MAR GREGORIOS COLLEGE
OF ARTS & SCIENCE

Block No.8, College Road, Mogappair West, Chennai – 37

Affiliated to the University of Madras
Approved by the Government of Tamil Nadu
An ISO 9001:2015 Certified Institution

DEPARTMENT OF COMMERCE
(ACCOUNTING & FINANCE)

SUBJECT NAME: ADVANCED CORPORATE ACCOUNTING

SEMESTER: IV

PREPARED BY: PROF.M.PREMA

UNIT I: Internal Reconstruction

Meaning - Alteration of share capital – Accounting Procedures.

UNIT II: Amalgamation, Absorption & External Reconstruction

Meaning- Amalgamation in the nature of Merger, Purchase - External Reconstruction – Applicability of AS 14- Calculation of Purchase consideration (all methods) – Journal Entries in the books of Transferor and Transferee Companies, Revised Balance Sheet (excluding inter - company holdings)

UNIT III: Liquidation

Meaning – Preparation of Liquidator's Final Statement of Accounts – Calculation of Liquidator Remuneration.

UNIT IV: Consolidation

Holding Company –Subsidiary company - Meaning – Preparation of Consolidated Final Statement of Accounts.

UNIT V: Accounting For Banking Companies

Bank accounts - Concept of Non-Performing Assets (NPA)-Preparation of Profit and Loss Account - Asset classification - Preparation of Balance Sheet.

Note: Questions in Sec. A, B & C shall be in the proportion of 20:80 between Theory and Problems.

TEXT BOOK:

1.Raj Kumar Sah - Concepts Building Approach to Corporate Accounting - CENGAGE , New Delhi.

2.Gupta, R.L.&Radhaswamy ,M., Advanced Accounts, Sulthan Chand &Sons, New Delhi.

REFERENCE BOOKS:

1. Jain, S.P. & Narang K.L., Advanced Accounts – Kalyani Publishers.
2. Reddy, T.S & Murthy, A, Corporate Accounting, Margham Publications, Chennai.
3. Shukla, M.C. & Grewal, J.S, Advanced Accounts, S.Chand and Company, NewDelhi

UNIT- 1

INTERNAL RECONSTRUCTION

There are two types or reconstruction, namely external reconstruction and internal reconstruction. In external reconstruction, a new company is formed to take over the assets and liabilities of an existing company which goes into liquidation. But in internal reconstruction, there will be neither liquidation of an existing company nor formation of a new company.

Internal reconstruction means an internal rearrangement that gives a new look to the capital structure, adjusts the rights of shareholders, debenture holders and creditors along with some adjustments in the values of assets and writing off fictitious assets. Internal reconstruction may be done due to the accumulate losses, shortage of working capital, overvaluation of assets etc.

Difference between Internal reconstruction and External reconstruction

Internal reconstruction	External reconstruction
1. The company does not loss its identity 2. The overvalued assets are revalued at their net worth and the losses written off. 3. No new company is formed nor is any existing company liquidated. It is the internal matter of a single company. 4. Debenture holds, creditors and bank overdraft may continue.	1. The company losses its identity 2. The newly formed company takes over the assets and liabilities of the liquidated company at agreed values. 3. A new company is formed in place of the old company. 4. These parties will have to be settled.

Forms or Methods of Internal reconstruction

1. Alteration of share capital.
2. Reduction of share capital.
3. Variation of shareholders' rights.
4. Scheme of compromise.

Alteration of Share Capital

According to Sec. 94 of the Companies Act, a limited company can, if authorized by its articles of association, alter the capital clause of its memorandum of association in any of the following ways.

a. By increasing its share capital by issue of new shares.
b. By consolidating existing shares of smaller amounts into shares of larger amo9unts.
c. By subdividing the existing share into shares of smaller amounts.
d. By converting fully paid shares into stock 0or stock into fully paid shares.

Accounting entries for alteration of capital

a. For increasing its share capital

i. Bank A/c Dr
To Share Application & Allotment A/c

ii. Share Application & Allotment A/c Dr
To Share Capital A/c

b. For consolidation of shares:

Share Capital (old) A/c Dr
To Share Capital (New) A/c

c. For subdivision of shares:

Share Capital (old) A/c Dr
To Share Capital (New) A/c

d. For conversion of shares into stock:

Share Capital A/c Dr
To Stock A/c

e. For conversion of stock into shares:

Stock A/c Dr
To Share Capital A/c

Illustration 7

A Ltd having a share capital of Rs.500000 divided into 5000 shares of Rs.100 each, resolves to subdivide the shares into 50000 shares of Rs.10 each. Pass the journal entry.

Solution

Share Capital (Rs.100) A/c	Dr	500000	
To Share Capital (Rs.10) A/c			500000

Illustration 8

X Ltd resolves to convert its 50000 equity shares of Rs.10 each fully paid into Rs.500000 worth of equity stock. Journalize the transaction.

Solution:

Equity Share Capital A/c	Dr	500000
To Equity Stock A/c		500000

Illustration 9

B Ltd having an equity share capital of Rs.100000 divided into 10000 shares of Rs.10 each resolves to consolidate the shares into 1000 shares of Rs.100 each. Pass the journal entry.

Solution:

Equity Share Capital (Rs.10) A/c	Dr	100000
To Equity Share Capital (Rs.100) A/c		100000

Reduction of Share Capital

Reduction of capital is unlawful except when sanctioned by the court because conservation of capital is one of the main principles the Company Act. In order to reduce the share capital, the company must be authorized by its articles of association, a special resolution must be passed at general meeting, and confirmation of court etc. is required. A company can reduce its share capital by any of the following ways:

a. By reducing the liability of the shareholders for uncalled capital.
b. By paying off the surplus capital.
c. By reducing paid up capital which is not represented by available assets.

internal reconstruction. This account will be closed as soon as the scheme is carried out. The balance in Capital Reduction A/c can be used to write off fictitious assets, past losses and excess value of assets. The entry is as follows:

Capital Reduction A/c Dr
To P&L A/c (Debit balance)
To Goodwill A/c
To Preliminary Expenses A/c
To discount on issue of shares/ debentures A/c
To Patents/ Trademarks A/c
To Plant & Machinery A/c
To other Assets A/c
To Capital Reserve A/c (Bal. Fig)

Illustration 10

The following is the balance sheet of Brahma Ltd as on 31 March 2011.

Liabilities	Amount	Assets	Amount
5000 Equity shares of Rs.100 each fully paid	500000	Plant & Machinery	173000
		Patents	850000
7500 10% Preference shares of Rs.100 each fully paid	750000	Stock in trade	55000
		Sundry debtors	77000
Sundry creditors	50000	Profit & Loss A/c	145000
	1300000		1300000

The company suffered losses and the following scheme was adopted:

i. Equity shares are to be reduced to an equal number of shares of Rs.25 each.
ii. The preference shares to be reduced to an equal number of shares of Rs.50 each.
iii. The amount available to be used to write off Rs.39240 of plant and machinery and Rs.15000 of stock in trade.
iv. Made a provision of Rs.15300 for doubtful debt.
v. The balance being used to write off patents.

Journalise the transactions and prepare the balance sheet after reconstruction.

Solution:

Journal

2011 Mar 31	Equity Share Capital (Rs.100) A/c Dr		500000	
	To Equity Share Capital (Rs.25) A/c			125000
	To Capital Reduction A/c			375000
	(reduction of equity share capital to Rs.25 each)			
	10% Preference Share Capital (Rs.100) A/c Dr		750000	

	To Preference Share Capital (Rs.50) A/c To Capital Reduction A/c (reduction of preference share capital to Rs.50)			375000 375000

Accounting entries for reduction of share capital

a. For reducing the liability in respect of uncalled capital:

Share Capital (old) A/c Dr
To Share Capital (New) A/c

b. For paying off surplus capital:

i. Share Capital A/c Dr
To Shareholders A/c

ii. Shareholders A/c Dr
To Bank A/c

c. For reducing or cancelling paid up capital which is not represented by available assets:

i. For reducing paid up capital by changing its face value:
Share Capital (old) A/c Dr
To Share Capital (New) A/c
To Capital Reduction A/c

ii. For reducing paid up capital without changing its face value:
Share Capital A/c Dr (amount of reduced capital)
To Capital Reduction A/c

Capital Reduction Account

Capital Reduction Account is a new account opened for transferring that part of capital which is lost or not represented by the assets. It is a temporary account opened for carrying out internal reconstruction. This account will be closed as soon as the scheme is carried out. The balance in Capital Reduction A/c can be used to write off fictitious assets, past losses and excess value of assets. The entry is as follows:

Capital Reduction A/c Dr
To P&L A/c (Debit balance)
To Goodwill A/c
To Preliminary Expenses A/c
To discount on issue of shares/ debentures A/c
To Patents/ Trademarks A/c
To Plant & Machinery A/c
To other Assets A/c
To Capital Reserve A/c (Bal. Fig)

Illustration 10

The following is the balance sheet of Brahma Ltd as on 31 March 2011.

Liabilities	Amount	Assets	Amount
5000 Equity shares of Rs.100 each fully paid	500000	Plant & Machinery	173000
		Patents	850000
7500 10% Preference shares of Rs.100 each fully paid	750000	Stock in trade	55000
		Sundry debtors	77000
Sundry creditors	50000	Profit & Loss A/c	145000
	1300000		1300000

The company suffered losses and the following scheme was adopted:

vi. Equity shares are to be reduced to an equal number of shares of Rs.25 each.
vii. The preference shares to be reduced to an equal number of shares of Rs.50 each.
viii. The amount available to be used to write off Rs.39240 of plant and machinery and Rs.15000 of stock in trade.
ix. Made a provision of Rs.15300 for doubtful debt.
x. The balance being used to write off patents.

Journalise the transactions and prepare the balance sheet after reconstruction.

Solution:

Journal

2011 Mar 31	Equity Share Capital (Rs.100) A/c Dr To Equity Share Capital (Rs.25) A/c To Capital Reduction A/c (reduction of equity share capital to Rs.25 each)		500000	 125000 375000
	10% Preference Share Capital (Rs.100) A/c Dr To Preference Share Capital (Rs.50) A/c To Capital Reduction A/c (reduction of preference share capital to Rs.50)		750000	 375000 375000
	Capital Reduction A/c Dr To P&L A/c To Plant & Machinery A/c To Stock in trade A/c To Provision for doubtful debts A/c To Patents (Bal. Fig) (utilization of capital reduction A/c)		750000	 145000 39240 15000 15300 535460

Balance Sheet as on 1 April 2011 (after reconstruction)

Liabilities	Amount	Assets	Amount
5000 Equity shares of Rs.25each fully paid	125000	Plant & Machinery(173000-39240)	133760
7500 10% Preference shares of Rs.50 each fully paid	375000	Patents (850000-535460)	314540
Sundry creditors	50000	Stock in trade (55000-15000)	40000
		Sundry debtors (77000-15300)	61700
	550000		550000

Illustration 5

The following is the balance sheet of Jay Ram Ltd as on 31 March 2011

Liabilities	Amount	Assets	Amount
10000 Equity shares of Rs.10 each fully paid	100000	Goodwill	25000
1000 7% Preference shares of Rs.100 each fully paid	100000	Other Fixed assets	104000
Sundry creditors	50000	Current assets	95000
		Profit and loss A/c	26000
	250000		250000

It was decided that equity shares of Rs.10 each be reduced to shares of Rs.7 each and 7% preference shares of Rs.100 each be reduced to 8% preference shares of Rs.75 each. The number of shares in each case is to remain the same. It was decided that the amount so available be used for writing of the debit balance in P&L A/c, goodwill A/c and with the balance for writing down the fixed assts. Journalise the transactions and prepare the balance sheet after reconstruction.

Solution:

Journal

2011 Mar 31	Equity Share Capital (Rs.10) A/c Dr To Equity Share Capital (Rs.7) A/c To Capital Reduction A/c (reduction of equity share capital to Rs.7 each)		100000	 70000 30000
	7% Preference Share Capital (Rs.100) A/c Dr To 8%Preference Share Capital(Rs.75)A/c To Capital Reduction A/c (reduction of preference share capital to Rs.75)		100000	 75000 25000
	Capital Reduction A/c Dr To P&L A/c To Goodwill A/c To Fixed assets A/c (utilization of capital reduction A/c)		55000	 26000 25000 4000

Balance Sheet as on 1 April 2011 (after reconstruction)

Liabilities	Amount	Assets	Amount
10000 Equity shares of Rs.7each fully paid	70000	Fixed assets (104000-4000)	100000
1000 8% Preference shares of Rs.75 each fully paid	75000	Current assets	95000
Sundry creditors	50000		
	195000		195000

Variation of Shareholders' rights

Under this, the shareholders rights are altered by changing the rate of dividend or changing the classes of shares. For example, it can be done by changing the cumulative preference shares to non-cumulative preference shares or from 10% preference shares into 7% preference shares etc.

Scheme of compromise or arrangement

Here a compromise or arrangement is made with creditors or debenture holders while settling their liabilities. This scheme involves the following:

a. For sacrifice by debenture holders:

Debentures A/c Dr (with amount sacrificed)

To Capital Reduction A/c

b. For exchange of debentures for new debentures or shares:
Debentures A/c (old) Dr
To Debentures/ Share Capital A/c (New)
c. For sacrifice by creditors:
Creditors A/c Dr (with amount sacrificed)
To Capital Reduction A/c
d. For agreement to receive shares or debentures in settlement of claims of creditors:
Creditors A/c Dr
To Share Capital/ debentures A/c

Miscellaneous journals

a. For appreciation of fixed assets:
Fixed assets A/c Dr (with amount of appreciation)
To Capital Reduction A/c
b. For expense incurred on reconstruction:
Capital Reduction A/c Dr
To Bank A/c

Illustration 6

: The balance sheet of Gloomy Ltd as on 31 March 2011 was as follows:

Liabilities	Amount	Assets	Amount
4000 Equity shares of Rs.100 each fully paid	400000	Goodwill	15000
		Freehold premises	200000
2000 5% Preference shares of Rs.100 each fully paid	200000	Plant & Machinery	300000
		Stock in trade	50000
6% Debentures	100000	Sundry debtors	40000
Bank overdraft	35000	Cash in hand	5000
Sundry creditors	100000	Profit & Loss A/c	225000
	835000		835000

The company has got the following scheme of capital reduction approved by the court.

a. Preference shares to be reduced to Rs.60 per share fully paid up and equity shares to Rs.40 per share fully paid up.
b. The debenture holders to take over stock in trade and book debts in full satisfaction of the amount due to them.
c. The value of freehold premises to be increased by 10%.
d. The value of plant and machinery to be depreciated by 33 1/3 %.
e. The goodwill account to be eliminated.
f. Expenses of reconstruction amounted to Rs.4000.

Journalize the transactions and prepare the balance sheet after reconstruction.

Solution:

Journal

2011 Mar 31	Equity Share Capital (Rs.100) A/c Dr To Equity Share Capital (Rs.40) A/c To Capital Reduction A/c (reduction of equity share capital to Rs.40 each)		400000	 160000 240000
	5% Preference Share Capital (Rs.100) A/c Dr To 5%Preference Share Capital(Rs.60)A/c To Capital Reduction A/c (reduction of preference share capital to Rs.60)		200000	 120000 80000
	6% Debentures A/c Dr To Stock in trade A/c To Sundry debtors A/c To Capital Reduction A/c (Bal. Fig) (stock and debtors taken over by debenture holders)		100000	 50000 40000 10000
	Freehold premises A/c Dr To Capital Reduction A/c (Freehold premises appreciated by 10%)		20000	20000
	Capital Reduction A/c Dr To P&L A/c To Goodwill A/c To Plant and machinery A/c To Bank A/c (expenses) To Capital Reserve A/c (utilization of capital reduction A/c)		350000	 15000 225000 100000 4000 6000

Balance Sheet as on 1 April 2011 (after reconstruction)

Liabilities	Amount	Assets	Amount
4000 Equity shares of Rs.40each fully paid	160000	Freehold premises(200000+20000)	220000
2000 5% Preference shares of Rs.60 each fully paid	120000	Plant & Machinery(300000-100000)	200000
Capital Reserve	6000	Cash in hand(5000-4000)	1000
Bank overdraft	35000		
Sundry creditors	100000		
	421000		421000

Surrender of shares

Under reconstruction, the shareholders may be required to surrender a part of their share holdings. Such surrendered shares may be reissued to other parties (creditors, debenture holders etc.) in whole or in part satisfaction of their claims. The entries required are as follows:

i. On surrender of shares:

Share capital A/c Dr

To Surrendered shares A/c

ii. On reissue of surrendered shares:

Surrendered shares A/c Dr

To Share capital A/c

iii. On cancellation of unissued surrendered shares:

Surrendered shares A/c Dr

To Capital Reduction A/c

Illustration 7

A company has equity share capital of Rs.1000000 consisting 10000 shares of RS.100 each. It is resolved

a. To subdivide the shares into shares of Rs.10 each
b. To ask their shareholders to surrender 50% of their shares
c. To issue 60% of the surrendered shares to 15% debenture holders of Rs.400000 in full settlement of their claims
d. To cancel the unissued surrendered shares.

Give entries in the books of the company.

Solution:

Journal

	Equity Share Capital (Rs.100) A/c Dr To Equity Share Capital (Rs.10) A/c (subdivision of equity shares into Rs.10 each)		1000000	1000000
	Equity Share capital A/c Dr To Surrendered shares A/c (50% of shares surrendered)		500000	500000
	Surrendered shares A/c Dr 15% Debentures A/c Dr To Equity Share capital A/c To Capital Reduction A/c (issue of 60% surrendered shares to debenture holders in full settlement of their claims)		300000 400000	300000 400000
	Surrendered Shares A/c Dr To Capital Reduction A/c (cancellation of unissued surrendered shares)		200000	200000

UNIT- 2

Amalgamation, Absorption & External Reconstruction

There are many forms of business combinations to obtain the economies of large scale production or to avoid the cut throat competition. They are amalgamation, absorption, external reconstruction etc.

The term amalgamation is used when two or more existing companies go into liquidation and a new company is formed to take over the business of liquidated companies. The term absorption is used when an existing company takes over the business of one or more existing companies which go into liquidation. In external reconstruction, one existing company goes into liquidation and a new company is formed to take over the former company.

Definitions as per Accounting Standard 14 (AS-14)

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 to which a 6ransferor company is amalgamated.
d. Reserve – means the portion of earnings, receipts or other surpluses of an enterprise (whether capital or revenue) appropriated by the management for a general or a specific purpose other than provision for depreciation or diminution in the value of assets or for a known liability.

Types of Amalgamation

As per AS-14 there are two types of amalgamation (1) Amalgamation in the nature of merger and (2) Amalgamation in the nature of purchase.

Amalgamation in the nature of Merger (Pooling Interest Method)

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

i. All the assets and liabilities of the Transferor Company or companies before amalgamation should become 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 (excluding the proportion held by the transferee company) should become the shareholders of the transferee company.
iii. The consideration payable to the above mentioned shareholders should be discharged by the transferee company by the issue of the equity shares and cash can be payable in respect of fractional shares.

iv. The business of the Transferor Company/ companies is intended to be carried on 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/ companies when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

Amalgamation in the nature of purchase

An amalgamation should be considered to be an amalgamation in the nature of purchase, when any one or more of the conditions specified for amalgamation in the nature of merger is not satisfied.

Difference between Amalgamation in the nature of merger and Amalgamation in the nature of purchase

Merger	Purchase
1. There is a genuine mpooli9ng of assets and liabilities of the transferor companies as well as the share holders' interest. As such the shareholders of all the transferor companies conti9nue to have substantial or proportionate share in the equity or management of Transferee Company.	1. One company acquires another. As a consequencx3, the shareholders of the transferor company normally do not continue to have a proportionate share in the equity management of the transferee company.
2. Assets, liabilities and reserves of the transferor company are recorded by the transferee company at their book values.	2. Assets, liabilities and reserves of the transferor company are recorded by the transferee company either at book value or at values revised on the basis of their fair values.
3. The balance of P&L A/c of the transferor company aggregated with the balance of the P&L A/c of the transferee company.	3. The balance of P&L A/c of the transferor company is not included in the books of the transferee company.
4. All reserves whether capital or revenue 0of Transferor Company are merged into the reserves of Transferee Company.	4. Only statutory reserves of Transferor Company are taken in the books of Transferee Company in order to preserve their identity.
5. It is always intended to continue the business of transferor company.	5. It may not be intended to continue the business of Transferor Company.
6. All the assets of Transferor Company become the assets of the transferee company.	6. All the assets of Transferor Company may or may not become the assets of the transferee company.
7. Purchase consideration is usually valued at the par value of the shares issued.	7. Purchase consideration is usually valued at the market price of the shares issued.

Purchase Consideration

Purchase consideration is the amount which is paid by the transferee company for the purchase the business of Transferor Company. As per AS-14, consideration for amalgamation means the aggregate of shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company. Purchase consideration does not include any payment to outsiders including debenture holders. The purchase consideration 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 lump sum payment of purchase consideration. For example, X Ltd purchases the business of Y Ltd for a consideration of 1000000.
2. **Net Worth (Net Assets) Method**: Under this method, the net worth of the assets taken over by the transferee company is taken as purchase consideration. Here, Purchase consideration = Assets taken over at agreed values – Liabilities taken over at agreed values. The following points are noted while calculating purchase consideration under his method:
   a. Cash balance is usually included in assets. But if it is not taken over, it will not be included.
   b. Fictitious assets should never be added.
   c. Accumulated profits and reserves should not be considered.
   d. The term 'liabilities' include all liabilities to third parties. But 'trade liabilities' include only trade creditors and bills payable.
   e. The term 'business' will always means both the assets and liabilities.

Illustration 1

The following is the Balance Sheet of Amrita Ltd

Liabilities	Rs.	Assets	Rs.
Share capital	60000	Goodwill	28000
Debentures	10000	Land & building	16000
Sundry creditors	6000	Plant & Machinery	28000
General reserve	4000	Stock	16000
Profit & Loss A/c	20000	Debtors	8000
		Cash	2000
		Preliminary expenses	2000
	100000		100000

Bangalore Ltd takes over the business of Amrita Ltd. the value agreed for various assets are: Goodwill Rs.22000, Land & Building Rs.25000, Plant and Machinery Rs.24000, Stock Rs.13000 and Debtors Rs.8000. Bangalore Ltd does not take over cash but agrees to assume the liability of sundry creditors at Rs.5000. Calculate the purchase consideration.

Solution:

<u>Calculation of purchase consideration</u>

Value of assets taken over:

Goodwill	22000
Land & Building	25000
Plant and Machinery	24000

Stock	13000
Debtors	8000
	92000

Less: Liabilities taken over:

Sundry creditors	5000	
Debentures	10000	15000
Purchase consideration		77000

3. **Net Payment method**: Under this method, purchase consideration is the aggregate of all payments in the form of cash, shares, securities etc. to the shareholders of the transferor company by the transferee company. The following points are considered while calculating purchase consideration under this method:
   a. The assets and liabilities taken over by the transferee company are not considered.
   b. Purchase consideration includes the payments to shareholders only.
   c. Any payments made by the transferee company to some other party on behalf of the transferor company are to be ignored.

Illustration 2

The balance sheet of Jay Ltd as on 31 March 2011isas follows:

Liabilities	Rs.	Assets	Rs.
Share capital	200000	Goodwill	40000
General reserve	35000	Land & building	90000
Profit & Loss A/c	20000	Plant & Machinery	75000
Debentures	50000	Stock	52000
Sundry creditors	25000	Debtors	58000
		Cash	15000
	330000		330000

Jay Ltd decides to amalgamate into a new company New Ltd which will take over the assets and liabilities of Jay Ltd in the term that holders of each share of Rs.10 in the company would receive one share of Rs.10 each, Rs.5 paid up and Rs.4 in cash. The liquidation expense of Rs.5000 is met by New Ltd. calculate purchase consideration.

Solution:

Calculation of purchase consideration

Holder of each share of Rs.10 each will get one share of Rs. 10 each Rs.5 paid up = 100000
Holder of each equity share will get Rs.4in cash (2000x4) = 80000
Purchase consideration = 180000

(Note: Liquidation expense is not included in purchase consideration)

4. **Share exchange or Intrinsic value Method**: Under this method purchase consideration is calculated on the basis of intrinsic value of shares. The intrinsic value of a share is calculated by dividing g the net assets available le 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.

Steps in accounting procedure of amalgamation, absorption and external reconstruction

a. Calculation of purchase consideration.

b. Ascertainment of discharge of purchase consideration.
c. Closing the books of transferor companies.
d. Passing opening entries in the books of purchasing or transferee company.

Accounting entries in the books of transferor company

1. For transferring assets to Realization A/c:
   Realization A/c Dr
   To Assets A/c (individually at book value)

(Note :(a). Fictitious assets should not be transferred to Realization A/c (b). If cash in hand and bank are not taken over by transferee company should not be transferred to Realization A/c. But it can be taken as opening balance of cash or bank A/c and (c). Other assets, even if they are not taken over, should be transferred to Realization A/c)

2. For transferring liabilities(outside liabilities only) to Realization A/c:
   Liabilities A/c Dr (individually at book value)
   To Realization A/c

(Note :(a). If any liability is not taken over by transferee company should not be transferred to Realization A/c, (b). Items in the nature of provisions are to be transferred to Realization A/c and (c). Any fund which denotes both liability and reserve, the portion of liability should be transferred to Realization A/c).

3. For purchase consideration due from transferee company:
   Transferee Company A/c Dr
   To Realization A/c
4. On receiving or discharging purchase consideration:
   Equity shares in Transferee company A/c Dr
   Preference shares in Transferee company A/c Dr
   Debentures in Transferee company A/c Dr
   Cash/ Bank A/c Dr
   To Transferee company A/c
5. For sale of assets not taken over by transferee company:
   Cash/ Bank A/c Dr (Sale proceeds)
   To Realization A/c
6. For discharging liabilities not taken over by transferee company:
   Liability A/c Dr
   Realization A/c Dr (if excess amount paid)
   To Cash/ Bank A/c
   To Realization A/c (If less payment is made)
7. For liquidation (realization) expenses:
   a. If liquidation expenses are met by transferor company.
      Realization A/c Dr
      To Cash/ Bank A/c
   b. If liquidation expenses are met by transferee company.
      No entry is required.
8. For closing preference share capital:
   Preference share capital A/c Dr
   Realization A/c Dr (if excess amount paid)
   To Preference shareholders A/c

To Realization A/c (if less amount paid)

9. For paying off Preference shareholders:
   Preference shareholders A/c Dr
   To Preference shares in Transferee company A/c
   To Cash/ Bank A/c (if any)
   To Debentures A/c (if any)
10. For transferring equity share capital, reserves etc.
   Equity share capital A/c Dr
   General reserve A/c Dr
   P&L A/c Dr
   Dividend equalization reserve A/c Dr
   Security premium A/c Dr
   To equity shareholders A/c
11. For transferring fictitious assets:
   Equity shareholders A/c Dr
   To P&L A/c
   To preliminary expenses
   To Discount/ expense on issue of shares/ debentures
12. For closing Realization A/c:
   a. For loss on realization (if debit > credit).
      Equity shareholders A/c Dr
      To Realization A/c
   b. For profit on realization (if credit > debit).
      Realization A/c Dr
      To Equity shareholders A/c
13. For payment to equity shareholders:
   Equity shareholders A/c Dr
   To Equity shares in Transferee company A/c
   To Cash/ Bank A/c (if any)

After payment to equity shareholders, all accounts in the book of transferor company will be closed.

<u>Accounting entries in the books of transferee company</u>

(Amalgamation in the nature of purchase)

1. For purchase consideration due and assets and liabilities taken over:
   Assets A/c Dr (At revised, otherwise at book value)
   Goodwill A/c Dr (if credit > debit)
   To Liabilities A/c (At revised, otherwise at book value)
   To Liquidator of transferor company (purchase consideration)
   To Capital reserve (if debit > credit)
2. For payment of purchase consideration:
   Liquidator of transferor company A/c Dr
   To Share capital A/c
   To Debenture A/c
   To Bank A/c

(Note: if shares are issued at premium, security premium A/c is credited with premium. If shares are issued at discount, discount on issue of shares A/c is debited with discount).

3. For payment of liquidation expenses by transferee company:
   Goodwill/ Capital reserve/ P&L A/c Dr
   To Cash/ Bank A/c
4. For payment of formation expenses:
   Preliminary expenses A/c Dr
   To Cash/ Bank A/c
5. If there are both Goodwill and Capital reserve A/c, Goodwill may be set off against Capital reserve:
   Capital Reserve A/c Dr
   To Goodwill A/c
6. If any liability (including debenture) is discharged by transferee company:
   Liability A/c Dr (Amount payable)
   To Share capital/ Debenture/ Bank A/c
7. To record Statutory Reserves of transferor company:
   Amalgamation Adjustment A/c Dr
   To Statutory Reserve A/c

(Note: Amalgamation adjustment A/c is shown on the assets side of the company's Balance Sheet under the head "Miscellaneous Expenditure").

Illustration 3

X Ltd acquired the business of Y Ltd on 31 March 2011 for a purchase consideration of Rs. 55000 to be paid by fully paid equity shares of Rs.10 each. The balance sheets of both the companies on the date of acquisition were as follows:

	X Ltd	Y Ltd		X Ltd	Y Ltd
Equity shares of Rs.10			Land & Building	21500	13500
each	55000	32500	Plant & Machinery	40000	25000
10 % Preference shares	………..	6000	Furniture	7500	5000
of Rs.10 each			Investment	12500	8000
General Reserve	17000	11000	Inventories	25000	22500
Development	………..	4000	Sundry Debtors	8500	5000
Allowance Reserve			Cash & Bank	3000	1500
P&L A/c	7000	5000	Advance Tax	3500	3000
Work men					
Compensation Fund	3000	1500			
10% Debentures	20000	10000			
Fixed	7500	5000			
Deposit(unsecured)	5000	5500			
Sundry creditors	3000	……..			
Bills Payable	4000	3000			
Provision for tax	121500	83500		121500	83500

Debenture holders of Y Ltd will be issued equity shares in X Ltd. Journalize the transactions in the books of X Ltd sand the Balance sheet after amalgamation assuming that the amalgamation is in the nature of purchase. Also give journal entries in the books of the transferor company to close the books.

Solution:

In the books of Y Ltd (Transferor company)

Closing entries

	Realization A/c Dr		83500	
	To Land & Building A/c			13500
	To Plant & Machinery A/c			25000
	To Furniture A/c			5000
	To Investment A/c			8000
	To Inventories A/c			22500
	To Sundry Debtors A/c			5000
	To Cash & Bank A/c			1500
	To Advance Tax A/c			3000
	(transfer of various assets to Realization A/c)			
	10% Debentures A/c Dr		10000	
	Fixed Deposit A/c Dr		5000	
	Sundry creditors A/c Dr		5500	
	Provision for tax A/c Dr		3000	
	To Realization A/c			23500
	(transfer of various liabilities to Realization A/c)			
	X Ltd A/c Dr			
	To Realization A/c		55000	
	(purchase consideration due from X Ltd)			55000
	Equity Shares in X Ltd A/c Dr			
	To X Ltd A/c		55000	
	(purchase consideration received)			55000
	10% Preference share capital A/c Dr		6000	
	To Preference shareholders A/c			6000
	(amount payable to Preference shareholders			
	Preference shareholders A/c Dr		6000	
	To Equity Shares in X Ltd A/c			6000
	(distribution of equity shares received from X			
	Ltd)		32500	
	Equity share capital A/c Dr		11000	
	General reserve A/c Dr		4000	
	Development Allowance reserve A/c Dr		5000	
	P&L A/c Dr		1500	
	Workmen compensation Fund A/c Dr			54000
	To equity shareholders A/c			
	(transfer of equity shareholders funds)		5000	
	Equity shareholders A/c Dr			5000
	To Realization A/c			
	(transfer of loss on realization)		49000	

	Equity shareholders A/c Dr To Equity shares in X Ltd A/c (distribution of equity shares received from X Ltd)			49000

Realization A/c

To Land & Building A/c	13500	By 10% Debentures A/c	10000
To Plant & Machinery A/c	25000	By Fixed Deposit A/c	5000
To Furniture A/c	5000	By Sundry creditors A/c	5500
To Investment A/c	8000	By Provision for tax A/c	3000
To Inventories A/c	22500	By X Ltd (PC)A/c	55000
To Sundry Debtors A/c	5000	By Equity shareholders A/c	5000
To Cash & Bank A/c	1500	(realization loss)-Bal. figure	
To Advance Tax A/c	3000		
	83500		83500

X Ltd A/c

To Realisation A/c	55000	By Equity shares in X Ltd. A/c	55000
	55000		55000

Preference shareholders A/c

To Equity shares in X Ltd A/c	6000	By 10%Preference share capital A/c	6000
	6000		6000

Equity shareholders A/c

To Realisation A/c (loss)	5000	By Equity share capital A/c	32500
To Equity shares in X Ltd. A/c	49000	By General reserve A/c	11000
		By Development Allowance reserve	4000
		By P&L A/c	5000
		By Workmen compensation Fund A/c	1500
	54000		54000

Opening Entries in the books of X Ltd (Transferee Company)

	Land & Building A/c Dr		13500	
	Plant & Machinery A/c Dr		25000	
	Furniture A/c Dr		5000	
	Investment A/c Dr		8000	
	Inventories A/c Dr		22500	
	Sundry Debtors A/c Dr		5000	
	Cash & Bank A/c Dr		1500	
	Advance Tax A/c Dr		3000	
	To 10% Debentures A/c			10000
	To Fixed Deposit A/c			5000
	To Sundry creditors A/c			5500
	To Provision for tax A/c			3000
	To Liquidators of Y Ltd A/c			55000

To Capital Reserve (Bal. figure) (purchase consideration due and assets and liabilities taken over)			5000
Liquidators of Y Ltd A/c Dr To Equity Share capital A/c (payment of purchase consideration in equity shares)		55000	55000
10% Debentures A/c Dr To Equity Share capital A/c (discharge of debentures by issuing equity shares)		10000	10000
Amalgamation Adjustment A/c Dr To Development Allowance reserve A/c To Workmen compensation Fund A/c (statutory reserves incorporated)		5500	4000 1500

Balance Sheet of X Ltd as on 1 April 2011 (after amalgamation)

Share Capital		*Fixed Assets*	
12000 equity shares of Rs.10 Each	120000	Land & Building	35000
Reserves & Surplus		Plant & Machinery	65000
Capital Reserve	5000	Furniture	12500
General Reserve	17000	*Investments*	20500
Development Allowance reserve	4000	*Current Assets*	
Workmen compensation Fund	4500	Inventories	47500
P & L A/c	7000	Sundry Debtors	13500
Secured Loan		Cash & Bank	4500
10% Debentures	20000	Advance Tax	6500
Unsecured loan		*Miscellaneous Expenditure*	
Fixed Deposit	12500	Amalgamation Adjustment A/c	5500
Current liabilities & Provisions			
Sundry creditors	10500		
Bills Payable	3000		
Provision for tax	7000		
	210500		210500

Accounting entries in the books of transferee company
(Amalgamation in the nature of merger)

1. For purchase consideration due and assets and liabilities taken over:

Assets A/c Dr (Individually at book value)
To Liabilities A/c (Individually at book value)
To Reserves of Transferor Company A/c
To P & L A/c
To Liquidator of transferor company A/c (purchase consideration)

(Note: The difference between debit and credit is adjusted in the reserves of Transferee Company)

2. For payment of purchase consideration:
   Liquidator of transferor company A/c Dr
   To Share capital A/c
   To Debenture A/c
   To Bank A/c
   (Note: if shares are issued at premium, security premium A/c is credited with premium. If shares are issued at discount, discount on issue of shares A/c is debited with discount).
3. Payment of liquidation expense by transferee company:
   General Reserve/ P & L A/c Dr
   To Cash/ Bank A/c
4. For the payment of formation expenses:
   Preliminary expenses A/c Dr
   To Cash/ Bank A/c

Illustration 4

The following is the summarized Balance sheet of Moon Ltd as on 31 March 2012.

Share Capital		*Fixed Assets*	
40000 equity shares of		Land & Building	200000
Rs.10 Each	400000	Plant & Machinery	100000
Reserves & Surplus		Furniture	80000
Capital Reserve A/c	180000	*Investments*	-------
P & L A/c	60000	*Current Assets*	
Secured Loan		Stock	40000
10% Debentures	200000	Sundry Debtors	60000
Current liabilities &		Bank	300000
Provisions		Cash	80000
Sundry creditors	20000		
	860000		860000

On 1 April 2012 Sun Ltd took over the business of Moon Ltd as per the following terms:

a. Debentures are to be discharged at a premium of 5% in Sun Ltd.
b. Creditors are to be paid off by Sun Ltd.
c. Sun Ltd will issue 5 equity shares of Rs.10 each at a market value of Rs.11 for every 4 equity shares of Moon Ltd.
d. Cost of liquidation Rs.10000 is to be paid by Sun Ltd.

Close the books of Moon Ltd and pass opening entries in the books of Sun Ltd assuming that the amalgamation s in the nature f merger.

Solution:

Purchase consideration (in Equity shares) = 40000x5/4x11 = Rs.550000

In the books of Moon Ltd.

Realisation A/c

To Land & Building A/c	200000	By 10% Debentures A/c	200000

To Plant & Machinery A/c	100000	By Sundry creditors A/c	20000
To Furniture A/c	80000	By Sun Ltd (PC)	550000
To Stock A/c	40000	By Equity shareholders A/c (realisation loss)-Bal. figure	90000
To Sundry Debtors A/c	60000		
To Bank A/c	300000		
To Cash A/c	80000		
	860000		860000

Sun Ltd A/c

To Realisation A/c	550000	By Equity shares in Sun Ltd.	550000
	550000		550000

Equity Shares in Sun Ltd A/c

To Sun Ltd A/c	550000	By Equity shareholders A/c	550000
	550000		550000

Equity shareholders A/c

To Realisation A/c (loss)	90000	By Equity share capital A/c	400000
To Equity shares in Sun Ltd.	550000	By Capital Reserve A/c	180000
		By P&L A/c	60000
	640000		640000

Entries In the books of Sun Ltd

	Land & Building A/c Dr		200000	
	Plant & Machinery A/c Dr		100000	
	Furniture A/c Dr		80000	
	Stock A/c Dr		40000	
	Sundry Debtors A/c Dr		60000	
	Bank A/c Dr		300000	
	Cash A/c Dr		80000	
	To 10% Debentures A/c			200000
	To Sundry creditors A/c			20000
	To Capital Reserve A/c (Bal. Fig)			30000
	To P & L A/c			60000
	To Liquidators of Moon Ltd A/c			550000
	(purchase consideration due and assets and liabilities taken over)			
	Liquidators of Moon Ltd A/c Dr		550000	
	To Equity Share capital A/c			500000
	To Security Premium A/c			50000
	(payment of purchase consideration in 50000 equity shares of Rs.10 at Rs.11)			
	10% Debentures A/c Dr		200000	
	Premium on Redemption of Debentures A/c Dr		10000	
	To Bank A/c			210000
	(discharge of debentures at 5% premium)			

	Capital Reserve A/c Dr To Premium on Redemption of Debentures A/c (Premium on Redemption of Debentures adjusted)		10000	10000
	Capital Reserve A/c Dr To Bank A/c (liquidation expenses paid)		10000	10000

Working Note: Calculation of Reserve:

Purchase consideration	550000
Less: Share capital of Moon Ltd	400000
Difference to be adjusted	150000
Capital Reserve in Moon Ltd	180000
Less: Difference adjusted	150000
Balance of Capital Reserve	30000

Illustration 5

A Ltd acquired the business of B Ltd on 31 March 2012 for a purchase consideration of Rs.2,50,00,000 to be paid by fully paid equity shares of Rs.10 each. The balance sheets of two companies on the date of acquisition were as follows:

	A Ltd	B Ltd		A Ltd	B Ltd
Equity shares of Rs.10 each fully paid	25000000	15000000	Land & Building	12000000	8000000
			Plant & Machinery	20000000	18000000
			Furniture	1000000	2000000
General Reserve	12000000	1800000	Stock	5500000	4000000
Development Rebate Reserve	1000000	3700000	Sundry Debtors	4500000	4000000
P&L A/c	1000000	5300000	Bank	2000000	1700000
Workmen Compensation Fund	1500000	2400000			
Current Liabilities	4500000	9500000			
	45000000	37700000		45000000	37700000

Pass the necessary journal entries in the books of A Ltd when amalgamation is in the nature of (i) merger and (ii) purchase.

Also prepare the Balance sheet of A Ltd after amalgamation assuming that Development Rebate Reserve and Workmen Compensation Fund of B Ltd are required to be continued in the books of A Ltd.

Solution:

(i) When amalgamation is in the nature of merger:

Entries in the books of A Ltd.

2012 Mar 31	Land & Building A/c Dr Plant & Machinery A/c Dr Furniture A/c Dr		8000000 18000000 2000000	

	Stock A/c Dr		4000000	
	Sundry Debtors A/c Dr		4000000	
	Bank A/c Dr		1700000	
	General Reserve A/c (Bal. Fig) Dr		2900000	
	To Development Rebate Reserve A/c			3700000
	To Workmen Compensation Fund A/c			2400000
	To Current liabilities A/c			9500000
	To Liquidators of B Ltd A/c			25000000
	(purchase consideration due and assets and liabilities taken over)			
	Liquidators of B Ltd A/c Dr		25000000	
	To Equity Share capital A/c			25000000
	(payment of purchase consideration in equity shares)			

Balance Sheet of A Ltd as on 1 April 2012 (after amalgamation)

Share Capital		*Fixed Assets*	
5000000 equity shares of		Land & Building	20000000
Rs.10 Each, fully paid up	50000000	Plant & Machinery	38000000
Reserves & Surplus		Furniture	3000000
General Reserve	9100000	*Current Assets*	
Development Rebate	4700000	Stock	9500000
Reserve	3900000	Sundry Debtors	8500000
Workmen Compensation		Bank	3700000
Fund	1000000		
P & L A/c	14000000		
Current liabilities	82700000		82700000

(ii) When amalgamation is in the nature of purchase:

Entries in the books of A Ltd.

2012 Mar 31	Land & Building A/c Dr		8000000	
	Plant & Machinery A/c Dr		18000000	
	Furniture A/c Dr		2000000	
	Stock A/c Dr		4000000	
	Sundry Debtors A/c Dr		4000000	
	Bank A/c Dr		1700000	
	To Current liabilities A/c			9500000
	To Liquidators of B Ltd A/c			25000000
	To Capital Reserve A/c (Bal. Fig)			3200000
	(purchase consideration due and assets and liabilities taken over)			
	Liquidators of B Ltd A/c Dr		25000000	
	To Equity Share capital A/c			25000000
	(payment of purchase consideration in equity shares)			
	Amalgamation Adjustment A/c Dr		6100000	

	To Development Rebate Reserve A/c To Workmen compensation Fund A/c (statutory reserves incorporated)			3700000 2400000

Balance Sheet of A Ltd as on 1 April 2012 (after amalgamation)

Share Capital		*Fixed Assets*	
5000000 equity shares of Rs.10Each, fully paid up	50000000	Land & Building	20000000
Reserves & Surplus		Plant & Machinery	38000000
Capital Reserve	3200000	Furniture	3000000
General Reserve	12000000	*Current Assets*	
Development Rebate Reserve	4700000	Stock	9500000
Workmen Compensation Fund	3900000	Sundry Debtors	8500000
P & L A/c	1000000	Bank	3700000
Current liabilities	14000000	*Miscellaneous Expenditure*	
		Amalgamation Adjustment A/c	6100000
	88800000		88800000

Illustration 6

A Ltd agrees to sell their undertaking to B Ltd on the following terms. B Ltd will pay them Rs.600000 in cash and allot them two fully paid share of Rs.6 each (market value Rs. 7.50 per share) in exchange of every three shares in their own company. The Balance sheet of A Ltd on the date of amalgamation stood as follows:

Share Capital		*Fixed Assets*	
120000 equity shares of Rs.6 Each, fully paid up	720000	Land & Building	450000
		Plant & Machinery	218700
Reserves & Surplus		*Current Assets*	
General Reserve	360000	Stock	273450
P & L A/c	34168	Sundry Debtors	229500
Creditors	132500	Bank	74280
		Cash	738
	1246668		1246668

A ltd will pay their liquidation expenses themselves which amounted to Rs.9000. close the books of A Ltd and give opening entries in the books of B Ltd assuming that the amalgamation is in the nature of purchase.

Solution:

Calculation of purchase consideration

In cash	600000
In equity shares (120000x2/3x7.50)	600000
Purchase Consideration	1200000

Closing entries in the books of A Ltd

	Realisation A/c Dr		1246668	
	To Land & Building A/c			450000
	To Plant & Machinery A/c			218700
	To Stock A/c			273450
	To Sundry Debtors A/c			229500

	To Bank A/c To Cash A/c (transfer of various assets to Realisation A/c)			74280 738
	Sundry creditors A/c Dr To Realisation A/c (transfer of sundry creditors to Realisation A/c)		132500	132500
	B Ltd A/c Dr To Realisation A/c (purchase consideration due from B Ltd)		1200000	1200000
	Cash A/c Dr Equity Shares in B Ltd A/c Dr To B Ltd A/c (purchase consideration received)		600000 600000	1200000
	Equity share capital A/c Dr General reserve A/c Dr P&L A/c Dr To equity shareholders A/c (transfer of equity shareholders funds)		720000 360000 34168	1114168
	Realisation A/c Dr To Cash A/c (liquidation expenses paid)		9000	9000
	Realisation A/c Dr To Equity shareholders A/c (transfer of profit on realisation)		76832	76832
	Equity shareholders A/c Dr To Equity shares in B Ltd A/c To Cash A/c (distribution of equity shares and cash received)		1191000	600000 591000

Opening entries in the books of B Ltd

	Land & Building A/c Dr Plant & Machinery A/c Dr Stock A/c Dr Sundry Debtors A/c Dr Bank A/c Dr Cash A/c Dr Goodwill A/c (Bal. Fig) Dr To Sundry Creditors A/c To Liquidators of A Ltd A/c (purchase consideration due and assets and liabilities taken over)		450000 218700 273450 229500 74280 738 85832	132500 1200000
	Liquidators of A Ltd A/c Dr To Equity Share capital A/c		1200000	480000 120000

	To Security premium A/c To Cash A/c (payment of purchase consideration)			600000

ACCOUNTING FOR INTERNAL RECONSTRUCTION

There are two types or reconstruction, namely external reconstruction and internal reconstruction. In external reconstruction, a new company is formed to take over the assets and liabilities of an existing company which goes into liquidation. But in internal reconstruction, there will be neither liquidation of an existing company nor formation of a new company.

Internal reconstruction means an internal rearrangement that gives a new look to the capital structure, adjusts the rights of shareholders, debenture holders and creditors along with some adjustments in the values of assets and writing off fictitious assets. Internal reconstruction may be done due to the accumulate losses, shortage of working capital, overvaluation of assets etc.

Difference between Internal reconstruction and External reconstruction

Internal reconstruction	External reconstruction
1. The company does not loss its identity 2. The overvalued assets are revalued at their net worth and the losses written off. 3. No new company is formed nor is any existing company liquidated. It is the internal matter of a single company. 4. Debenture holds, creditors and bank overdraft may continue.	1. The company losses its identity 2. The newly formed company takes over the assets and liabilities of the liquidated company at agreed values. 3. A new company is formed in place of the old company. 4. These parties will have to be settled.

Forms or Methods of Internal reconstruction

1. Alteration of share capital.
2. Reduction of share capital.
3. Variation of shareholders' rights.
4. Scheme of compromise.

Alteration of Share Capital

According to Sec. 94 of the Companies Act, a limited company can, if authorized by its articles of association, alter the capital clause of its memorandum of association in any of the following ways.

a. By increasing its share capital by issue of new shares.
b. By consolidating existing shares of smaller amounts into shares of larger amo9unts.
c. By subdividing the existing share into shares of smaller amounts.
d. By converting fully paid shares into stock 0or stock into fully paid shares.

Accounting entries for alteration of capital

a. For increasing its share capital
   i. Bank A/c Dr

To Share Application & Allotment A/c

ii. Share Application & Allotment A/c Dr

To Share Capital A/c

b. For consolidation of shares:

Share Capital (old) A/c Dr

To Share Capital (New) A/c

c. For subdivision of shares:

Share Capital (old) A/c Dr

To Share Capital (New) A/c

d. For conversion of shares into stock:

Share Capital A/c Dr

To Stock A/c

e. For conversion of stock into shares:

Stock A/c Dr

To Share Capital A/c

Illustration 7

A Ltd having a share capital of Rs.500000 divided into 5000 shares of Rs.100 each, resolves to subdivide the shares into 50000 shares of Rs.10 each. Pass the journal entry.

Solution

Share Capital (Rs.100) A/c	Dr	500000	
To Share Capital (Rs.10) A/c			500000

Illustration 8

X Ltd resolves to convert its 50000 equity shares of Rs.10 each fully paid into Rs.500000 worth of equity stock. Journalize the transaction.

Solution:

Equity Share Capital A/c	Dr	500000
To Equity Stock A/c		500000

Illustration 9

B Ltd having an equity share capital of Rs.100000 divided into 10000 shares of Rs.10 each resolves to consolidate the shares into 1000 shares of Rs.100 each. Pass the journal entry.

Solution:

Equity Share Capital (Rs.10) A/c	Dr	100000
To Equity Share Capital (Rs.100) A/c		100000

Reduction of Share Capital

Reduction of capital is unlawful except when sanctioned by the court because conservation of capital is one of the main principles the Company Act. In order to reduce the share capital, the company must be authorized by its articles of association, a special resolution must be passed at general meeting, and confirmation of court etc. is required. A company can reduce its share capital by any of the following ways:

a. By reducing the liability of the shareholders for uncalled capital.
b. By paying off the surplus capital.
c. By reducing paid up capital which is not represented by available assets.

Accounting entries for reduction of share capital

a. For reducing the liability in respect of uncalled capital:
   Share Capital (old) A/c Dr
   To Share Capital (New) A/c
b. For paying off surplus capital:
   i. Share Capital A/c Dr
      To Shareholders A/c
   ii. Shareholders A/c Dr
      To Bank A/c
c. For reducing or cancelling paid up capital which is not represented by available assets:
   i. For reducing paid up capital by changing its face value:
      Share Capital (old) A/c Dr
      To Share Capital (New) A/c
      To Capital Reduction A/c
   ii. For reducing paid up capital without changing its face value:
      Share Capital A/c Dr (amount of reduced capital)
      To Capital Reduction A/c

Capital Reduction Account

Capital Reduction Account is a new account opened for transferring that part of capital which is lost or not represented by the assets. It is a temporary account opened for carrying out internal reconstruction. This account will be closed as soon as the scheme is carried out. The balance in Capital Reduction A/c can be used to write off fictitious assets, past losses and excess value of assets. The entry is as follows:

Capital Reduction A/c Dr
To P&L A/c (Debit balance)
To Goodwill A/c
To Preliminary Expenses A/c
To discount on issue of shares/ debentures A/c
To Patents/ Trademarks A/c
To Plant & Machinery A/c
To other Assets A/c
To Capital Reserve A/c (Bal. Fig)

Illustration 10

The following is the balance sheet of Brahma Ltd as on 31 March 2011.

Liabilities	Amount	Assets	Amount
5000 Equity shares of Rs.100		Plant & Machinery	173000

each fully paid	500000	Patents	850000
7500 10% Preference shares		Stock in trade	55000
of Rs.100 each fully paid	750000	Sundry debtors	77000
Sundry creditors	50000	Profit & Loss A/c	145000
	1300000		1300000

The company suffered losses and the following scheme was adopted:

i. Equity shares are to be reduced to an equal number of shares of Rs.25 each.
ii. The preference shares to be reduced to an equal number of shares of Rs.50 each.
iii. The amount available to be used to write off Rs.39240 of plant and machinery and Rs.15000 of stock in trade.
iv. Made a provision of Rs.15300 for doubtful debt.
v. The balance being used to write off patents.

Journalise the transactions and prepare the balance sheet after reconstruction.

Solution:

Journal

2011 Mar 31	Equity Share Capital (Rs.100) A/c Dr		500000	
	To Equity Share Capital (Rs.25) A/c			125000
	To Capital Reduction A/c			375000
	(reduction of equity share capital to Rs.25 each)			
	10% Preference Share Capital (Rs.100) A/c Dr		750000	
	To Preference Share Capital (Rs.50) A/c			375000
	To Capital Reduction A/c			375000
	(reduction of preference share capital to Rs.50)			
	Capital Reduction A/c Dr		750000	
	To P&L A/c			145000
	To Plant & Machinery A/c			39240
	To Stock in trade A/c			15000
	To Provision for doubtful debts A/c			15300
	To Patents (Bal. Fig)			535460
	(utilization of capital reduction A/c)			

Balance Sheet as on 1 April 2011 (after reconstruction)

Liabilities	Amount	Assets	Amount
5000 Equity shares of		Plant & Machinery(173000-	133760
Rs.25each fully paid	125000	39240)	314540
7500 10% Preference shares		Patents (850000-535460)	40000
of Rs.50 each fully paid	375000	Stock in trade (55000-15000)	61700
Sundry creditors	50000	Sundry debtors (77000-15300)	
	550000		550000

Illustration 5

The following is the balance sheet of Jay Ram Ltd as on 31 March 2011

Liabilities	Amount	Assets	Amount
10000 Equity shares of Rs.10		Goodwill	25000

each fully paid	100000	Other Fixed assets	104000
1000 7% Preference shares of		Current assets	95000
Rs.100 each fully paid	100000	Profit and loss A/c	26000
Sundry creditors	50000		
	250000		250000

It was decided that equity shares of Rs.10 each be reduced to shares of Rs.7 each and 7% preference shares of Rs.100 each be reduced to 8% preference shares of Rs.75 each. The number of shares in each case is to remain the same. It was decided that the amount so available be used for writing of the debit balance in P&L A/c, goodwill A/c and with the balance for writing down the fixed assts. Journalise the transactions and prepare the balance sheet after reconstruction.

Solution:

Journal

2011 Mar 31	Equity Share Capital (Rs.10) A/c Dr To Equity Share Capital (Rs.7) A/c To Capital Reduction A/c (reduction of equity share capital to Rs.7 each)		100000	 70000 30000
	7% Preference Share Capital (Rs.100) A/c Dr To 8%Preference Share Capital(Rs.75)A/c To Capital Reduction A/c (reduction of preference share capital to Rs.75)		100000	 75000 25000
	Capital Reduction A/c Dr To P&L A/c To Goodwill A/c To Fixed assets A/c (utilization of capital reduction A/c)		55000	 26000 25000 4000

Balance Sheet as on 1 April 2011 (after reconstruction)

Liabilities	Amount	Assets	Amount
10000 Equity shares of		Fixed assets (104000-4000)	100000
Rs.7each fully paid	70000	Current assets	95000
1000 8% Preference shares of			
Rs.75 each fully paid	75000		
Sundry creditors	50000		
	195000		195000

Variation of Shareholders' rights

Under this, the shareholders rights are altered by changing the rate of dividend or changing the classes of shares. For example, it can be done by changing the cumulative preference shares to non-cumulative preference shares or from 10% preference shares into 7% preference shares etc.

Scheme of compromise or arrangement

Here a compromise or arrangement is made with creditors or debenture holders while settling their liabilities. This scheme involves the following:

a. For sacrifice by debenture holders:

Debentures A/c Dr (with amount sacrificed)

To Capital Reduction A/c

b. For exchange of debentures for new debentures or shares:

Debentures A/c (old) Dr

To Debentures/ Share Capital A/c (New)

c. For sacrifice by creditors:

Creditors A/c Dr (with amount sacrificed)

To Capital Reduction A/c

d. For agreement to receive shares or debentures in settlement of claims of creditors:

Creditors A/c Dr

To Share Capital/ debentures A/c

Miscellaneous journals

a. For appreciation of fixed assets:

Fixed assets A/c Dr (with amount of appreciation)

To Capital Reduction A/c

b. For expense incurred on reconstruction:

Capital Reduction A/c Dr

To Bank A/c

Illustration 6

: The balance sheet of Gloomy Ltd as on 31 March 2011 was as follows:

Liabilities	Amount	Assets	Amount
4000 Equity shares of Rs.100 each fully paid	400000	Goodwill	15000
		Freehold premises	200000
2000 5% Preference shares of Rs.100 each fully paid	200000	Plant & Machinery	300000
		Stock in trade	50000
6% Debentures	100000	Sundry debtors	40000
Bank overdraft	35000	Cash in hand	5000
Sundry creditors	100000	Profit & Loss A/c	225000
	835000		835000

The company has got the following scheme of capital reduction approved by the court.

a. Preference shares to be reduced to Rs.60 per share fully paid up and equity shares to Rs.40 per share fully paid up.
b. The debenture holders to take over stock in trade and book debts in full satisfaction of the amount due to them.
c. The value of freehold premises to be increased by 10%.
d. The value of plant and machinery to be depreciated by 33 1/3 %.
e. The goodwill account to be eliminated.
f. Expenses of reconstruction amounted to Rs.4000.

Journalize the transactions and prepare the balance sheet after reconstruction.

Solution:

Journal

2011	Equity Share Capital (Rs.100) A/c Dr		400000	
Mar	To Equity Share Capital (Rs.40) A/c			160000
31	To Capital Reduction A/c			240000
	(reduction of equity share capital to Rs.40 each)			
	5% Preference Share Capital (Rs.100) A/c Dr		200000	
	To 5%Preference Share Capital(Rs.60)A/c			120000
	To Capital Reduction A/c			80000
	(reduction of preference share capital to Rs.60)			
	6% Debentures A/c Dr			
	To Stock in trade A/c			
	To Sundry debtors A/c		100000	
	To Capital Reduction A/c (Bal. Fig)			50000
	(stock and debtors taken over by debenture			40000
	holders)			10000
	Freehold premises A/c Dr			
	To Capital Reduction A/c			
	(Freehold premises appreciated by 10%)			
			20000	20000
	Capital Reduction A/c Dr			
	To P&L A/c			
	To Goodwill A/c			15000
	To Plant and machinery A/c		350000	225000
	To Bank A/c (expenses)			100000
	To Capital Reserve A/c			4000
	(utilization of capital reduction A/c)			6000

Balance Sheet as on 1 April 2011 (after reconstruction)

Liabilities	Amount	Assets	Amount
4000 Equity shares of Rs.40each fully paid	160000	Freehold premises(200000+20000)	220000
2000 5% Preference shares of Rs.60 each fully paid	120000	Plant & Machinery(300000-100000)	200000
Capital Reserve	6000	Cash in hand(5000-4000)	1000
Bank overdraft	35000		
Sundry creditors	100000		
	421000		421000

Surrender of shares

Under reconstruction, the shareholders may be required to surrender a part of their share holdings. Such surrendered shares may be reissued to other parties (creditors, debenture holders etc.) in whole or in part satisfaction of their claims. The entries required are as follows:

i. On surrender of shares:

Share capital A/c Dr

To Surrendered shares A/c

ii. On reissue of surrendered shares:

Surrendered shares A/c Dr

To Share capital A/c

iii. On cancellation of unissued surrendered shares:

Surrendered shares A/c Dr

To Capital Reduction A/c

Illustration 7

A company has equity share capital of Rs.1000000 consisting 10000 shares of RS.100 each. It is resolved

a. To subdivide the shares into shares of Rs.10 each
b. To ask their shareholders to surrender 50% of their shares
c. To issue 60% of the surrendered shares to 15% debenture holders of Rs.400000 in full settlement of their claims
d. To cancel the unissued surrendered shares.

Give entries in the books of the company.

Solution:

Journal

	Equity Share Capital (Rs.100) A/c Dr To Equity Share Capital (Rs.10) A/c (subdivision of equity shares into Rs.10 each)		1000000	1000000
	Equity Share capital A/c Dr To Surrendered shares A/c (50% of shares surrendered)		500000	500000
	Surrendered shares A/c Dr 15% Debentures A/c Dr To Equity Share capital A/c To Capital Reduction A/c (issue of 60% surrendered shares to debenture holders in full settlement of their claims)		300000 400000	300000 400000
	Surrendered Shares A/c Dr To Capital Reduction A/c (cancellation of unissued surrendered shares)		200000	200000

UNIT-3

LIQUIDATION

Liquidation of company refers to a process in which a company's existence is brought to an end. On liquidation the affairs of a company are wound up and its name is struck off from the Register of the Registrar of Companies and this fact is published in the Official Gazette.

The word “liquidation” has been replaced by “Winding-up” resulted the term liquidation has not been used anywhere in the Companies Act, 2013. It is the word “winding-up” which has been used in this Act. It is worth mentioning that the process of liquidation is legally termed as “Winding-up” of companies.

Definition of Winding-up of a Company

As per Section 2 (94A) of the Companies Act 2013, Winding-up means winding up under this Act or liquidation under the Insolvency and Bankruptcy Code, 2016, as applicable.

Note: Winding-up of a company is different from its dissolution. Winding-up is the process of closing or finishing a company. During this process, the company legally exists. It means that after winding-up and before dissolution the legal entity or existence of the company remains as it is and therefore it can be sued in a court of law.

In case of winding-up of a company or bankruptcy of a company, the companies are not allowed to continue its business. But it is important to notice here the main distinction between these two issues is that for bankruptcy of the company or insolvency of the company its total liability should be greater than its total assets (TL> TA) while in case of liquidation it is not compulsory that its total liability should be greater than its total assets. It may happen in both the situation i.e., (TL>/< TA).

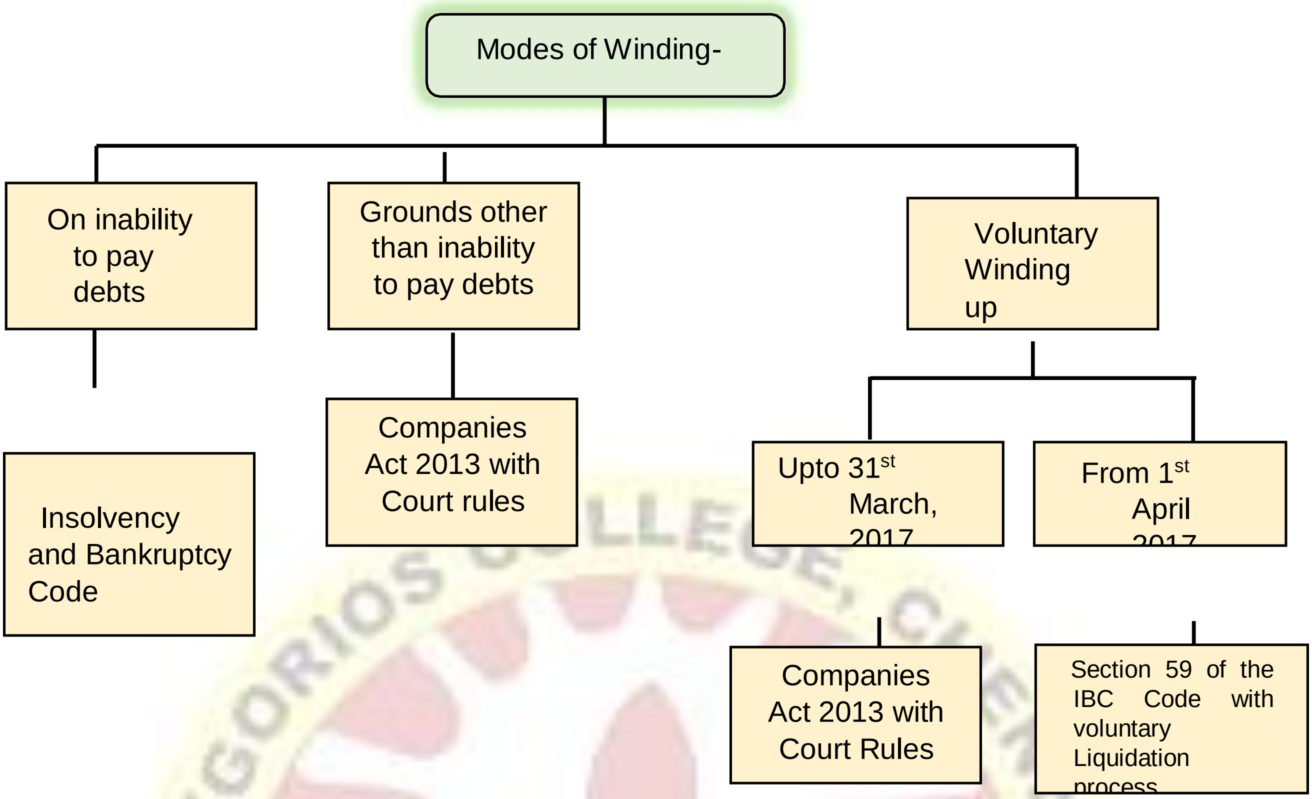
As per Section 270 of the Companies Act 2013, the procedure for winding up of a company can be initiated either:

(a) By the tribunal or,

(b) Voluntary.

Modes of Winding-up

Any company may go foe winding-up in the following pattern-



A. Winding up of a Company by a Tribunal (Compulsory Winding-up)

As per section 271 of the Companies Act 2013, a company can be wound up by a tribunal in the following circumstances:

1. If the company has by special resolution resolved that the company be wound up by the tribunal.
2. If the company has acted against the interest of the integrity or morality of India, security of the state, or has spoiled any kind of friendly relations with foreigner or neighbouring countries.
3. If the company has not filed its financial statements or annual returns for preceding 5 consecutive financial years.
4. If the tribunal by any means finds that it is just and equitable that the company should be wound up.
5. If the company in any way is indulged in fraudulent activities or any other unlawful business, or any person or management connected with the formation of company is found guilty of fraud, or any kind of misconduct.

Filing of Petition for Winding Up

Section 272 provides that a winding up petition is to be filed in the prescribed form in 3 sets. The petition for compulsory winding up can be presented by the following persons:

- The company; or
- The creditors; or
- Any contributory or contributories
- By the central or state govt.
- By the registrar of any person authorized by central govt., for that purpose

The winding up petition has to be accompanied with a Statement of Affairs. The tribunal after hearing the petition has the power to dismiss it or to make an interim order as it think appropriate or it can appoint the provisional liquidator of the company till the passing of winding up order.

B. Voluntary Winding Up of a Company

The company can be wound up voluntarily by the mutual agreement of members of the company, if:

1. The company passes a Special Resolution stating about the winding up of the company.
2. The company in its general meeting passes a resolution for winding up as a result of expiry of the period of its duration as fixed by its Articles of Association or at the occurrence of any such event where the articles provide for dissolution of company.

Member's Voluntary Winding Up under the Insolvency and Bankruptcy Code,2016

The Procedure of Voluntary Winding up of solvent company section 304 is now omitted from the Companies Act, 2013. Therefore, making section 59 of Insolvency and Bankruptcy Code, 2016 applicable from 1st April, 2017.

Some Key features of section 59 of Insolvency and Bankruptcy Code,2016 are as follows:

- Shifting of Powers from Official Liquidator to Insolvency Professional.
- Jurisdictional Authority has been shifted from High Court to National Company Law Tribunal (NCLT).
- Timeline for carrying out the Voluntary Winding up process under the Insolvency and Bankruptcy Code is of 12 months.
- The shifting of Jurisdictional Authority from High Court to NCLT will result into faster execution as Insolvency Professionals have been entrusted with powers of completing the winding up process and reporting to NCLT.
- With the passing of special resolution at the Members meeting and declaration of solvency, the company can commence with the winding up proceedings.

Steps for Voluntary Winding-up Process of Company as per Section 59 of the Insolvency and Bankruptcy Code, 2016

1. Declaration of Solvency duly verified by an Affidavit by Majority of Directors of the Company. Affidavit to be accompanied by:
   (i) Audited Financial Statement of past two years/Since Incorporation whichever is later.
   (ii) Records of Business Operations of past two year/Since Incorporation whichever is later.
   (iii) Report by the Registered Valuer about the valuation of the assets of the Company.
   (iv) Latest Financial Position of the Company, if any.
2. Within 4 weeks of Declaration of Solvency, Voluntary Winding up of the Company shall happen and there shall be an appointment of Insolvency Professional to act as Liquidator subject to the approval of the Members in General Meeting and creditors owing 2/3rd of the Value of the Debt of the Company through Special Resolution within

7 days of approval of liquidation of Company. Intimation of the same has to be made to the Registrar of Companies.

3. Company has to intimate Insolvency and Bankruptcy Board of India (IBBI) regarding initiation of Voluntary Winding up within 7 days of approval of liquidation of Company/subsequent approval by the creditors.
4. Within 5 days of Appointment of Insolvency Professional as Liquidator:
   (i) A Public Announcement to be made in one English Newspaper and one Regional Language Newspaper having wide circulation where the registered office and the principal office if any, of the Company is situated.
   (ii) Public Announcement to be updated on website of the Company, if any.
5. Liquidator has to open a Bank Account in the Name of the Company followed by the words “in voluntary liquidation” in a scheduled bank within one month of passing of Special Resolution.
6. Intimate the Income Tax Department within One month of passing resolution regarding Voluntary Winding up of the Company and to obtain NOC for the same.
7. Prepare a Preliminary Report to be submitted within 45 days from the commencement of the liquidation process consisting details of:
   (i) Capital Structure of the Company
   (ii) Estimates of assets and liabilities as on the liquidation commencement
   (iii) Any further inquiry relating to promotion/formation/conduct of the business
   (iv) Proposed plan of action by liquidator including the timeline within which he proposes to carry it out and the estimated liquidation costs.
8. The liquidator shall verify the claims submitted within 30 days from the last date for receipt of claims and may either admit or reject the claim.
9. Liquidator has to prepare list of stakeholders within 45 days from the last date for receipt of claims and also has to maintain Particulars/Minutes about any consultation with Stakeholders.
10. Liquidator has to value and sell the assets in the manner and mode approved by the Company and have to deposit proceeds of distribution in Bank Account.
11. Liquidator has to distribute the Proceeds to the stakeholders within 6 months from the receipt of amount.
12. Liquidator has to maintain accounts for liquidation period and conduct audit for the same
13. The entire process to be completed within 12 months from the date of commencement of liquidation.
14. If the liquidation process extends for more than 12 months, the liquidator shall – Within 15 days from the end of 12 months hold meeting of contributories and Present an Annual Report indicating:
   (i) Settlement of List of Stakeholders
   (ii) Details of Assets remaining to be realized
   (iii) Distribution made to the stakeholders
15. To prepare Final Report with details of Audited Accounts of Liquidation and send it to:
   (i) The Registrar of Companies
   (ii) The Insolvency and Bankruptcy Board of India

(iii) The Adjudicating Authority, i.e., NCLT (National Company Law Tribunal)

Contributory

According to the Companies Act a contributory is "every person liable to contribute to the assets of a company in event of its being wound up, and includes a holder of fully paid-up shares and also any person alleged to be contributory". In the event of liquidation of a company, the liquidator prepares two lists of contributories:

List 'A': This list consists of those persons who are members of the company on the date of the winding up. In simple, List 'A' contributories is the list of the present members of the company. They are liable to contribute the amount remaining unpaid on the shares held by them if the amount is needed to make payment to legal claimants.

The holders of fully paid-up shares are also treated as contributories even though they are not required to contribute anything to the company. This is necessary because in such a case, the court will know, not only those who will contribute but also who will share the surplus, if any.

List 'B': This list consists of those persons who were the members of the company during the 12 months preceding the date of winding up. In case the assets of the company are not sufficient to pay the liabilities of the company in the event of company's winding up liquidator can ask List 'B' contributories to contribute towards the assets of the company, subject to certain conditions. However, their liability is restricted to the amount not called up when the shares were transferred.

Liquidator

The person appointed for conducting the liquidation proceedings of the company is called 'Liquidator'. (In case of Voluntary winding up an Insolvency Professional). The company must submit a statement of affairs to the liquidator. The general duties of the liquidator are to take into his custody all the property of the company and actionable claims and make the payments as per the order laid down in the Companies Act.

Preferential payments:

Preferential creditors are those creditors who are paid in priority to creditors having a floating charge and other (non-preferential) unsecured creditors. As per Sec. 326 of the Companies Act, 2013, preferential creditors include the following:

1. All revenues, taxes, cesses and rates due to the Central, State Government or to a local authority which have become due and payable within twelve months before the dateof winding up order.
2. All wages or salaries of any employee not exceeding ` 20,000 per claimant, in respect of services rendered to the company and due for a period not exceeding four months within the said twelve months before the date of winding up order.
3. All amounts due in respect of contribution payable during the twelve months under the Employees' State Insurance Act, 1948 or any other law.
4. Compensation due under Workmen's Compensation Act, 1923 in respect of death or disablement of any employee of the company.
5. Any amount due to any employee from provident fund, pension fund, gratuity fund for the welfare of the employees maintained by the company.

6. Accrued holiday remuneration becoming payable to the employee or in case of his death, to any other person in his right, on termination of his employment before, or by the effect of the winding up.
7. The expenses of any investigation held in pursuance of Sec. 213 or 216 in so far as they are payable by the company.

Overriding Preferential Payments (Section 326)

Overriding preferential payments are to be paid in priority to all other debts as per the said Act. They include:

(a) Dues to workmen, and

(b) where a secured creditor has realized a secured asset, so much of the debts due to such secured creditor as could not be realized by him or the amount of the workman's portion in his security (if payable under the law), whichever is less, paripassu with the workmen's dues.

Liquidator's Final Statement of Account

The statement prepared by the liquidator showing receipt and payments of cash in case of voluntary winding-up is called "Liquidator's Statement of Account". Following is the proforma of Liquidator's Final Statement of Account-

Liquidation Final Statement of Account

Receipts		Amount	Payments		Amount
Cash in hand		₹	Legal charges		
Cash at Bank			Liquidator's Remuneration :		
Amount realised from the Sale of Assets :			(i) Fixed Amount (if any)	—	
Land & Building	---------		(ii) % on amount realised from Assets	—	
Plant & Machinery	---------		(iii) % on amount paid to trade payables	—	
Furniture	---------		(iv) % on amount paid to Shareholders	—	
Inventories	---------		Liquidation Expenses or Cost of winding-up		
Trade Receivbles	---------		Debentureholders or other Creditors having a floating charge on the assets of the company		
Surplus amount received from Secured Creditors Calls from shareholdes @ ...... ₹ ..... on ..... shares			Preferential Creditors		
			Unsecured Creditors		
			Preferential Shareholders (Refund of Capital)		
			Equity Shareholders (Refund of Capital)		

UNIT-4
CONSOLIDATION

Holding Companies

A holding company is the company that holds either the whole of the share capital or a majority of the shares in one or more companies so as to have a controllinginterest in such companies. Such other companies are known as subsidiary companies. Unlike in amalgamation or absorption, the subsidiary companies retain their identities because they do businesses in their own names.

Group of Companies

A Holding company together with its Subsidiaries can be called as the Group of companies.

Need for Group of Companies

The following are the advantages for a company to operate as a group:

1. *Decentralisation of financial risk*: If one entity fails, it does not affect the other companies in the group. The other companies can continue even if one or two companies in the group fail.
2. *Lawful obligation*: In some cases, the formation of a subsidiary company is a legal requirement.
3. *Diversification possible at lower cost*: One company acquires controlling interest of another company. It helps the company to diversify its business activities at least cost.
4.

Legal Definition

Subsidiary Company– Sec 2(87) of the Companies Act 2013 defines a company. As per this section,a company shall be deemed to be a subsidiary company of another if and only if:

(a) that other company controls the composition of its board of directors ; or

(b) when the first mentioned company is another company, holds more than half innominal value of its equity share capital; or

(c) the company is a subsidiary of any company which is that other company'ssubsidiary.

A Subsidiary company may be either Wholly Owned Subsidiary or PartlyOwned Subsidiary.

Accounts

The following documents in respect of a subsidiary or subsidiaries should be attached with the balance sheet of a holding company:

(a) A copy of Balance Sheet of Subsidiary.
(b) A copy of its Statement of Profit and Loss.
(c) A copy of Report of its Board of Directors.
(d) A copy of Report of its Auditors.
(e) A Statement of Holding Company's interest in Subsidiary.

According to section 129(3) of the Companies Act 2013, a holding company shall prepare a consolidated financial statement of the company and of all the subsidiaries in the same form and manner as that of its own, which shall also be laid before the annual general meeting of the company along with the laying of its financialstatements.

Consolidated Balance Sheet

In addition to the legal balance sheet as prescribed in Schedule III, the holding company may also publish a Consolidated Balance Sheet in which the assets and liabilities of all the subsidiaries are shown along with its own assets and liabilities as the Balance Sheet of a head office incorporates the assets and liabilities of its branches. By way of Consolidated Balance Sheet, the investments of the holding company in the subsidiary company are replaced by net assets.

Minority Interest

When some of the shares of the subsidiary company are held by outsiders (otherthan the holding company), their interest in the subsidiary company is called asMinority Interest in subsidiary company. The minority interest is shown on the liabilities side of the Balance Sheet of the holding company under the head 'Share Capital'. The minority interest can be calculated as follows:

Paid up value of shares held by outsiders	xxx
Add: Proportionate share of capital/ revenue profit and/or reserves	xxx
	xxx
Less: Proportionate share of capital/ revenue losses	xxx
Value of Minority Interest	xxx

If the preference shares are held by outsiders, paid up value of such shares together with dividend thereon(if there is profit)is added to the value of minority interest.

Cost of Control (Goodwill) or Capital Reserve

If the holding company purchases the shares of the subsidiary company at a price more than their paid up value, the excess is ***cost of control or goodwill***, if there isno reserve or profit or loss balance in the subsidiary company on date of acquisition ofshares of the subsidiary company.

If the shares are purchased at a price which is less than the paid up value of the shares, the difference is taken as ***capital reserve or profit***.

The goodwill or cost of control is shown on the assets sideand the capital reserve or profit is shown on the liabilities sidein the Consolidated Balance Sheet.

Illustration 1: The following are the liabilities and assets of the holding company H Ltd. and its subsidiary S Ltd. as on 31st December 2014:

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Share Capital:			Sundry Assets	260000	240000
Shares of Rs. 10 each	400000	200000	Investments:		
Profit and Loss Account	80000	20000	20000 shares in S Ltd.	300000	
General Reserve	40000	16000			
Current Liabilities	40000	4000			
	560000	240000		560000	240000

H Ltd. acquired the shares of S Ltd. on 31st December 2014. Prepare the Consolidated Balance Sheet.

Solution:

Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd.as on 31st December 2014

Particulars	Note No.	Amount (Rs.)
A. Equity and Liabilities		
Shareholders' Fund		
a. Share Capital	1	400000
b. Reserves and Surplus	2	120000
Current Liabilities		
H Ltd. 40000		
S Ltd. 4000		44000
Total		***564000***
B. Assets		
Non-current Assets		
Fixed Assets		
Tangible Assets – Sundry Assets		
H Ltd. 260000		
S Ltd. 240000		500000
Intangible Assets – Goodwill		64000
Current Assets		Nil
Total		***564000***

Notes to Accounts

Note No.	Particulars	Amount (Rs.)

1.	**Share Capital** Issued and Subscribed 40000 Equity shares of Rs. 10 each	**400000**
2.	**Reserves and Surplus** General Reserve P & L A/c	40000 80000 **120000**

Working Note:

Calculation of Goodwill or Cost of Control:

	Rs.	Rs.
Cost of Shares in S Ltd.		300000
Less: Face value of shares in S Ltd.	200000	
Profit and Loss Account	20000	
General Reserve	16000	236000
Goodwill or Cost of Control		64000

Illustration 2: The liabilities and assets of the holding company A Ltd. and itssubsidiary B Ltd. as on 31st December 2014 are as follows:

Liabilities	A Ltd. Rs.	B Ltd. Rs.	Assets	A Ltd. Rs.	B Ltd. Rs.
Share Capital:			Sundry Assets	120000	72000
Shares of Re. 1 each	72000	36000	Investments:		
Profit and Loss Account	18000	12000	36000 shares in B Ltd.	45000	
General Reserve	12000	6000			
Current Liabilities	63000	18000			
	165000	72000		165000	72000

A Ltd. acquired the shares in B Ltd. on 31st December 2014. Prepare theConsolidated Balance Sheet.

Solution:

Consolidated Balance Sheet of A Ltd. and its Subsidiary B Ltd.as on 31st December 2014

Particulars	Note No.	Amount (Rs.)
A. Equity and Liabilities		
Shareholders' Fund		
a. Share Capital	1	72000
b. Reserves and Surplus	2	39000
Current Liabilities		
A Ltd. 63000		
B Ltd. 18000		81000

Total		***192000***
B. Assets		
Non-current Assets		
Fixed Assets		
Tangible Assets – Sundry Assets		
A Ltd. 120000		
B Ltd. 72000		192000
Intangible Assets		Nil
Current Assets		Nil
Total		***192000***

Notes to Accounts

Note No.	Particulars	Amount (Rs.)
1.	**Share Capital** Issued and Subscribed 72000 Equity shares of Re. 1 each	**72000**
2.	**Reserves and Surplus** Capital Reserve General Reserve P & L A/c	 9000 18000 12000 **39000**

Working Note:
Calculation of Capital Reserve:

	Rs.	Rs.
Cost of Shares in B Ltd.		45000
Less: Face value of shares in B Ltd.	36000	
Profit and Loss Account	12000	
General Reserve	6000	54000
Capital Reserve		9000

Illustration 3: The following are the liabilities and assets of the holding company P Ltd. and its subsidiary Q Ltd. as on 31st December 2014. P Ltd. acquired 12000 shares in Q Ltd on 31st December 2014. Prepare the Consolidated Balance Sheet.

Liabilities	P Ltd. Rs.	Q Ltd. Rs.	Assets	P Ltd. Rs.	Q Ltd. Rs.
Share Capital: Shares of Re. 1 each	 36000 24000	 15000 9000	Sundry Assets Investments:	48000 12000	24000

Sundry Liabilities	60000	24000	12000 shares in Q Ltd.	60000	24000

Solution:

Share of holdings by P Ltd.in Q Ltd. = 12000 shares out of 15000 shares = 80% Share of holdings by Outsiders in Q Ltd. = 3000 shares out of 15000 shares = 20%Consolidated Balance Sheet of P Ltd. and its Subsidiary Q Ltd.
as on 31st December 2014

Particulars	Note No.	Amount (Rs.)
A. Equity and Liabilities		
Shareholders' Fund		
a. Share Capital	1	36000
b. Reserves and Surplus		Nil
Minority Interest		3000
Current Liabilities		
P Ltd. 24000		
Q Ltd. 9000		33000
Total		***72000***
B. Assets		
Non-current Assets		
Fixed Assets		
Tangible Assets – Sundry Assets		
P Ltd. 48000		
Q Ltd. 24000		72000
Intangible Assets		Nil
Current Assets		Nil
Total		***72000***

Notes to Accounts

Note No.	Particulars	Amount (Rs.)
1.	**Share Capital** Issued and Subscribed 36000 Equity shares of Re. 1 each	**36000**

Working Note:

Calculation of Minority Interest = 3000 shares of Re. 1 each
= Rs. 3000

Pre-Acquisition Profits or Capital Profits

Any profit or reserve standing in the Balance Sheet of subsidiary company onthe date of purchase of shares by holding company is called pre-acquisition profit orcapital profit. The outsiders' share of such capital profit is added to the minorityinterest and the balance (to holding company) are shown as Capital Reserve oradjusted in Cost of Control or Goodwill and shown in the Consolidated Balance Sheet.

Any losses, share of loss of outsiders is deducted from the minority interest and the share of loss to the holding company is added to the Cost of Control or Goodwill or deducted from the Capital Reserve, and shown in the Consolidated Balance Sheet.

Post-Acquisition Profits or Revenue Profits

Profits of the subsidiary company made after the date of purchase of shares in the subsidiary company by the holding company are called as post-acquisition profits or revenue profits. The share of revenue profit of the holding company is added to the

profit of the holding company. The share of profit due to the outsiders in the subsidiary company is added to the minority interest and shown in the Consolidated Balance Sheet.

- The date of purchase of shares in the subsidiary company by the holding company is the basis for determination of profit, whether it is Capital Profit or Revenue Profit.

Illustration 4: The following are the liabilities and assets of the holding company H Ltd. and its subsidiary S Ltd. as on 31st December 2014:

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Share Capital:			Sundry Assets	640000	480000
Shares of Rs. 10 each	800000	400000	Investments:		
Profit and Loss Account	80000	40000	32000 shares in S Ltd. @ Rs. 10 each	320000	
Current Liabilities	80000	40000			
	960000	480000		960000	480000

H Ltd. acquired the shares in S Ltd. on 31st December 2014. Prepare theConsolidated Balance Sheet.

Solution:

Share of holdings by H Ltd.in S Ltd. = 32000 shares out of 40000 shares = 80% Share of holdings by Outsiders in S Ltd. = 8000 shares out of 40000 shares = 20%

Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd.as on
31st December 2014

Particulars	Note No.	Amount (Rs.)

A. Equity and Liabilities		
Shareholders' Fund		
a. Share Capital	1	800000
b. Reserves and Surplus	2	112000
Minority Interest		88000
Current Liabilities		
H Ltd. 80000		
S Ltd. 40000		120000
Total		***1120000***
B. Assets		
Non-current Assets		
Fixed Assets		
Tangible Assets – Sundry Assets		
H Ltd. 640000		
S Ltd. 480000		1120000
Intangible Assets		Nil
Current Assets		Nil
Total		***1120000***

Notes to Accounts

Note No.	Particulars	Amount (Rs.)
1.	**Share Capital** Issued and Subscribed 80000 Equity shares of Rs. 10 each	**800000**
2.	**Reserves and Surplus** Capital Reserve P & L A/c	32000 80000 **112000**

Working Notes:

Calculation of Capital Profit:

Profit and Loss Account balance in S Ltd. = Rs. 40000

Share of capital profit due to H Ltd. = 40000x80% = Rs. 32000

Share of capital profit due to Outsiders in S Ltd. = 40000x20% = Rs. 8000

Calculation of Capital Reserve:

	Rs.	Rs.
Cost of Shares in S Ltd.		320000
Less: Face value of shares in S Ltd.	320000	
Capital Profit	32000	352000
Capital Reserve		32000

Calculation of Minority Interest:

	Rs.
Paid up value of Shares held by outsiders in S Ltd. (8000 x10)	80000
Add: Share of capital profit due to Outsiders in S Ltd.	8000
Minority Interest	88000

Illustration 6: The liabilities and assets of the holding company H Ltd. and itssubsidiary S Ltd. as on 31st December 2014 are as follows:

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Share Capital: Shares of Rs. 10	1200000	600000	Sundry Assets Investments:	720000	756000

Note No.	Particulars		Amount (Rs.)
1.	**Share Capital**		
	Issued and Subscribed		
	120000 Equity shares of Rs. 10 each		**1200000**
2.	**Reserves and Surplus**		
	Profit and Loss Account:		
	H Ltd.	120000	
	S Ltd.	28800	148800
	General Reserve:		
	H Ltd.	120000	
	S Ltd.	19200	139200
			288000

Working Notes:

Calculation of Capital Profit in S Ltd.:

	Rs.
Profit and Loss Account balance on 01/01/2014	12000
General Reserve	36000
Capital Profit	48000

Share of capital profit due to H Ltd. = 48000x80% = Rs. 38400

Share of capital profit due to Outsiders in S Ltd. = 48000x20% = Rs. 9600

Calculation of Revenue Profit:

(a) Profit and Loss Account (48000-32000) = Rs. 36000H Ltd.
= 36000x80% = Rs. 28800
Outsiders in S Ltd. = 36000x20% = Rs. 7200(b)
General Reserve (60000-36000) = 24000

H Ltd. = 24000x80% = Rs. 19200

Outsiders in S Ltd. = 24000x20% = Rs. 4800

Calculation of Goodwill:

	Rs.	Rs.
Cost of Shares in S Ltd.		780000
Less: Face value of shares in S Ltd.	480000	
Capital Profit	38400	518400
Goodwill		261600

Calculation of Minority Interest:

	Rs.	Rs.
Paid up value of Shares held by outsiders in S Ltd.		120000
Add: Share of capital profit due to Outsiders in S Ltd.	9600	
Share of revenue profit due to Outsiders in S Ltd (7200+4800)	12000	21600
Minority Interest		141600

each	120000	48000	48000 shares in S Ltd.	780000	
Profit and Loss Account	120000	60000			
General Reserve	60000	48000			
Current Liabilities	1500000	756000		1500000	756000

H Ltd. acquired shares in S Ltd. on 1st January 2014. On that date the Profit and Loss Account had a credit balance of Rs. 12000 and in Reserve Rs. 36000. Prepare theConsolidated Balance Sheet.

Solution:

Share of holdings by H Ltd.in S Ltd. = 48000 shares out of 60000 shares = 80% Share of holdings by Outsiders in S Ltd. = 12000 shares out of 60000 shares = 20%

Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd.as on 31st December 2014

Particulars	Note No.	Amount (Rs.)
A. Equity and Liabilities		
Shareholders' Fund		
a. Share Capital	1	1200000
b. Reserves and Surplus	2	288000
Minority Interest		141600
Current Liabilities		
H Ltd. 60000		
S Ltd. 48000		108000
Total		***1737600***

B. Assets		
Non-current Assets		
Fixed Assets		
Tangible Assets – Sundry Assets		
H Ltd. 720000		
S Ltd. 756000		1476000
Intangible Assets – Goodwill		261600
Current Assets		Nil
Total		***1737600***

Notes to Accounts

Note No.	Particulars	Amount (Rs.)
1.	**Share Capital** Issued and Subscribed 120000 Equity shares of Rs. 10 each	**1200000**
2.	**Reserves and Surplus** Profit and Loss Account: H Ltd. 120000 S Ltd. 28800	148800
	General Reserve: H Ltd. 120000 S Ltd. 19200	139200 **288000**

Working Notes:

Calculation of Capital Profit in S Ltd.:

	Rs.
Profit and Loss Account balance on 01/01/2014	12000
General Reserve	36000
Capital Profit	48000

Share of capital profit due to H Ltd. = 48000x80% = Rs. 38400

Share of capital profit due to Outsiders in S Ltd. = 48000x20% = Rs. 9600

Calculation of Revenue Profit:

(a) Profit and Loss Account (48000-32000) = Rs. 36000H Ltd.
= 36000x80% = Rs. 28800
Outsiders in S Ltd. = 36000x20% = Rs. 7200(b)
General Reserve (60000-36000) = 24000
H Ltd. = 24000x80% = Rs. 19200
Outsiders in S Ltd. = 24000x20% = Rs. 4800
Calculation of Goodwill:

	Rs.	Rs.
Cost of Shares in S Ltd.		780000
Less: Face value of shares in S Ltd.	480000	
Capital Profit	38400	518400
Goodwill		261600

Calculation of Minority Interest:

	Rs.	Rs.
Paid up value of Shares held by outsiders in S Ltd.		120000
Add: Share of capital profit due to Outsiders in S Ltd.	9600	
Share of revenue profit due to Outsiders in S Ltd (7200+4800)	12000	21600
Minority Interest		141600

While preparing Consolidated Balance Sheet, the inter-company transactions between the holding company and the subsidiary company should be eliminated. Such transactions may be as follows:

1. ***Debtors and Creditors*** - Goods sold on credit by the holding company to the subsidiary company or vice versa will appear as debtors in the balance sheet of the company selling goods and creditors in the balance sheet of the company purchasing goods.
2. ***Bills of Exchange*** - Bills drawn by one company and accepted by the other company are eliminated while preparing Consolidated Balance Sheet but bills discounted and endorsed will continue to appear as liability because the company, which has accepted such bills, will have to make the payment to an outsider (i.e. bank)on the due date.
3. ***Loans and Advances*** - Loans advanced by the holding company to the subsidiary company or vice versa appears as an asset in the balance sheet of the company which gives such loans and as a liability in the balance sheet of the company that takes these loans.
4. ***Debentures*** - Debentures issued by one company and held by the other company.

Illustration 8: The liabilities and assets of the holding company H Ltd. and its subsidiary S Ltd. as on 31st March 2014 are as follows:

Account (01/04/2013)	100000	50000	Investments: 7500 shares in S Ltd.	162500	…….
Profit and Loss	125000	62500	Stock	100000	18750
Account	75000	75000		25000	0

(31/03/2014)	37500	……	Sundry Debtors	……	70000
Sundry Creditors	50000	……	Bills Receivables	…….	25000
Bills Payables			Bank Balance	2500	26250
Bank Overdraft			Cash in Hand		3750
	962500	337500		962500	337500

H Ltd. acquired 7500 shares in S Ltd. on 1st October 2013. Bills Receivables held by S Ltd. are all accepted by H Ltd. A sum of Rs. 15000 owning by H Ltd. in respect of goods supplied by S Ltd. Prepare the Consolidated Balance Sheet.

Solution:

Share of holdings by H Ltd.in S Ltd. = 7500 shares out of 12500 shares = 60% Share of holdings by Outsiders in S Ltd. = 5000 shares out of 12500 shares = 40%Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd.
as on 31st March 2014

Particulars		Note No.	Amount (Rs.)
A. Equity and Liabilities			
Shareholders' Fund			
a. Share Capital		1	500000
b. Reserves and Surplus		2	318750
Minority Interest			105000
Current Liabilities			
a. Trade Payables		3	147500
b. Bank Overdraft			50000
Total			***1121250***
B. Assets			
Non-current Assets			
Fixed Assets			
a. Tangible		4	697500
b. Intangible - Goodwill			23750
Current Assets			
Stock:			
H Ltd.	100000		
S Ltd.	187500		287500
Sundry Debtors:			
H Ltd.	25000		
S Ltd.	70000		
	95000		
Less: Inter-company debt	15000		80000
Bills Receivables (25000 – 25000)			Nil

Cash and Cash Equivalents	5	32500
Total		***1121250***

Notes to Accounts

Note No.	Particulars		Amount (Rs.)
1.	**Share Capital**		
	Issued and Subscribed		
	50000 Shares of Rs. 10 each		**500000**
2.	**Reserves and Surplus**		
	General Reserve		75000
	P & L A/c		243750
			318750
3.	**Trade Payables**		
	Sundry Creditors:		
	H Ltd.	75000	
	S Ltd.	75000	
		150000	
	Less: Inter-company debt	15000	135000
	Bills Payables:		
	H Ltd.	37500	
	Less: Inter-company acceptance	25000	12500
			147500
4.	**Fixed Assets – Tangible**		
	Land & Building		150000
	Plant & Machinery less depreciation		500000
	Furniture:		
	H Ltd.	22500	
	S Ltd.	25000	47500
			697500
5.	**Cash and Cash Equivalents**		
	Cash in Hand		
	H Ltd.	2500	
	S Ltd.	3750	6250
	Bank Balance		26250

Working Notes:

Calculation of Revenue Profit in S Ltd.:

	Rs.
Profit and Loss Account (01/04/2013 to 31/03/2014)	62500

Less: Capital Profit (upto 30/09/2013)	31250
Revenue Profit	31250

Share of revenue profit due to H Ltd. = 31250x60% = Rs. 18750
Share of revenue profit due to Outsiders in S Ltd. = 31250x40% = Rs. 12500
Calculation of Capital Profit in S Ltd.:

	Rs.
Profit and Loss Account on 01/04/2013	50000
Add: ½ of 62500 (01/04/2013 to 30/09/2013)	31250
General Reserve	25000
Capital Profit	106250

Share of capital profit due to H Ltd. = 106250x60% = Rs. 63750
Share of capital profit due to Outsiders in S Ltd. = 106250x40% = Rs. 42500Calculation of Goodwill:

	Rs.	Rs.
Cost of Shares in S Ltd.		162500
Less: Face value of shares in S Ltd. (7500x10)	75000	
Capital Profit	63750	138750
Goodwill		23750

Calculation of Minority Interest:

	Rs.	Rs.
Paid up value of Shares held by outsiders in S Ltd. (5000x10)		50000
Add: Share of capital profit due to Outsiders in S Ltd.	42500	
Share of revenue profit due to Outsiders in S Ltd	12500	55000
Minority Interest		105000

Calculation of P & L A/c balance in Consolidated Balance Sheet:

	Rs.
Profit and Loss Account balance (100000+125000)	225000
Add: Revenue Profit of H Ltd. in S Ltd.	18750
P & L A/c Balance	243750

Unrealised Profit (Inter – company Stock)

If the goods sold at a profit by the subsidiary company to the holding company or by the holding company to the subsidiary company remain unsold at the end of the financial year, the profit charged by the company on unsold goods remains unrealised.

In such a case, it is not proper to credit the Profit and Loss Account with such unrealised profit. Hence, a stock reserve is created and profit is reduced by the unrealised profit. While preparing Consolidated Balance Sheet, stock reserve will be deducted from stock.
Illustration 9: The liabilities and assets of the holding company H Ltd. and its subsidiary S Ltd. as on 31st December 2014 are as follows:

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Share Capital:			Buildings	112500	30000
Shares of Rs. 10 each	250000	75000	Plant and Machinery	87500	40000
Profit and Loss Account	75000	43750	Furniture	20000	7500
General Reserve	100000	31250	Investments: 5000 shares in S Ltd.	65000	
Sundry Creditors	25000	17500	Sundry Debtors	75000	42500
			Stock	80000	40000
			Cash	10000	7500
	450000	167500		450000	167500

Prepare the Consolidated Balance Sheet as on 31st December 2014, by considering the following information:

(a) H Ltd. acquired the shares in S Ltd. on 1st January 2014 when balance of their Profit and Loss Account and General Reserve were Rs. 18750 and Rs. 20000 respectively.

(b) Stock of Rs. 40000 held by S Ltd. includes Rs. 15000 of goods purchased from H Ltd, who has charged a profit @ 25% on cost.

Solution:

Share of holdings by H Ltd.in S Ltd. = 5000 shares out of 7500 shares = 2/3 Share of holdings by Outsiders in S Ltd. = 2500 shares out of 7500 shares = 1/3Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd.

as on 31st December 2014

Particulars		Note No.	Amount (Rs.)
A. Equity and Liabilities			
Shareholders' Fund			
a. Share Capital		1	250000
b. Reserves and Surplus		2	207000
Minority Interest			50000
Current Liabilities			
Sundry Creditors:			
H Ltd.	25000		
S Ltd.	17500		42500
Total			***549500***
B. Assets			

Non-current Assets		
Fixed Assets		
a. Tangible	3	297500
b. Intangible		Nil
Current Assets		
Stock:		
H Ltd. 80000		
S Ltd. 40000		
120000		
Less: Unrealised Profit(Stock Reserve) 3000		117000
Sundry Debtors:		
H Ltd. 75000		
S Ltd. 42500		117500
Cash and Cash Equivalents – Cash in Hand		
H Ltd. 10000		
S Ltd. 7500		17500
Total		***549500***

Notes to Accounts

Note No.	Particulars		Amount (Rs.)
1.	**Share Capital**		
	Issued and Subscribed		
	25000 Shares of Rs. 10 each		**250000**
2.	**Reserves and Surplus**		
	Capital Reserve		10833
	General Reserve		107500
	P & L A/c		88667
			207000
3.	**Fixed Assets – Tangible**		
	Buildings:		
	H Ltd.	112500	
	S Ltd.	30000	142500
	Plant & Machinery:		
	H Ltd.	87500	
	S Ltd.	40000	127500
	Furniture:		
	H Ltd.	20000	
	S Ltd.	7500	27500
			297500

Working Notes:

Calculation of Revenue Profit in S Ltd.:

(a) Profit and Loss Account (43750-18750) = Rs. 25000H Ltd.
= 25000x2/3 = Rs. 16667
Outsiders in S Ltd. = 25000x1/3 = Rs. 8333(b)
General Reserve (31250-20000) = 11250

H Ltd. = 11250x2/3 = Rs. 7500

Outsiders in S Ltd. = 11250x1/3 = Rs. 3750

Calculation of Capital Profit in S Ltd.:

	Rs.
Profit and Loss Account on 1st January 2014	18750
General Reserve	20000
Capital Profit	38750

Share of capital profit due to H Ltd. = 38750x2/3 = Rs. 25833

Share of capital profit due to Outsiders in S Ltd. = 38750x1/3 = Rs. 12917

Calculation of Capital Reserve:

	Rs.	Rs.
Cost of Shares in S Ltd.		65000
Less: Face value of shares in S Ltd. (5000x10)	50000	
Capital Profit	25833	75833
Capital Reserve		10833

Calculation of Minority Interest:

	Rs.	Rs.
Paid up value of Shares held by outsiders in S Ltd. (2500x10)		25000
Add: Share of capital profit due to Outsiders in S Ltd.	12917	
Share of revenue profit due to Outsiders in S Ltd (8333+3750)	12083	25000
Minority Interest		50000

Calculation of P & L A/c balance in Consolidated Balance Sheet:

	Rs.
Profit and Loss Account balance of H Ltd.	75000
Add: P & L A/c balance of H Ltd. in S Ltd.	16667
	91667
Less: Unrealised Profit (15000 x 25/125)	3000
P & L A/c Balance	88667

Calculation of General Reserve balance in Consolidated Balance Sheet:

	Rs.

General Reserve balance of H Ltd.	100000
Add: General Reserve balance of H Ltd. in S Ltd.	7500
General Reserve Balance	107500

Issue of Bonus Shares

Sometimes, the bonus shares are issued by the subsidiary companies. It enhances the number of shares held by the holding company. Its treatment depends upon the sources (Capital Profit or Revenue Profit) from which bonus shares are issued out.

a) ***Bonus shares issued out of Capital Profit or Pre-acquisition Profit*** – No effectin the accounting treatment in the books of accounts.

b) ***Bonus shares issued out of Current Profit or Post-acquisition Profit*** – The holding company's share in the current profit of the subsidiary company should be calculated after making proper adjustments for bonus issue. Ultimately, it reduces the amount of holding company's share in the post-acquisition profit. It will affect the costof goodwill.

Illustration 10: The liabilities and assets of the holding company H Ltd. and its subsidiary S Ltd. as on 31st December 2014 are as follows:

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Share Capital:			Fixed Assets	506000	256000
120000 Shares of Rs. 5 each	600000	……	Investments: 12000 shares in S Ltd.	200000	……
16000 Shares of Rs. 10 each	……	160000	Stock	60000	20000
Capital Reserve	……	68000	Bills Receivables (Incl. 2000 from S Ltd.)	4000	……
General Reserve	40000	20000	Bank	40000	34000
Profit and Loss Account	100000	20000			
Bills Payables (Incl. Rs. 2000 to H Ltd.)	……	7000			
Sundry Creditors	70000	35000			
	810000	310000		810000	310000

H Ltd. acquired 12000 shares of Rs. 10 each from S Ltd. on 31st December 2014. S Ltd. utilised a part of its Capital Reserve to make bonus issue of one share for every four shares held. Prepare the Consolidated Balance Sheet.

Solution:

Share of holdings by H Ltd.in S Ltd. = 12000 shares out of 16000 shares = 75% Share of

holdings by Outsiders in S Ltd. = 4000 shares out of 16000 shares = 25%Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd.
as on 31st December 2014

Particulars		Note No.	Amount (Rs.)
A. Equity and Liabilities			
Shareholders' Fund			
a. Share Capital		1	600000
b. Reserves and Surplus		2	141000
Minority Interest			67000
Current Liabilities			
Sundry Creditors:			
H Ltd.	70000		
S Ltd.	35000		105000
Bills Payables (7000 – 2000)			5000
Total			**918000**
B. Assets			
Non-current Assets			
Fixed Assets			
a. Tangible		3	762000
b. Intangible			Nil
Current Assets			
Stock:			
H Ltd.	60000		
S Ltd.	20000		80000
Bills Receivables (4000 – 2000)			2000
Cash and Cash Equivalents – Bank			
H Ltd.	40000		
S Ltd.	34000		74000
Total			**918000**

Notes to Accounts

Note No.	Particulars	Amount (Rs.)
1.	**Share Capital**	
	Issued and Subscribed	
	12000 Shares of Rs. 5 each	**600000**
2.	**Reserves and Surplus**	
	Capital Reserve	1000
	General Reserve	40000

	P & L A/c	100000
		141000
3.	**Fixed Assets – Tangible**	
	H Ltd. 506000	
	S Ltd. 256000	**762000**

Working Notes:
Revenue Profit in S Ltd. = Nil Calculation

of Capital Profit in S Ltd.:

	Rs.
Profit and Loss Account	20000
General Reserve	20000
Capital Reserve	68000
Capital Profit	108000

Share of capital profit due to H Ltd. = 108000x75% = Rs. 81000
Share of capital profit due to Outsiders in S Ltd. = 108000x25% = Rs. 27000Calculation of Capital Reserve:

	Rs.	Rs.
Cost of Shares in S Ltd.		200000
Less: Face value of shares in S Ltd. (12000x10)	120000	
Capital Profit	81000	201000
Capital Reserve		1000

Calculation of Minority Interest:

	Rs.
Paid up value of Shares held by outsiders in S Ltd. (4000x10)	40000
Add: Share of capital profit due to Outsiders in S Ltd.	27000
Minority Interest	67000

Revaluation of Assets and Liabilities

Sometimes, the fixed assets of subsidiary companies are revalued at the time of acquisition of shares. There may be revaluation profit (capital profit) or revaluation loss (capital loss). The share of holding company in revaluation profit is added to the capital reserve or deducted from the goodwill. The revaluation profit due to outsidersin subsidiary company is added to the minority interest. The share of revaluation loss to holding company is added to goodwill or deducted from capital reserve. The share of revaluation loss to outsiders in subsidiary company is deducted from minority interest. Depreciation is also adjusted while calculating the revenue profit in subsidiarycompany.
Illustration 12: The following are the liabilities and assets of the holding company H Ltd. and its subsidiary S Ltd. as on 31st December 2014:

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Share Capital:			Investments:		
Shares of Re. 1 each	300000	240000	192000 shares in S Ltd.	210000	
General Reserve	120000	60000	Other Assets	300000	330000
Profit and Loss Account (Current Year)	90000	30000			
	510000	330000		510000	330000

On 1st January 2014 H Ltd. acquired the shares in S Ltd., when the plant and machinery were revalued to Rs. 240000 from Rs. 180000 and furniture of S Ltd. was revalued to Rs. 45000 from Rs. 60000. Depreciation for plant and machinery and furniture are 10% and 5% respectively. The balance sheet of S Ltd. showed these assets on revalued basis. Prepare the Consolidated Balance Sheet.

Solution:

Share of holdings by H Ltd.in S Ltd. = 192000 shares out of 240000 shares = 80% Share of holdings by Outsiders in S Ltd. = 48000 shares out of 240000 shares = 20%Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd.

as on 31st December 2014

Particulars	Note No.	Amount (Rs.)
A. Equity and Liabilities		
Shareholders' Fund		
a. Share Capital	1	300000
b. Reserves and Surplus	2	295800
Minority Interest		73950
Current Liabilities		Nil
Total		**669750**
B. Assets		
Non-current Assets		
Fixed Assets	3	258750
a. Tangible		Nil
b. Intangible		
Current Assets		
Other Assets		411000
Total		**669750**

Notes to Accounts

Note No.	Particulars		Amount (Rs.)
1.	**Share Capital**		
	Issued and Subscribed		
	300000Shares of Re. 1 each		**300000**
2.	**Reserves and Surplus**		
	Capital Reserve		66000
	General Reserve		120000
	P & L A/c (90000+19800)		109800
			295800
3.	**Fixed Assets – Tangible**		
	Plant and Machinery of S Ltd.	216000	
	Furniture of S Ltd.	42750	**258750**

Working Notes:

Calculation of Profit on Revaluation:

	Rs.
Plant and Machinery (240000-180000)	60000
Less: Loss on Furniture (60000-45000)	15000
~~*Total Profit on Revaluation*~~	
	Rs.
Profit and Loss Account balance for the year	30000
Less: Additional Depreciation on Plant & Machinery (60000x10%)	6000
	24000
Add: Excess Depreciation on Furniture (15000x5%)	750
Revenue Profit	24750
	45000

Calculation of Revenue Profit in S Ltd.:

Share of revenue profit due to H Ltd. = 24750x80% = Rs. 19800
Share of revenue profit due to Outsiders in S Ltd. = 24750x20% = Rs. 4950

Calculation of Capital Profit in S Ltd.:

	Rs.
General Reserve	60000
Revaluation Profit	45000
Capital Profit	105000

Share of capital profit due to H Ltd. = 105000x80% = Rs. 84000
Share of capital profit due to Outsiders in S Ltd. = 105000x20% = Rs. 21000Calculation of Capital Reserve:

	Rs.	Rs.
Cost of Shares in S Ltd.		210000
Less: Face value of shares in S Ltd.	192000	
Capital Profit	84000	276000
		66000
Capital Reserve		

Calculation of Minority Interest:

		Rs.
Paid up value of Shares held by outsiders in S Ltd.		48000
Add: Share of revenue profit due to Outsiders in S Ltd.	21000	
Share of capital profit due to Outsiders in S Ltd.	4950	25950
Minority Interest		73950

Plant and Machinery of S Ltd.:

	Rs.

Plant and Machinery	240000
Less: Depreciation @ 10%	24000
Plant and Machinery of S Ltd.	216000

Furniture of S Ltd.:

	Rs.
Furniture	45000
Less: Depreciation @ 5%	2250
Furniture of S Ltd.	42750

Other Assets in Consolidated Balance Sheet:

		Rs.
Total Other Assets as per Balance Sheet		330000
Less: Plant and Machinery (180000 – Depn. 18000)	162000	
Furniture (60000 – Depn. 3000)	57000	219000
Other Assets		73950

Debentures of the Subsidiary Company

Sometimes, the holding company takes the investment in debentures of the subsidiary company. It shows under the head 'Investments' in the Balance Sheet of the holding company. If there is any difference between the costs and paid up value of debentures, adjusted against the cost of control or goodwill. If there is any debenture interest, it will also be adjusted.

Preference Shares in Subsidiary Company

a) ***Preference Shares held by the Holding Company*** – The accounting treatment is the same as in the case of holdings of equity shares. Dividend accrued after the acquisition is taken as revenue profit.

b) ***Preference Shares held by the Outsiders in the Subsidiary Company*** – The share holdings by the outsiders are included in the minority interest by the amount ofpaid up value of shares held (including arrears of dividend accrued to the date ofconsolidation). If the balance sheet of the subsidiary company shows debit balance ofprofit and loss account, preference shareholders are not required to bear theproportionate loss and the whole loss should be borne by the equity shareholders. *Illustration 13:* The following are the liabilities and assets of the holding company HLtd. and its subsidiary S Ltd. as on 31st December 2014:

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Share Capital: 12500 Equity Shares of	1250000		Fixed Assets Investments: 10000 Equity	1000000 125000	150000

Rs. 100 each 12500 Equity		125000	Shares in S Ltd.	312500	81250

Shares of			Current Assets		
Rs. 10 each		62500			
6250, 8%	125000	25000			
Preference	62500	12500			
Shares of Rs. 10					
each		6250			
General Reserve	1437500	231250		1437500	231250
Sundry Creditors					
Dividend due on					
Preference Shares					

S Ltd. had Rs. 18750 in general reserve as on the date of acquisition on 1st January 2014. No dividend has been declared by S Ltd. in 2014. Prepare the Consolidated Balance Sheet.

Solution:

Share of holdings by H Ltd.in S Ltd. = 10000 shares out of 12500 shares = 80% Share of holdings by Outsiders in S Ltd. = 2500 shares out of 12500 shares = 20%

Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd.as on 31st December 2014

Particulars	Note No.	Amount (Rs.)
A. Equity and Liabilities		
Shareholders' Fund		
a. Share Capital	1	1250000
b. Reserves and Surplus	2	130000
Minority Interest		98750
Current Liabilities		
Sundry Creditors:		
H Ltd. 62500		
S Ltd. 12500		75000
Total		**1553750**
B. Assets		
Non-current Assets		
Fixed Assets		
a. Tangible	3	1150000
b. Intangible - Goodwill		10000
Current Assets		
H Ltd. 312500		

S Ltd.	81250		393750
Total			**1553750**

Notes to Accounts

Note No.	Particulars	Amount (Rs.)
1.	**Share Capital** Issued and Subscribed 12500Equity Shares of Rs. 100 each	**1250000**
2.	**Reserves and Surplus** General Reserve (125000+5000)	**130000**
3.	**Fixed Assets – Tangible** H Ltd. 1000000 S Ltd. 150000	**1150000**

Working Notes:

Revenue Profit in S Ltd.:

General Reserve = 25000-18750

= Rs. 6250

Share of revenue profit due to H Ltd. = 6250x80% = Rs. 5000

Share of revenue profit due to Outsiders in S Ltd. = 6250x20% = Rs. 1250

Capital Profit in S Ltd.:

General Reserve = 18750

Share of capital profit due to H Ltd. = 18750x80% = Rs. 15000

Share of capital profit due to Outsiders in S Ltd. = 18750x20% = Rs. 3750

Calculation of Goodwill:

	Rs.	Rs.
Cost of Shares in S Ltd.		125000
Less: Face value of shares in S Ltd. (10000x10)	100000	
Capital Profit	15000	115000
Goodwill		10000

Calculation of Minority Interest:

		Rs.
Paid up value of Shares held by outsiders in S Ltd. (2500x10)		25000
Add: 8% Preference Shares	62500	
Share of revenue profit due to Outsiders in S Ltd.	1250	
Share of capital profit due to Outsiders in S Ltd.	3750	
Dividend to Preference Shares	6250	73750
Minority Interest		98750

Treatment of Dividend declared by Subsidiary Company

The dividend declared by the subsidiary can be taken in the financial statementsas follows:

a) ***Dividend paid out of Pre-acquisition Profit*** – Holding company's share of dividend is to be deducted or added from goodwill or to capital reserve. No adjustment is required in minority interest. The same amount is to be deducted from the profit and loss account in the consolidated balance sheet which appears in liabilities side.

b) ***Dividend paid out of Post-acquisition Profit*** – If the dividend is declared by thesubsidiary company from current profit and received by the holding company, and then it should be credited to the profit and loss account of the holding company.

Illustration 15: The following are the liabilities and assets of the holding company HLtd. and its subsidiary S Ltd. as on 31st December 2014:

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Share Capital:			Fixed Assets	240000	320000
24000 Equity Shares of Rs. 10 each	240000		Investments:		
20000 Equity Shares of Rs. 10 each		200000	16000 Equity Shares in S Ltd.	208000	
General Reserve (on 01/01/2014)	48000	40000	Current Assets	16000	64000
Profit and Loss Account:					
Balance on 01/01/2014	16000	32000			
Balance for 2014	120000	80000			
Sundry Creditors	40000	32000			
	464000	384000		464000	384000

H Ltd. acquired 16000 shares of Rs. 10 each on 30th June 2014 for Rs. 208000in S Ltd. H Ltd. received 10% dividend for the year 2013 and it was credited to the profit and loss account of the holding company. Prepare the Consolidated Balance Sheet.

Solution:

Share of holdings by H Ltd.in S Ltd. = 16000 shares out of 20000 shares = 80% Share of holdings by Outsiders in S Ltd. = 4000 shares out of 20000 shares = 20%

Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd.
as on 31st December 2014

Particulars		Note No.	Amount (Rs.)
A. Equity and Liabilities			
Shareholders' Fund			
a. Share Capital		1	240000
b. Reserves and Surplus		2	257600
Minority Interest			70400
Current Liabilities			
Sundry Creditors:			
H Ltd.	40000		
S Ltd.	32000		72000
Total			**640000**
B. Assets			
Non-current Assets			
Fixed Assets			
a. Tangible		3	560000
b. Intangible			Nil
Current Assets			
H Ltd.	16000		
S Ltd.	64000		80000
Total			**640000**

Notes to Accounts

Note No.	Particulars		Amount (Rs.)
1.	**Share Capital**		
	Issued and Subscribed		
	24000Equity Shares of Rs. 10 each		**240000**
2.	**Reserves and Surplus**		
	Capital Reserve		57600
	General Reserve		48000
	P & L A/c		152000
			257600
3.	**Fixed Assets – Tangible**		
	H Ltd.	240000	
	S Ltd.	320000	**560000**

Working Notes:

Revenue Profit in S Ltd.:

Profit and Loss Account (80000-40000) = 40000

Share of revenue profit due to H Ltd. = 40000x80% = Rs. 32000
Share of revenue profit due to Outsiders in S Ltd. = 40000x20% = Rs. 8000

Calculation of Capital Profit in S Ltd.:

	Rs.
General Reserve on 01/01/2014	40000
P & L Account balance on 01/01/2014	32000
P & L Account for 2014	40000
Capital Profit	112000

Share of capital profit due to H Ltd. = 112000x80% = Rs. 89600
Share of capital profit due to Outsiders in S Ltd. = 112000x20% = Rs. 22400Calculation of Capital Reserve:

Cost of Shares in S Ltd.		208000
Less: Face value of shares in S Ltd. (16000x10)	160000	
Capital Profit	89600	
Dividend (16000x10x10%)	16000	265600
Capital Reserve		57600

Calculation of Minority Interest:

		Rs.
Paid up value of Shares held by outsiders in S Ltd.:		40000
Add: Share of revenue profit due to Outsiders in S Ltd.	8000	
Share of capital profit due to Outsiders in S Ltd.	22400	30400
Minority Interest		70400

Calculation of Profit and Loss Account Balance in Consolidated Balance Sheet:

	Rs.
P & L Account of H Ltd. on 01/01/2014	16000
P & L Account for 2014	120000
Revenue Profit	32000
	168000
Less: Dividend (16000x10x10%)	16000
Profit and Loss Account Balance in Consolidated Balance Sheet	152000

UNIT-5

Accounting for 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			
Interest expended	15		
Operating expenses	16		
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)	
III. Miscellaneous income (Rent received)	62	
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%) Transfer to other reserves Transfer to government/ proposed Dividend Balance carried over to Balance sheet Total		95.03 ----- ----- 285.07 380.10	

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.

1. 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)'.

2. 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		265	
Dividend		300	
Balance carried over to Balance sheet			
Total			

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	80	
II. Rent, taxes and lighting	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 Less: Calls unpaid	500	
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 II. Capital Reserves III. Securities Premium IV. Revenue & Other Reserves V. Balance in Profit and Loss Account	1035 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 II. Saving Bank Deposits III. Term Deposits	7000 3000 2000	
Total (I+II+III)	12000	
B. (i) Deposits of branches in India (ii) Deposits of branches outside India		
Total	12000	