008 1,55,000		Furniture & Fittings 1,70,000	
		Less: Depreciation 17,000 -----------	1,53,000
Add: Aditions Made during the Year 14,180 -------------	1,69,180	Patents & Trade Mark 48,000 Less: Depreciation 2,400 -----------	45,600
		Investments	Nil
Profit & Loss Account	1,79,320	**Current Assets, Loans and Advances**	
Current Liabilities and Provisions:		**(A)Current Assets**	
(A).Current Liabilities		Stock	8,80,000
Acceptances	70,000	Debtors 2,75,000	
Creditors	1,75,000	Less: Provision	
Outstanding Rent	8,000	For doubtful Debts 5,100 -------------	2,69,900
Outstanding Salaries	9,000		
Outstanding Managerial Remuneration	63,000	Cash at Bank	4,62,000
(B).Provisions		**(B)Loans and Advances**	
Provision for Taxation	2,83,500	Bills of Exchange	50,000
Proposed Dividend	1,50,000	**Miscellaneous Expenditure**	Nil
		Profit and Loss Account	Nil
	21,07,000		**21,07,000**

Result:

Ex. No. : 7	ACCOUNTING STANDARD FOR DEBENTURE
Date :	

Aim:

To Understand the Accounting Standard for Share

Procedure:

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 debenture holders 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.

Issue of Debentures. Debentures are issued in the same manner in which shares are issued. The company issues a prospectus inviting applications along with a sum of money called application money. After Scrutiny, the Board of Directors makes allotment of debentures. If the entire sum of money has not been asked for along with applications another sum of money called, allotment money may be asked for. Subsequently there may be a few calls even. But mostly, the entire amount is received on application or on application and allotment.

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

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

Journal Entries

Date	Particulars	Dr. Rs.	Cr. Rs.
1.	When applications are received, the entry is: Bank Account Dr.	xxx	 xxx

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

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.**

Date	**Particulars**		**Dr. Rs.**	**Cr. Rs.**
1.	Bank Account Dr. To 12% Debenture Application Account		3,00,000	 3,00,000

	(Being the amount received as application money on 15,000 debentures @ Rs. 20 each)			
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 debenture credited to 12% Debentures Account in respect of 10,000 debentures allotted as per Directors resolution)		2,00,000 8,00,000	 10,00,000
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

Result: