

## UNIVERSITY OF CALICUT

#### SCHOOL OF DISTANCE EDUCATION

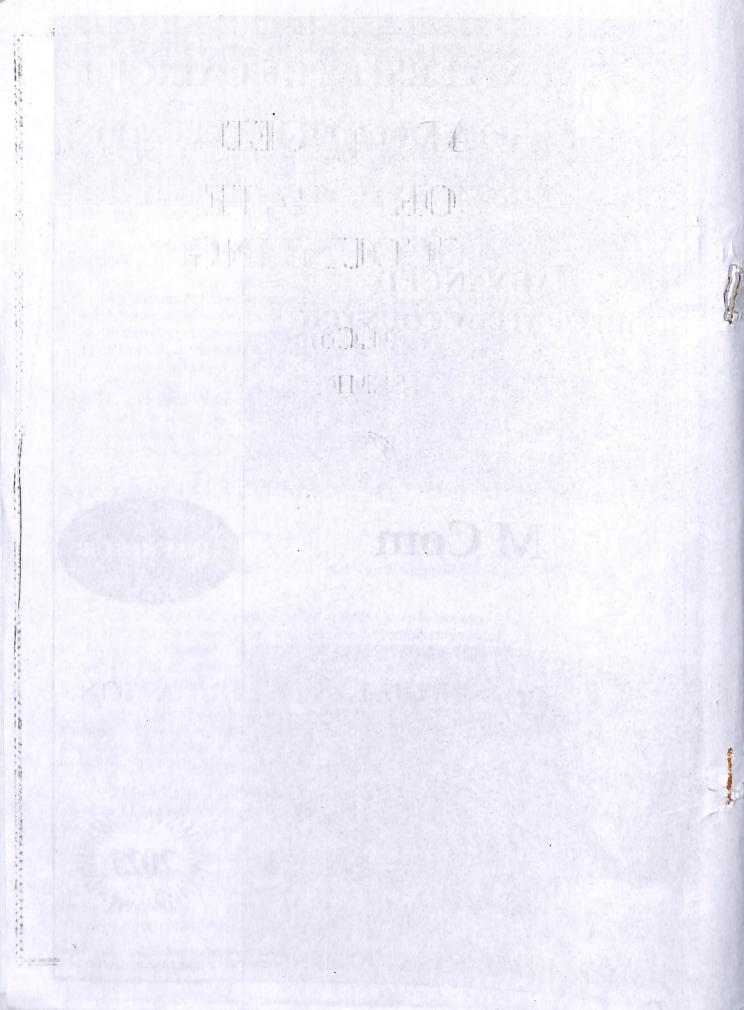
## ADVANCED CORPORATE ACCOUNTING

M Com

II SEMESTER

CUP 11720/16/3550 - 2027 - SDE





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II SEMESTER



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2027

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Study Material

M Com

**II Semester** 

#### ADVANCED CORPORATE ACCOUNTING

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Prepared By:
Sri.T.H.JAHFARALI
Assistant Professor
P.G. Department of Commerce
Government College Malappuram

Scrutinised by DR. YAKOOB . C. Reader & Research Centre SS College, Areacode

Settings & Layout Computer Section, SDE

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#### SYLLABUS

#### MC2C7 - ADVANCED CORPORATE ACCOUNTING

80 Hours

Marks: 80

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Objectives:

1. To provide theoretical knowledge of International Financial Reporting Standards.

2. To enable the students to gain ability to solve problems relating to Holding Company Accounts, Liquidation of Companies and various other Accounts

Module 1: International Financial Reporting Standards (IFRS): Introduction – Meaning – Scope – An Overview of the International Financial Reporting Standards – IFRS 1 to 13 – Role of IASB – Arguments for Global Convergence – Required disclosure as per IFRS – Achievements of IASB and Obstacles in Convergence – Difference between IFRS and Indian Accounting Standards – US GAAP.

Module 2: Accounting for Group companies – Holding Companies – Definition – Accounts Consolidation – Preparation of Consolidated Balance Sheet – Minority Interest – Pre-acquisition or Capital Profits – Cost of Control or Goodwill – Inter-company Balance – Unrealised Inter-company profits – Revaluation of assets and liabilities – Bonus Shares – Treatment of Dividend. 20 Hours

Module 3: Accounting for Corporate Restructuring - Internal - External - Merger and acquisition - Accounting for liquidation of companies - Preparation of Statement of Affairs - Deficiency/Surplus Account - Liquidator's Final Statement of Account - Receiver's Statement of Accounts

Module 4: Voyage Accounts – Meaning of important terms – Voyage in Progress – Farm Accounts – Characteristics – Advantages and Disadvantages – Final Accounts of Farms

10 Hours

Module 5: Human Resources Accounting – Objectives – Methods of valuation - Advantages and Disadvantages.

Accounting foe Price Level Changes - CPP - CCA and Hybrid.

10 Hours

(Theory and Problems may be in the ratio of 30% and 70% respectively)

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#### MODULE - 1

#### INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

#### **LESSON 1**

## INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

#### International Accounting Standards Board (IASB)

International Accounting Standards Board is an independent, privately – funded accounting standard setter based in London. Contributors include major accounting firms, private financial institutions, industrial companies throughout the world, central and development banks, and other international and professional organisations.

In March 2001 the International Accounting Standards Committee (IASC) Foundation was formed as a not for profit corporation incorporated in the USA. The IASC Foundation is the parent entity of the IASB. In July 2010 it changed its name to the International Financial Reporting Standards (IFRS) Foundation.

From April 2001the IASB assumed the accounting standard setting responsibilities from the predecessor body, the International Accounting Standards Committee (IASC). The 14 members of the IASB come from nine countries and have a variety of backgrounds with a mix of auditors, preparers of financial statements, users of financial statements and an academic.

#### Objectives of the IASB

The following are the formal objectives of the IASB:

- 1. Develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards based on clearly articulated principles that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the various capital markets of the world and other users of the information to make economic decisions.
- 2. Promote the use and rigorous application of those standards.
- 3. Work actively with national standard-setters to bring about convergence of national accounting standards and IFRSs to high quality solutions.

#### Role of the IASB

Under the IFRS Foundation Constitution, the IASB has complete responsibility for all technical matters of the IFRS Foundation including:

- a) Full discretion in developing and pursuing its technical agenda, subject to certain consultation requirements with the Trustees and the public
- b) The preparation and issuing of IFRSs (other than Interpretations) and exposure drafts, following the due process stipulated in the Constitution

c) The approval and issuing of Interpretations developed by the IFRS Interpretations Committee

#### International Financial Reporting Standards (IFRS)

IFRS is a refined system of financial reporting which is going to benefit all the stakeholders in the coming years, together with improved corporate governance and increased free flow of capital across the globe.

International Financial Reporting Standards (IFRS) are a set of accounting standards developed by the International Accounting Standards Board (IASB) that is becoming the global standard for the preparation of public company financial statements.

IFRS is sometimes confused with International Accounting Standards (IAS), which are older standards that IFRS has now replaced. The goal of IFRS is to provide a global framework for how public companies prepare and disclose their financial statements. IFRS provides general guidance for the preparation of financial statements, rather than setting rules for industry-specific reporting.

#### IFRS Foundation

The IFRS Foundation is the legal entity under which the International Accounting Standards Board (IASB) operates. The Foundation is governed by a board of 22 trustees. IFRS Foundation is the new name of International Accounting Standards Committee (IASC), approved in January 2010.

#### IFRS Advisory Council

The IFRS Advisory Council is the formal advisory body to the IASB and the Trustees of the IFRS Foundation. It consists of a wide range of representatives from groups that are affected by and interested in the work of IASB. These include investors, financial analysts and other users of financial statements, as well as preparers, academics, auditors, regulators, professional accounting bodies and standard setters. Members of the Advisory Council are appointed by the

#### **IFRS Interpretations Committee**

The IFRS Interpretations Committee is the interpretive body of the IFRS Foundation. Its mandate is to review on a timely basis widespread accounting issues that have arisen within the context of current IFRSs. The work of IFRS Interpretations Committee is aimed at reaching consensus on the appropriate accounting treatment (IFRIC Interpretations) and providing

#### Importance of IFRS

The following are the major importance of International Financial Reporting Standards:

- a) A business can present its financial statements on the same basis as its foreign
- b) Companies with subsidiaries in countries that require or permit IFRS may be able to use

- c) Companies may need to convert to IFRS if they are a subsidiary of a foreign company that must use IFRS, or if they have a foreign investor that must use IFRS.
- d) Capital market regulators must be aware of only one set of accounting standards and the companies will experience efficiency in raising capital and reduced information processing cost.

e) The companies will no longer required to prepare its financial statement under different GAAP and make the task of listing shares in foreign exchange easier.

List	of the Inter	national Financial Reporting Standards (IFRSs)
1	IFRS 1	First-time Adoption of International Financial Reporting Standards.
2	IFRS 2	Share-based Payment.
3	IFRS 3	Business Combinations.
4	IFRS 4	Insurance Contracts.
5	IFRS 5	Non-current Assets Held for Sale and Discontinued Operations.
6	IFRS 6	Exploration for and Evaluation of Mineral Resources.
7	IFRS 7	Financial Instruments: Disclosures.
8	IFRS 8	Operating Segments.
9	IFRS 9	Financial Instruments.
10	IFRS 10	Consolidated Financial Statements.
11	IFRS 11	Joint Arrangements.
12	IFRS 12	Disclosure of Interest in Other Entities.
13	IFRS 13	Fair Value Measurement.
14	IFRS 14	Regulatory Deferral Accounts.
15	IFRS 15	Revenue from Contracts with Customers.

#### Summary of IFRSs

The technical summary of important IFRSs is as under:

#### IFRS 1 - First-time Adoption of International Financial Reporting Standards

This IFRS was issued at 1 January 2013. The objective of this IFRS is to ensure that an entity's first IFRS financial statements, and its interim financial reports for part of the period covered by those financial statements, contain high quality information that: (a) is transparent for users and comparable over all periods presented; (b) provides a suitable starting point for accounting in accordance with International Financial Reporting Standards (IFRSs); and (c) can be generated at a cost that does not exceed the benefits.

An entity shall prepare and present an opening IFRS statement of financial position at the date of transition to IFRSs. This is the starting point for its accounting in accordance with IFRSs. An entity shall use the same accounting policies in its opening IFRS statement of financial position and throughout all periods presented in its first IFRS financial statements. Those accounting policies shall comply with each IFRS effective at the end of its first IFRS reporting period.

The IFRS requires disclosures that explain how the transition from previous GAAP to IFRSs affected the entity's reported financial position, financial performance and cash flows.

#### IFRS 2 - Share-based Payment

ITPS 2 was issued at 1 January 2012. The objective of this IFRS is to specify the financial reporting by an entity when it undertakes a share-based payment transaction. The IFRS requires an entity to recognise share-based payment transactions in its financial statements, including transactions with employees or other parties to be settled in cash, other assets, or equity instruments of the entity. There are no exceptions to the IFRS, other than for transactions to which other Standards apply.

This also applies to transfers of equity instruments of the entity's parent; or equity instruments of another entity in the same group as the entity, to parties that have supplied goods or services to the entity.

The IFRS prescribes various disclosure requirements to enable users of financial statements to understand: (a) the nature and extent of share-based payment arrangements that existed during the period; (b) how the fair value of the goods or services received, or the fair value of the equity instruments granted, during the period was determined; and (c) the effect of share-based payment transactions on the entity's profit or loss for the period and on its financial position.

#### **IFRS 3 - Business Combination**

This states that all business combinations are accounted for using purchase accounting, with limited exceptions. A business combination is to bringing together of separate entities or business into one reporting entity. A business can be operated managed for the purpose of providing return to investors or lower costs. An entity in its development stage can meet the definition of a business. In some cases the legal subsidiary is identified as the acquirer for accounting purposes (reverse acquisition). The date of acquisition is the date on which effective control is transferred to the acquirer. The cost of acquisition is the amount of cash equivalents paid, plus the fair value of other purchase considerations given, plus any cost directly attributable to the acquisition.

The fair values of securities issued by the acquirer are determined at the date of exchange. Costs directly attributable to the acquisition may be internal costs but cannot be general administrative costs. There is no requirement for directly attributable cost to be incremental.

#### IFRS 4 - Insurance Contracts

IFRS 4 was issued at 1 January 2013. The objective of this IFRS is to specify the financial reporting for insurance contracts by any entity that issues such contracts (described in this IFRS as an insurer) until the Board completes the second phase of its project on insurance contracts. In particular, this IFRS requires: (a) limited improvements to accounting by insurers for insurance contracts. (b) Disclosure that identifies and explains the amounts in an insurer's financial statements arising from insurance contracts and helps users of those financial statements understand the amount, timing and uncertainty of future cash flows from insurance contracts.

An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. The IFRS applies to all insurance contracts (including reinsurance contracts) that an entity issues and to reinsurance contracts that it holds, except for specified contracts covered by other IFRSs.

The IFRS permits an insurer to change its accounting policies for insurance contracts only if, as a result, its financial statements present information that is more relevant and no less reliable, or more reliable and no less relevant. In particular, an insurer cannot introduce any of the following practices, although it may continue using accounting policies that involve them:
(a) measuring insurance liabilities on an undiscounted basis. (b) Measuring contractual rights to future investment management fees at an amount that exceeds their fair value as implied by a comparison with current fees charged by other market participants for similar services. (c) Using non-uniform accounting policies for the insurance liabilities of subsidiaries.

The IFRS requires disclosure to help users understand: (a) the amounts in the insurer's financial statements that arise from insurance contracts. (b) The nature and extent of risks arising from insurance contracts.

#### IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations

This IFRS was issued at 1 January 2013. The objective of this IFRS is to specify the accounting for assets held for sale, and the presentation and disclosure of discontinued operations. In particular, the IFRS requires: (a) assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and depreciation on such assets to cease; (b) an asset classified as held for sale and the assets and liabilities included within a disposal group classified as held for sale to be presented separately in the statement of financial position; and (c) the results of discontinued operations to be presented separately in the statement of comprehensive income.

The IFRS: (a) adopts the classification 'held for sale'. (b) Introduces the concept of a disposal group, being a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. (c) Classifies an operation as discontinued at the date the operation meets the criteria to be classified as held for sale or when the entity has disposed of the operation.

An entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and (a) represents a separate major line of business or geographical area of operations, (b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations or (c) is a subsidiary acquired exclusively with a view to resale.

## IFRS 6 - Explorations for and Evaluation of Mineral Resources

IFRS 6 was issued at 1 January 2012. The objective of this IFRS is to specify the financial reporting for the exploration for and evaluation of mineral resources. Exploration and evaluation expenditures are expenditures incurred by an entity in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Exploration for and evaluation of mineral resources is the search for mineral resources, including minerals, oil, natural gas and similar non-regenerative resources after the entity has obtained legal rights to explore in a specific area, as well as the determination of the technical feasibility and commercial viability of extracting the mineral resource. Exploration and evaluation assets are exploration and evaluation expenditures recognised as assets in accordance with the entity's accounting policy.

An entity shall determine an accounting policy for allocating exploration and evaluation assets to cash-generating units or groups of cash-generating units for the purpose of assessing such assets for impairment. Each cash-generating unit or group of units to which an exploration and evaluation asset is allocated shall not be larger than an operating segment determined in accordance with IFRS 8 Operating Segments.

An entity shall disclose information that identifies and explains the amounts recognised in its financial statements arising from the exploration for and evaluation of mineral resources.

#### IFRS 7 - Financial Instruments: Disclosures

This IFRS was issued at 1 January 2012. The objective of this IFRS is to require entities to provide disclosures in their financial statements that enable users to evaluate: (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the end of the reporting period, and how the entity manages those risks. The qualitative disclosures describe management's objectives, policies and processes for managing those risks. The quantitative disclosures provide information about the extent to which the entity is exposed to risk, based on information provided internally to the entity's key management personnel. Together, these disclosures provide an overview of the entity's use of financial instruments and the exposures to risks they create.

The IFRS applies to all entities, including entities that have few financial instruments (e.g. a manufacturer whose only financial instruments are accounts receivable and accounts payable) and those that have many financial instruments (e.g. a financial institution most of whose assets and liabilities are financial instruments).

When this IFRS requires disclosures by class of financial instrument, an entity shall group financial instruments into classes that are appropriate to the nature of the information disclosed and that take into account the characteristics of those financial instruments. An entity shall provide sufficient information to permit reconciliation to the line items presented in the statement of financial position.

#### **IFRS 8 - Operating Segments**

IFRS 8 was issued at 1 January 2013. An entity shall disclose information to enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates.

This IFRS shall apply to: (a) the separate or individual financial statements of an entity.

(i) whose debt or equity instruments are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or (ii) that files, or is in the process of filing, its financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market; and (b) the consolidated financial statements of a group with a parent: (i) whose debt or equity instruments are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets), or (ii) that files, or is in the process of filing, the consolidated financial statements with a securities commission or other regulatory organisation for the purpose of issuing any class of instruments in a public market.

The IFRS requires an entity to report a measure of operating segment profit or loss and of segment assets. It also requires an entity to report a measure of segment liabilities and particular income and expense items if such measures are regularly provided to the chief operating decision maker. It requires reconciliations of total reportable segment revenues, total profit or loss, total assets, liabilities and other amounts disclosed for reportable segments to corresponding amounts in the entity's financial statements.

#### IFRS 9 - Financial Instruments

IFRS 9 was issued in July 2014.IFRS 9 is built on a logical, single classification and measurement approach for financial assets that reflects the business model in which they are managed and their cash flow characteristics.

Built upon this is a forward-looking expected credit loss model that will result in more timely recognition of loan losses and is a single model that is applicable to all financial instruments subject to impairment accounting. In addition, IFRS 9 addresses the so-called 'own credit' issue, whereby banks and others book gains through profit or loss as a result of the value of their own debt falling due to a decrease in credit worthiness when they have elected to measure that debt at fair value. The Standard also includes an improved hedge accounting model to better link the economics of risk management with its accounting treatment.

#### IFRS 10 - Consolidated Financial Statements

IFRS 10 was issued at 1 January 2013. The objective of this IFRS is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. To meet the objective, this IFRS: (a) requires an entity (the parent) that controls one or more other entities (subsidiaries) to present consolidated financial statements; (b) defines the principle of control, and establishes control as the basis for consolidation; (c) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and (d) sets out the accounting requirements for the preparation of consolidated financial statements.

Consolidated financial statements are the financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity. The IFRS requires an entity that is a parent to present consolidated financial statements. The IFRS defines the principle of control and establishes control as the basis for determining which entities are consolidated in the consolidated financial statements.

When preparing consolidated financial statements, an entity must use uniform accounting policies for reporting like transactions and other events in similar circumstances. Intragroup balances and transactions must be eliminated. Non-controlling interests in subsidiaries must be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent.

#### IFRS 11 - Joint Arrangements

IFRS 11 was issued in May 2011. It establishes principles for the financial reporting by parties to a joint arrangement. IFRS 11 improves the accounting for joint arrangements by introducing a principle- based approach that requires a party to a joint arrangement to recognise its rights and obligations arising from the arrangement. Such a principle-based approach will provide users with greater clarity about an entity's involvement in its joint arrangements by increasing the verifiability, comparability and understandability of the reporting of these arrangements.

The disclosure requirements allow users to gain a better understanding of the nature, extent and financial effects of the activities that an entity carries out through joint arrangements. The disclosure requirements for joint arrangements have been placed in IFRS 12 Disclosure of Interests in Other Entities

#### IFRS 12 - Disclosure of Interests in Other Entities

IFRS 12 applies to entities those have an interest in subsidiaries, joint arrangements, associates and unconsolidated structured entities.

IFRS 12 does not apply to: (a) Post-employment benefit plans or other long-term employee benefit plans to which IAS 19 Employee Benefits applies, (b) Separate financial statements, where IAS 27 Separate Financial Statements applies, (c) An interest held by an entity that participates in, but does not have joint control or significant influence over, a joint arrangement, and (d) Interests accounted for in accordance with IFRS 9 Financial Instruments, except for interests in an associate or joint venture measured at fair value as required by IAS 28 Investments in Associates and Joint Ventures.

#### IFRS 13 - Fair Value Measurement

IFRS 13 was issued at 1 January 2013. This IFRS (a) defines fair value; (b) sets out in a single IFRS a framework for measuring fair value; and (c) requires disclosures about fair value

The IFRS applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances.

A fair value measurement assumes that a financial or non-financial liability or an entity's own equity instrument (e.g. equity interests issued as consideration in a business combination) is

The transfer of a liability or an entity's own equity instrument assumes the following: (a) A liability would remain outstanding and the market participant transferee would be required to A liability would remain outstanding and the fulfil the obligation. The liability would not be settled with the counterparty or otherwise

extinguished on the measurement date. (b) An entity's own equity instrument would remain outstanding and the market participant transferee would take on the rights and responsibilities associated with the instrument. The instrument would not be cancelled or otherwise extinguished on the measurement date.

An entity shall disclose information that helps users of its financial statements assess both of the following: (a) for assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition, the valuation techniques and inputs used to develop those measurements. (b) for recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income for the period.

#### Scope of the International Financial Reporting Standards

- a) IFRSs are not intended to be applied to immaterial items and they are not retrospective.
- b) Within each individual country local regulations govern, to a greater or lesser degree, the issue of financial statements.
- c) IFRSs concentrate on essentials and are designed not to be too complex; otherwise they would be impossible to apply on a worldwide basis.
- d) IFRSs do not override local regulations on financial statements

#### Advantages of the IFRS

- a) The world's economies are becoming more integrated and having one accounting system will make life a little less complicated for both the companies and the investors.
- b) As multinational businesses continue to grow and expand, a thorough knowledge of IFRS is now essential for internationally active, growing busine es.
- c) There seems to be worldwide consensus surrounding the sed for one global set of high-quality accounting standards and that IFRS is currently best positioned to fulfil that need.
- d) In today's global economy the consistency of one reporting standard will make it more efficient for investors to research and compare financial statements globally and more effectively.
- e) IFRS adoption leads to higher market liquidity, more investment flows through foreign mutual funds, and more favourable terms in private debt contracting, greater analyst coverage, and lower stock return synchronicity.

#### Disadvantages of the IFRS

- a) Even if the IFRS is implemented, there would still be differences in financial reporting, and financial statements would not be "identical" because of the differences in national laws, economic conditions, and objectives.
- b) The environmental factors such as culture, language, and legal system affect how IFRS is applied.
- c) The differing backgrounds of the people in numerous countries applying IFRS means that interpretative differences will arise because of different historical practices.
- d) If some countries interpret the IFRS differently than other countries, the financial statements between those countries would not be comparable.

- e) The audit fees of public accounting firms increase after the transition to IFRS.
- f) The costs of application by companies, such as changing the internal systems to make it compatible with the new reporting standards, training costs and etc., are increased.
- g) It will take a substantial amount of time to convert to IFRS completely, depending on the size of the company.

#### Requirements of the IFRS

A complete set of financial statements, includes the following components, is required under IFRS:

- a) A Statement of Financial Position as at the end of the reporting period.
- b) A Statement of Profit or Loss and Other Comprehensive Income for the reporting period.
- c) A Statement of Changes in Equity (SOCE) for the reporting period.
- d) A Cash Flow Statement or Statement of Cash Flows for the reporting period.
- e) Notes comprising a summary of significant accounting policies and other explanatory information.
- f) A Statement of financial position at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

#### Convergence between IFRSs and US GAAP

The IASB and the US Financial Accounting Standards Board (FASB) have been working together since 2002 to achieve convergence of IFRSs and US Generally Accepted Accounting Principles (GAAP). A common set of high quality global standards remains a priority of both the IASB and the FASB.

In September 2002 the IASB and the FASB agreed to work together, in consultation with other national and regional bodies, to remove the differences between international standards and US GAAP. This decision was embodied in a Memorandum of Understanding (MoU) between the boards known as the Norwalk Agreement. The boards' commitment was further strengthened in 2006 when the IASB and FASB set specific milestones to be reached by 2008.

In the light of progress achieved by the boards and other factors, the US Securities and Exchange Commission (SEC) removed in 2007 the requirement for non-US companies registered in the US to reconcile their financial reports with US GAAP if their accounts complied with IFRSs as issued by a proposed road map on adoption of IFRSs for domestic US companies.

In 2008 the two boards issued an update to the MoU, which identified a series of priorities and milestones, emphasising the goal of joint projects to produce common, principle based standards.

The Group of 20 Leaders (G20) called for standard setters to re-double their efforts to complete convergence in global accounting standards. Following this request, in November 2009the IASB and FASB published a progress report describing and intensification of their work programme, including the hosting of monthly joint board meetings and to provide quarterly updates on their progress on convergence projects.

In April 2012 the IASB and FASB published a joint progress report in which they describe the progress made on financial instruments, including a joint expected loss impairment ('provisioning') approach and a more converged approach to classification and measurement.

In February 2013 the IASB and FASB published a high level update on the status and timeline of the remaining convergence projects. The report includes an update on the impairment phase of the joint project on financial instruments.

The listed companies of European Union State including UK, France and Germany, have adopted IFRS since 2005. The process of converging towards IFRS is still going on in India.

#### **IFRS** in India

IFRS convergence, in recent years, had gained momentum in this world. As the capital markets become increasingly global in nature, more and more investors see the need for a common set of accounting standards.

India being one of the global players, migration to IFRS will enable Indian entities to have access to international capital markets without having to go through the cumbersome conversion and filing process. It will lower the cost of raising funds, reduce accountants' fees and enable faster access to all major capital markets. Furthermore it will facilitate companies to set targets and milestones based on a global business environment rather than an inward perspective.

Furthermore, convergence to IFRS, by various group entities, will enable management to bring all components of the group into a single financial reporting platform. This will eliminate the need for multiple reports and significant adjustment for preparing consolidated financial statements or filing financial statements in different stock exchanges.

#### Benefits of IFRS over the Indian GAAP

The following are the reasons for adoption of IFRS inspite of Indian GAAP:

- 1. Improve transparency in accounting system.
- 2. Globally accepted.
- 3. New opportunity.
- 4. Allows exercise of professional judgement.
- 5. IFRS are increasingly being recognised as Global Reporting Standards for financial statements.
- 6. Indian GAAP is becoming rare because it has some limitations in comparison with IFRS.
- 7. As global capital markets become increasingly integrated, many countries are adopting IFRs.
- 8. More than 100 countries already permit the use of IFRS in their countries.

#### Benefits of IFRS in India

The following are the benefits to India by the implementation of IFRS:

1. It would benefit the economy by increasing the growth of international business.

- 2. It would encourage foreign investment which results in foreign capital inflows into the country.
- 3. It would reduce the cost of compliance.
- 4. IFRS would open many opportunities for the professionals to serve the international clients.

#### Challenges in implementation of IFRS in India

There are certain challenges in implementation of IFRS in India. They include:

- 1. Increase in cost initially due to dual reporting requirement, which entity might have to meet till the full convergence is achieved.
- 2. Current accounting framework in India is deeply affected by laws and regulations. It is required to make amendments in various laws and regulations.
- 3. All stakeholders, employees, auditors, regulators, tax authorities etc. would need to aware about IFRS. They need to be trained.
- 4. Organisations would incur additional costs for modifying their current accounting procedures for meeting the new disclosures and reporting requirements.

#### Comparison of IFRS with US GAAP and Indian GAAP

The following are the important similarities and differences between IFRS, US GAAP and Indian GAAP:

Sl. No.	Subject	IFRS	US GAAP	Indian GAAP
1.	Historical Cost	Generally uses historical cost, but intangible assets, property, plant and equipment (PPE) and investment property may be revalued to fair value.	No revaluation except for certain types of financial instruments.	Uses historical cost, but property, plant and equipment (PPE) may be revalued to fair value.
2.	First-time adoption of accounting	Full retrospective application of all IFRSs	First-time adoption of US GAAP	Similar to US GAAP.
	frameworks	date for an entity's first IFRS financial statements, with some optional exemptions and	requires retrospective application.	dimutoquo wak a sastan a sastan an a sastan a sa
guba	Baranar abidunga	limited mandatory exceptions.	range paragraphics	pi. 9 s. A. D. maiting a 3- orgala Indoles a 20-00
3.	Components of Financial Statements	Two years' consolidated balance sheets, income statements, cash flow statements, changes in equity and accounting policies and notes.	Similar to IFRS, except three years required for SEC registrants (public companies) for all statements except balance sheet	Single-entity parent company (standalone) two years' balance sheets, income statements, cash flow statements and

1	tablife, the	engrata e objektorale	(K) - A	accounting policies and notes.
4.	Balance Sheet	Does not prescribe a particular format. A liquidity presentation of assets and liabilities used instead of a current or non-current presentation, only when a liquidity presentation provides more relevant and reliable information.	Entities may present either a classified or non- classified balance sheet. Items on the face of balance sheet are generally presented in decreasing order of liquidity.	Accounting standards do not prescribe a particular format; certain items must be presented on the face of the balance sheet.
5.	Income Statement	Does not prescribe a standard format, although expenditure is presented in one of two formats (function or nature).	Present as either a single step or multiple step format. Expenditures are presented by function.	Does not prescribe a standard format; but certain income and expenditure items are disclosed in accordance with accounting standards and the Companies Act.
6.	Cash Flow Statements – Format and Method	Standard headings, but limited guidance on contents. Direct or indirect method is used.	Similar headings to IFRS, but more specific guidance for items included in each category. Direct or indirect method is used.	Similar to IFRS. However, indirect method is required for listed companies and direct method or insurance companies.
7.	Cash Flow Statements – Definition of Cash and cash equivalents	Cash includes cash equivalents with maturities of three months or less from the date of acquisition and may include bank overdrafts.	Similar to IFRS, except that bank overdrafts are excluded.	Similar to US GAAP.
8.	Revenue Recognition	Based on several criteria, which require the recognition of revenue when risks and rewards and control have been transferred and the revenue can be measured reliably.	Similar to IFRS in principle, based on four key criteria. Extensive detailed guidance exists for specific types of transactions.	Similar to IFRS conceptually, although several differences in detail.
9.	Depreciation	Associated on systematic basis to each accounting period over the useful life of the asset.	Similar to IFRS.	Similar to IFRS, except where the useful life is shorter as envisaged under the Companies Act or the relevant

				statute, the depreciation is computed by applying a higher rate.
10.	Property, Plant and Equipment (PPE)	Historical cost or revalued amounts are used. Regular valuations of entire classes of assets are required when revaluation option is chosen.	Historical cost is used; revaluations are not permitted.	Historical cost is used. Revaluations are permitted. However, no requirement on frequency of
11. s in ising action	Inventories	Carried at lower of cost and net realisable value.  FIFO or weighted average method is used to determine cost. LIFO is prohibited.	Similar to IFRS; However, use of LIFO is permitted.	revaluation. Similar to IFRS.
12.	Contingencies	Disclose unrecognised possible losses and probable gains.	Similar to IFRS.	Similar to IFRS, except that contingent gains are neither recognised nor disclosed.

#### **REVIEW QUESTIONS**

#### A. Short Answer Type questions

- 1. What do you mean by IFRS?
  - 2. Write a note on IFRS Advisory Council.
  - 3. What do you understand by IFRS Interpretations Committee?
  - 4. Write a note on IFRS Foundation.
  - 5. List any four IFRSs.

#### B. Essay Type Questions

- 1. Discuss the objectives and roles of IASB.
- 2. Write a note on scope, merits and demerits of IFRS.
- 3. Briefly explain any five IFRSs.
  - 4. How can you distinguish the IFRS and US GAAP?
- 5. Give a note on IFRS in India.
  - 6. Write an essay on convergence between IFRSs and US GAAP.

#### **MODULE - 2**

## ACCOUNTING FOR GROUP COMPANIES (ACCOUNTS OF HOLDING COMPANIES)

#### LESSON 2

#### ACCOUNTS OF HOLDING COMPANIES

#### **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 controlling interest 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.

#### 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 in nominal value of its equity share capital; or
- (c) the company is a subsidiary of any company which is that other company's subsidiary.

A Subsidiary company may be either Wholly Owned Subsidiary or Partly Owned 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 financial statements.

#### 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 (other than the holding company), their interest in the subsidiary company is called as Minority 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	<u>xxx</u>
organy convols the composition of its board of directors; or	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 is no reserve or profit or loss balance in the subsidiary company on date of acquisition of shares 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 31<sup>st</sup> December 2014:

Liabilities	H Ltd.	S Ltd.	Assets	H Ltd.	S Ltd.
Elaomnies	Rs.	Rs.	cserve	Rs.	Rs.
Share Capital:	NI W	11 100 27	Sundry Assets	260000	240000
Shares of Rs. 10 each	400000	200000	Investments:	N Marcella	
Profit and Loss Account	80000	20000	20000 shares in S Ltd.	300000	
General Reserve	40000	16000			
Current Liabilities	40000	4000	or Cost of Control 127	Hewbood)	o nortalia:
T. F. C.	560000	240000	CONTRACTOR SPECIAL CONTRACTOR	560000	240000

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

Solution:

Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd.

Particulars	as on 31 <sup>st</sup> December 2014	Note No.	Amount (Rs.)
A. Equity and Liabilitie	es	asi	10000
Shareholders' Fund  a. Share Capital  b. Reserves and Surplu		1 2	400000 120000
Current Liabilities		K 1	swings I form
H Ltd. 4000	00081 1000	565	
S Ltd. 40	00	SERTION	44000
Total		erado dil beres	564000
B. Assets Non-current Assets			Shoets 1999

Fixed Assets	realizable of the second beautiful to consider a particular second and a second second second second second se
Tangible Assets - Sundr	Assets months by table 4000 toads some stilbars ite Attal)
H Ltd. 260	. as cm 31 <sup>st</sup> December
S Ltd.	
Mo. (Ital)	
Intangible Assets – Go	odwill 64000
Current Assets	not it this section of the section o
Total	564000

#### **Notes to Accounts**

Profit and Loss Account

Goodwill or Cost of Control

General Reserve

Note No.	Particulars	de hil pepe	) odi aratua	animidia.	Amount (Rs.)
1.1	Share Capital Issued and Subscribed 40000 Equity shares of Rs. 10 each		ng are the December	Wollen of I 18 no sa 1	
2.	Reserves and Surplus General Reserve			10	40000
nonet	P & L A/c	200000		dono (I)	80000 <b>120000</b>
Working N Calculation	ote: a of Goodwill or Cost of Control:	20000 16000 16000	40000 40000 40000	Account S	kao di tang ti Tukao di kara tah kasat terah
Cost of Sha	ares in S Ltd. value of shares in S Ltd.	100000	300000	Rs. 200000	Rs. 300000

## Illustration 2: The liabilities and assets of the holding company A Ltd. and its subsidiary B Ltd. as on 31<sup>st</sup> December 2014 are as follows:

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

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

20000

16000

236000

64000

Solution:

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

Particulars	A SOUTH TO SEE	Thu go	144 q01 88	Note No.	Amount (Rs.)
A. Equity and Liabilities	nhes Ary Imag	i de la			
Shareholders' Fund		100001		ma dang l	party of the
a. Share Capital				1 10	72000
b. Reserves and Surplus				2	39000
Current Liabilities					110
A Ltd. 63000				d up seems	and the same
B Ltd. 18000	Occupie 00000 to ancheuro		LOUIS	My PL	81000
20% - 20%	ala 0000) he nuo arrada			is, by Out	Oblod to su
Total	model of the State of the	10 153 118 50 11		William House	192000
And the second s		of the stoker			
B. Assets				Samuel V.	An Acmings
Non-current Assets					
Fixed Assets		101-101-101-		an Habilita	Equity and
Tangible Assets – Sundry	Assets			1 Maria	lagiobiorioga.
A Ltd. 1200				the Kell	tion attend
B Ltd. 720	000			alligrant b	192000
UpO Establishment	articular Temper 1			100	
Intangible Assets		748000 406 07		exit	Nil
				34000	
Current Assets		750.75		one.	Nil
	Transcription of the second			1 SALVE	102000
Total					192000

Notes to Accounts

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

Working Note:

Calculation of Capital Reserve.		Rs.	Rs. 45000
Cost of Shares in B Ltd. Less: Face value of shares in B Ltd. Profit and Loss Account		36000 12000	
General Reserve		6000	54000
Capital Reserve	10.000		9000

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

Liabilities	P Ltd. Rs.	Q Ltd. Rs.	Assets	P Ltd.	Q Ltd.
Share Capital:	ICS.	NS.	C 1	Rs.	Rs.
Shares of Re. 1 each	36000	15000	Sundry Assets Investments:	48000	24000
Sundry Liabilities	24000	9000	12000 shares in Q Ltd.	12000	
T. ORANGE A SPECIAL	60000	24000	The residual bull of	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 31<sup>st</sup> December 2014

Particulars	ete Capitali. God And Shebsenhad -	Note No.	Amount (Rs.)
A. Equity and			(163.)
Shareholders'	Fund	Smidts Assets	I MARY A CONTINUE
a. Share Capi	al all and the same of the sam	1, 120,000	26000
b. Reserves an	d Surplus		36000
Minority Inter	est	기업을 다 보는 사람들이 가게 되었다.	Nil
Current Liabi			3000
P Ltd.	24000	chillocial Parks and Control	A STATE OF THE STA
Q Ltd.	9000	alionalista de la companya de la co	33000
Total		April 19 miles	
Ser Land Make			72000
B. Assets			many in the state of
Non-current A	ssets	Victor	
Fixed Assets			
	S – Sundry Assets	and the second s	
P Ltd.	48000	bedrawing how her	
Q Ltd.	24000	and richard and to anomale the property	72000
		ever and Surpins	72000
Intangible As	sets	entrace Miles	
		and Rite tree	Nil
Current Asset		LANCE TO SERVICE TO SE	NEL
			Nil
Total	Herr And P. China (1994)		72000

## Note No. Particulars Particulars Amount (Rs.) 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 on the date of purchase of shares by holding company is called pre-acquisition profit or capital profit. The outsiders' share of such capital profit is added to the minority interest and the balance (to holding company) are shown as Capital Reserve or adjusted 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 31<sup>st</sup> December 2014:

Liabilities	H Ltd.	S Ltd.	Assets	H Ltd.	S Ltd.
	Rs.	Rs.		Rs.	Rs.
Share Capital:	Trome as	19 THE	Sundry Assets	640000	480000
Shares of Rs. 10 each	800000	400000	Investments:	in burnet	
Profit and Loss Account	80000	40000	32000 shares in S Ltd.	BENDARES	
Current Liabilities	80000	40000	@ Rs. 10 each	320000	mit kytek.
Callent Programme	960000	480000		960000	480000

H Ltd. acquired the shares in S Ltd. on 31<sup>st</sup> December 2014. Prepare the Consolidated 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 31<sup>st</sup> December 2014

Particulars 000L 88	Note No.	Amount (Rs.)
A. Equity and Liabilities	allored in	na dada ka
Shareholders' Fund		
a. Share Capital	1	800000
b. Reserves and Surplus	2	112000
Minority Interest	d yd am	88000
Current Liabilities	o doile in.	00000
H Ltd. 80000	The reword	1011 17 min
S'Ltd. 40000	potteless to	120000
	111	0.531.12
Total	जिल्ला डाउमार	1120000
party is added to the Cost of Control or Codwill or deducted from the		1120000
B. Assets	pile bou	And Burners
Non-current Assets	The same	Thitp:dx
Fixed Assets	7	
Tangible Assets – Sundry Assets	the state	
H Ltd. 640000	de un la	John W
S Ltd. 480000		1120000
the profit of the holding company is added to the profit of the holding		1120000
Intangible Assets		
on in the Consolidated Ballace Shoet		
Current Assets		Nil
the establish in the subsidiary company by the holding communities are	damp).	INII
Total	dimensions.	1120000

#### Notes to Accounts

Note No.	Particulars	Amount
1.	Share Capital	(Rs.)
	Issued and Subscribed	down the law shock
	80000 Equity shares of Rs. 10 each	200000
2.	Reserves and Surplus	800000
	Capital Reserve	22000
	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:	000001	a tribudyal l
00000	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:

0000	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 5:* The following are the liabilities and assets of the holding company H Ltd. and its subsidiary S Ltd. as on 31<sup>st</sup> December 2014:

Liabilities	H Ltd.	S Ltd.	Assets	H Ltd.	S Ltd.
	Rs.	Rs.	1,5000	Rs.	Rs.
Share Capital:		Traffalls	Fixed Assets	100000	60000
Equity Shares of Rs.10	distant		Current Assets	115000	20000
Each	120000	50000	Cash and Bank	70000	10000
8% Preference Shares			The state of the s		7000
of Rs. 10 each	40000	10000		of the second	
Profit and Loss Account	25000	10000		The second	
Sundry Creditors	100000	20000			ALL DE ROLL
Building	285000	90000		285000	90000

H Ltd. acquired 90% of the equity shares of S Ltd. at Rs. 15 per share on 1<sup>st</sup> January 2015. Prepare the Consolidated Balance Sheet as on 1<sup>st</sup> January 2015.

#### Solution:

Share of holdings by H Ltd.in S Ltd. = 90%

Share of holdings by Outsiders in S Ltd. = 10%

Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as on 1<sup>st</sup> January 2015

Particulars	Note No.	Amount (Rs.)
A. Equity and Liabilities Shareholders' Fund a. Share Capital b. Reserves and Surplus Minority Interest Current Liabilities – Sundry Creditors		160000 25000 16000

H Ltd.	100000	1 5
S Ltd.	20000	120000
040083		1 1 2 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1
Total		321000
000000	1-00000	The set of
B. Assets	Mr. Birth and the large	Part of the school expenses and the first government
Non-curren		Corte day to the control of the cont
Fixed Assets		Sufferencial Control and Contr
	sets – Fixed Assets	we assess the second which will reduce the
H Ltd.	100000	
S Ltd.	60000	160000
Intangible	Assets - Goodwill	13500
Current Ass Cash & Bar		dien in the same that the same in the same
	70000 – 67500) 2500	o kinery has something but on the world a real first
S Ltd.	10000 10000	Recommendation as on 34° Necton began 2014.
	rent Assets	12500
H Ltd.	115000	the result of the party of the
S Ltd.	20000	
o Bia.	20000	135000
		and sharing?
Total		20000 10000 20000 Gashand B
101111		321000

#### Notes to Accounts

Note No.	Particulars	Amount
1. 2	Share Capital	(Rs.)
	Issued and Subscribed	uplur dat 14 in
	12000 Equity shares of Rs. 10 each 4000, 8% Preference Shares of Rs. 10 each	120000
	of Rs. 10 each	40000
2.	Reserves and Surplus	160000
	Profit and Loss Account	25000

Working Notes:

Calculation of Capital Profit:

Profit and Loss Account balance in S Ltd. = Rs. 10000

Share of capital profit due to H Ltd. = 10000x90% = Rs. 9000

Share of capital profit due to Outsiders in S Ltd. = 10000x10% = Rs. 1000

Calculation of Goodwill:

D	The state of the s
Rs.	D
	Rs.

Cost of Shares in S Ltd. (5000x90%x15)	0008444444	67500
Less: Face value of shares in S Ltd.	45000	
Capital Profit	9000	54000
Goodwill		13500

#### Calculation of Minority Interest:

Store A Company of the Store Store Store Company of the Store Stor	Rs.	Rs.
Paid up value of Shares held by outsiders in S Ltd. (5000x10%x10)	Charlet of	5000
Add: Share of capital profit due to Outsiders in S Ltd.	1000	TOTAL 63
8% Preference Share Capital in S Ltd	10000	11000
Minority Interest	DUCH - RIDEA	16000

Illustration 6: The liabilities and assets of the holding company H Ltd. and its subsidiary S Ltd. as on 31<sup>st</sup> December 2014 are as follows:

Liabilities	H Ltd.	S Ltd.	Assets	H Ltd.	S Ltd.
	Rs.	Rs.	sangar na anakara kasabag	Rs.	Rs.
Share Capital:		BOS PT. SPE	Sundry Assets	720000	756000
Shares of Rs. 10 each	1200000	600000	Investments:	Perticular	
Profit and Loss Account	120000	48000	48000 shares in S Ltd.	780000	
General Reserve	120000	60000	lotin	Sharatz	
Current Liabilities	60000	48000	- Landresselu 2 ho	Contract Con	
Current	1500000	756000	The column and the co	1500000	756000

H Ltd. acquired shares in S Ltd. on 1<sup>st</sup> January 2014. O that date the Profit and Loss Account had a credit balance of Rs. 12000 and in Reserve Rs. 3 00. Prepare the Consolidated 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	Lawer Mar Law School Street, 40 (13 m/4)	Note No.	Amount (Rs.)
A. Equity and Liabilities Shareholders' Fund a. Share Capital b. Reserves and Surplus Minority Interest Current Liabilities H Ltd. 60000	# 1.1d. ** ###0000080005200 The hidden in \$ 1.1d ** ###00002000 (2) art (##U00-30000) ** R*. 36,000	1 2	1200000 288000 141600

S Ltd.	48000	108000
Total		1737600
		the first term production of the boson in the Highborn
B. Assets		A CONTRACTOR OF THE PROPERTY O
Non-current As	sets	
Fixed Assets		stonation of M north Interests and the point of the state
Tangible Assets	- Sundry Assets	
H Ltd.	720000	
S Ltd.	756000	1476000
		Trend State of Plant had a State of the Control of
Intangible Ass	ets - Goodwill	261600
Current Assets		Nil
	and box shill the granging age	comments of the habilities and assets of the holding
Total	a server a server and server have	1737600

#### **Notes to Accounts**

Note No.	Particulars	as tenule 0008s 0008	1 (000) 1 (1000)	Amount (Rs.)
1.	Share Capital	ames read 1000 or 10008	1,00000	(200.)
	Issued and Subso			ANTIGERY ME T
	120000 Equity sl	hares of Rs. 10 each		1200000
2.	Reserves and Sui	rplus		
	Profit and Loss A	A STATE OF THE STA		Mark State of the
	H Ltd.	120000		you what similar
	S Ltd.	28800		1.40000
	General Reserve			148800
	H Ltd.	120000		a second
	S Ltd.	19200		120200
				139200
	WINDLESS A TOTAL OF	THE PERSON IN THE PROPERTY.	THE RESERVE OF THE PROPERTY OF THE PARTY OF	288000

#### Working Notes:

Calculation of Capital Profit in S Ltd.:

Profit and Loss Account balance on 01/01/2014	Rs.
General Reserve	12000
Capital Profit	36000
Characterist and the state of t	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. 36000

H 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.	1 - 11/2/14/20	9 114	assets	780000
Less: Face value of shares in S Ltd.		and the	480000	
Capital Profit		alega	38400	518400
Goodwill			48000	261600

#### Calculation of Minority Interest:

THE GIVEN THE PROPERTY OF THE	Rs.	Rs.
Paid up value of Shares held by outsiders in S Ltd.	11 1111111	120000
Add: Share of capital profit due to Outsiders in S Ltd.	9600	believer, the
Share of revenue profit due to Outsiders in S Ltd (7200+4800)	12000	21600
Minority Interest		141600

*Illustration 7:* The liabilities and assets of the holding company H Ltd. and its subsidiary S Ltd. as on 31<sup>st</sup> December 2014 are as follows:

Liabilities	H Ltd.	S Ltd.	Assets	H Ltd.	S Ltd.
will continue to appe	Rs.	Rs.	or Ungocompany, artural city	Rs.	Rs.
Share Capital:	plymen	to an own	Sundry Assets	48000	30000
Shares of Re. 1 each	30000	15000	Investments:	by to the	
Profit and Loss Account	12000	5400	15000 shares in S Ltd.	18000	
General Reserve	15000	116y la <u>u.15</u> (	balance Sheet All Like how	Charles House	
Current Liabilities	9000	9600	12000	had B	
adding there's Liberary	66000	30000	must be the companied by the co	66000	30000

H Ltd. acquired the shares in S Ltd. on 30<sup>th</sup> June 2014. On 1<sup>st</sup> January 2014 the Balance Sheet of S Ltd. showed a loss of Rs. 9000, which was written off out of profit earned during the year 2014. Profits are assumed to accrue evenly throughout the year. 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	The Called Longs of F100 and	(100.)
Shareholders' Fund	eka Siramawagawa di arok a	at the later of

a. Share Cap	ital	# Rs. 28800	A40810009	30000
b. Reserves a	and Surplus		2	34200
<b>Current Liab</b>	oilities		m S Lin	Stabisting
H Ltd.	9000	00-36000) = 24000	esserve (600	Ipto Innount 19
S Ltd.	9600	E Ru 19200	4008x0004	18600
			n State	embia and T
Total	ate service due to Caraigo		Hiwbs	82800
B. Assets				
Non-current	Assets		PULS.	ost of Shares in
<b>Fixed Assets</b>			in estade b	cas: Face value
	ets – Sundry Assets			Capital Profi
H Ltd.	48000			nodwall
S Ltd.	30000			78000
Intangible A	ssets - Goodwill	100000 RBS and segment	sority Intere	4800
Current Asse	ets	ev entsiders in S Ltd.	h lan sound	Nil
		se to Outsiders in S Ltd.		
Total	12000	is to Outsidors in S Ltd (7200		

#### Notes to Accounts

Note No.	Particulars	:aw	are as follow	er 2014	Amount (Rs.)
1: 1	Share Capital Issued and Subscribed	ima o Ra	101.141		ROMINOUS.
	30000 Equity shares of Re. 1 each				30000
2.	Reserves and Surplus Profit and Loss Account: H Ltd. 12000		(2000 (5000 9000		Profit and Loss A General Reserve Current Liabilities
	S Ltd. 7200				19200
1 11 21	General Reserve				15000 <b>34200</b>

#### Working Notes:

Calculation of Revenue Profit in S Ltd.:

The state of the s	Rs.
Profit and Loss Account balance on 31st Dec 2014	5400
Add: Loss written off during the year 2014	9000
Total Profit in 2014	14400

Profit before  $30^{th}$  June 2014 (Capital Profit) = 14400x1/2 = Rs. 7200

Profit after 30<sup>th</sup> June 2014 (Revenue Profit) = 14400x1/2 = Rs. 7200

~		0	~		T
Calcul	ation	ot	(Car	oital	Profit:

nobres Toolegamen	002528 002500 A02500 R
Profit upto 30 <sup>th</sup> June 2014	720
Less: Capital Loss on 1st Jan 2014	000 red at guired 7500 shares in S Ltd. on 1st C
Net (Capital) Loss	180
of 12500 shares 3 600mid	Ar holdings by H Ltd.in S Ltd. = 7500 shares out
Calculation of Goodwill:	fied by S.Ltd. Prepare the Consolidated Balance Sl
Cost of Shares in S Ltd.	0.081 totaling by Outsiders in S Ltd. = 5000 shares
T C 1 C T / 1	0021 onsolidated Balance Sheet of H Ltd.
	300 as on 31 <sup>th</sup> March
	the state of the s
Add: Capital Loss  Goodwill	180

#### **Elimination of Inter-company Transactions**

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 31<sup>st</sup> March 2014 are as follows:

Liabilities	H Ltd.	S Ltd.	Assets	H Ltd.	S Ltd.
<ul> <li>Cappulation of Representate</li> </ul>	Rs.	Rs.	00000	Rs.	Rs.
Share Capital:			Land and Building	150000	
Shares of Rs. 10 each	500000	125000	Plant and Machinery	I was to a St. of a	
General Reserve	75000	25000	lessdepreciation	500000	A major risk
Profit and Loss Account			Furniture	22500	25000
(01/04/2013)	100000	50000	Investments:		
Profit and Loss Account		Andrew Co.	7500 shares in S Ltd.	162500	into
(31/03/2014)	125000	62500	Stock	100000	187500
Sundry Creditors	75000	75000	Sundry Debtors	25000	70000
Bills Payables	37500		Bills Receivables		25000

Bank Overdraft	50000		Bank Balance Cash in Hand	2500	26250 3750
Managaria of antonically are a	962500	337500		962500	337500

H Ltd. acquired 7500 shares in S Ltd. on 1<sup>st</sup> 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	The bearing and the same of the	A SHEET STATE	And The Manager
Shareholders' Fund			
a. Share Capital		r wins Janis	500000
b. Reserves and Surplus		2	318750
Minority Interest		natio lagricio	105000
Current Liabilities		ledge sitt beg	granginos neit.
a. Trade Payables		3	147500
		North Courter	50000
5. Built Overture	tent in moldsbook mongelity	1 215 V 1 1 1 1 4	30000
Total Shakes and American		that excuber	1121250
		tid - samuls	SA TOP A TOP A CO
B. Assets		and the state of	Speciments.
Non-current Assets		at organism of sign	tillas Hai
Fixed Assets	vanion, to an obligible (i.e. busy	in ord whome	aviot in
a. Tangible		4	697500
			23750
Current Assets	a lightliny in the belance six	ta bas amod	23730
Stock:			
H Ltd.	100000	Stunning of a	Charlest F
S Ltd.	187500		287500
Sundry Debtors:			207300
H Ltd.	25000	DESTRUCTION AND AND	Parent L
S Ltd.	<u>70000</u>		
	95000		Southful 1
Less: Inter-company debt	<u>15000</u>		80000
Bills Receivables (25000 – 25000)	Juni marris non common		The state of the s
Cash and Cash Equivalents		5	Nii 32500
		The state of the s	32300
Total		un region se	TO THE TANK THE
were object to the state of the	AND ARREST AND ARREST AND ARREST	A The Street	1121250

#### Notes to Accounts | (1949) | 10 yo langon A 220 | ban in

Note No.	Particulars	Children II and the second	Amount (Rs.)
1.66	Share Capital	ofit due to H Ltd 106250x	are of capital an
le .	Issued and Subscribed		17.1
	50000 Shares of Rs. 10 each	His ligar a Outsidos in State	500000
2.	Reserves and Surplus		era Luini
	General Reserve	III Who	75000
	P & L A/c	Self 18 Year of the Property and	243750
		Di. C	318750
3.	Trade Payables	Mingestors that crops and	o gones agency
	Sundry Creditors:		Lapital Profit
	H Ltd.	75000	HIMBO
	S Ltd.	<u>75000</u>	1
Shinad	I aldress he branch is a but wisport into	150000	a the bar and distant
	Less: Inter-company debt	15000	135000
	Bills Payables:		1 Variation of the latest
	H Ltd.	37500	d un value of
	Less: Inter-company acceptance	<u>25000</u>	12500
	2114 10110	us profit due to Omsiders in	147500
			torio Interest
4.	Fixed Assets – Tangible		
	Land & Building		150000
	Plant & Machinery less depreciation	n	500000
	Furniture:	count balance (19000021250	filand Loss Ac
	H Ltd.	22500	C.Revenue Pro
	S Ltd.	<u>25000</u>	47500
			697500
L. Director	LI MARKETON		
5.	Cash and Cash Equivalents		realised Profit
	Cash in Hand		
	H Ltd.	2500	
	S Ltd.		
	Bank Balance		
ton at it is	ds romains unrealised. In such a one	the company on unsold go	32500

# Working Notes:

Calculation of Revenue Profit in S Ltd.:

obtlines and sately of the holding company $\Pi$ Ltd. and its sposiding $g(x)$	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)	with the same of the same	31250
General Reserve	Santro 1100	25000
Capital Profit	and the second second second second second	106250
Share of capital profit due to H Ltd. = 106250x60% = Rs. 63750	1811GLU STREET	g and
Share of capital profit due to Outsiders in S Ltd. = 106250x40% =		
Calculation of Goodwill:	Resident Francisco	Sammer.
and the property of the point of the property	Rs.	Rs
Cost of Shares in S Ltd.	11/003	162500
Less: Face value of shares in S Ltd. (7500x10)	75000	
Capital Profit	63750	138750
Goodwill  Calculation of Minority Interest:	S Lide S Lide Tri 19 Miles Comm	23750
75000	11 td S Ltd. 12 to 12 Less Inter-comp	23750
Calculation of Minority Interest:	Rs.	
Calculation of Minority Interest:  Paid up value of Shares held by outsiders in S Ltd. (5000x10)	b月 月	23750 Rs 50000
Calculation of Minority Interest:  Paid up value of Shares held by outsiders in S Ltd. (5000x10)  Add: Share of capital profit due to Outsiders in S Ltd.	42500	Rs
Calculation of Minority Interest:  Paid up value of Shares held by outsiders in S Ltd. (5000x10)  Add: Share of capital profit due to Outsiders in S Ltd.  Share of revenue profit due to Outsiders in S Ltd	b月 月	Rs
Calculation of Minority Interest:  Paid up value of Shares held by outsiders in S Ltd. (5000x10)  Add: Share of capital profit due to Outsiders in S Ltd.	42500	Rs 50000
Calculation of Minority Interest:  Paid up value of Shares held by outsiders in S Ltd. (5000x10)  Add: Share of capital profit due to Outsiders in S Ltd.  Share of revenue profit due to Outsiders in S Ltd	42500	Rs 50000
Calculation of Minority Interest:  Paid up value of Shares held by outsiders in S Ltd. (5000x10)  Add: Share of capital profit due to Outsiders in S Ltd.  Share of revenue profit due to Outsiders in S Ltd  Minority Interest  Calculation of P & L A/c balance in Consolidated Balance Sheet:	42500	Rs 50000 55000 105000
Calculation of Minority Interest:  Paid up value of Shares held by outsiders in S Ltd. (5000x10)  Add: Share of capital profit due to Outsiders in S Ltd.  Share of revenue profit due to Outsiders in S Ltd.  Minority Interest  Calculation of P & L A/c balance in Consolidated Balance Sheet:  Profit and Loss Account balance (100000+125000)	42500	Rs 50000
Calculation of Minority Interest:  Paid up value of Shares held by outsiders in S Ltd. (5000x10)  Add: Share of capital profit due to Outsiders in S Ltd.  Share of revenue profit due to Outsiders in S Ltd  Minority Interest  Calculation of P & L A/c balance in Consolidated Balance Sheet:	42500	Rs 50000 55000 105000

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 31<sup>st</sup> December 2014 are as follows:

Liabilities	H Ltd.	S Ltd.	Assets	H Ltd.	S Ltd.
MARK CITATION TO ALCOHOL	Rs.	Rs.	CAMPBELL TO SERVICE STREET	Rs.	
Share Capital:			Buildings	112500	Rs.
Shares of Rs. 10 each	250000	75000	Plant and Machinery	87500	30000
Profit and Loss Account	75000	43750	Furniture	20000	40000
General Reserve	100000	31250	Investments:	20000	7500
Sundry Creditors	25000	17500	5000 shares in S Ltd.	65000	
			Jan D Ditti.	1 03000	

117500			Sundry Debtors	75000	42500
Productions Addougl	er 15 Immuu	y 2014	Stock	80000	40000
Ciencrae Reserve			Cash	10000	7500
Condestilente	450000	167500	7500	450000	167500

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

- (a) H Ltd. acquired the shares in S Ltd. on 1<sup>st</sup> 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 = 1/3

Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd.

000/11/2	as on	31 December 2014		D. J. E. 25000
Particulars		oldigna	Note No.	Amount (Rs.)
A. Equity and Liabilities	12500		H Ltd.	
Shareholders' Fund			S Ltd.	
a. Share Capital			1	250000
b. Reserves and Surplus			Mon2 35 m	207000
Minority Interest			bid F	50000
The state of the s			bill 8	10667
Current Liabilities				
Sundry Creditors:			toution.	need Fun
H Ltd.	25000		T. Chill	SOME
S Ltd.	17500		bill 8	42500
Total				549500
B. Assets				e se de la company de la compa
Non-current Assets			Penya Profit	all to nontalend
Fixed Assets			Loss, Acces	bus House Car.
a. Tangible			3	297500
b. Intangible			\$1000x2/3.5	Nil
Current Assets			S. RET 9	Cursiders
Stock:			TORKY OF THE	WIND IN DUCK
H Ltd.		80000	Catty ovince	A Limonnio Lina
S Ltd.		40000	TA CHOREL	A KITA
120000			in S Lid of	Considera
Less: Unrealised Profit(Stock)	Reserve)	<u>3000</u>		117000
Sundry Debtors:			1 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7 7	Carlo de la Carlo de Participa de Carlo
H Ltd.		75000	Morff lang	leulation of Ca

S Ltd.	42500	a loanest my land and a land	117500
Cash and Cash Equival	ents – Cash in Hand		to Manager and Manager
H Ltd.	10000		lal
S Ltd.	7500	1 1,00905 1	17500
		was not a find that	along and a of sa
Total	Luci at Salloure c		549500

#### **Notes to Accounts**

Note No.	Particulars	nd General Reserve Were Rs. 1 000 held by S Ext. Thelbook 1	Amount (Rs.)
1:	Share Capital Issued and Subscribed 25000 Shares of Rs. 10 each	Japan no wes an more I stock Stills Receivable (16.4	250000
2.	Reserves and Surplus Capital Reserve	Ltd.in S Ltd. = 5000 shares oil	10833
	0 10		10==00
	P & L A/c	Edgised Balance Sheet of H Lig	88667
	to the control of the		207000
3.	Fixed Assets – Tangible Buildings:		<b>北京(3</b> 6)
	H Ltd.	112500	nulda L'hoa viino l
	S Ltd.	<u>30000</u>	142500
	Plant & Machinery:		Sings Capital Reserves and Sumb
	H Ltd.	87500	morney interest
	S Ltd.	<u>40000</u>	127500
	Furniture:		arrent transmittes
	H Ltd.	20000	La I H
	S Ltd.	<u>7500</u>	27500
13 892875			297500

#### Working Notes:

Calculation of Revenue Profit in S Ltd.:

(a) Profit and Loss Account (43750-18750) = Rs. 25000

H 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.:

Profit and Loss Account on 1 <sup>st</sup> January 2014	arr emone ar	Rs. 18750
Congral Deserve	doud Binshin	20000
Canifal Profit	Aughin affin	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. 12	iliduil off AA 917 <sup>©</sup> radmaa	
Calculation of Capital Reserve:	Pills	OBL T
Cost of Shares in S Ltd.  Less: Face value of shares in S Ltd. (5000x10)  Capital Profit	Solution Rs. 50000 25833	Rs. 65000
Capital Reserve	AT SERVE D	10833
Calculation of Minority Interest:		near Resolution
Paid up value of Shares held by outsiders in S Ltd. (2500x10)  Add: Share of capital profit due to Outsiders in S Ltd.	Rs. 12917	Rs. 25000
Add. Share of the property of the state of t	12083	25000
Share of revenue profit due to Outsiders in S Ltd (8333+3750)		
Share of revenue profit due to Outsiders in S Ltd (8333+3750)	Action to the second second	50000
Share of revenue profit due to Outsiders in S Ltd (8333+3750)  Minority Interest  Calculation of P & L A/c balance in Consolidated Balance Sheet:		H Like specification of the Commentum of
Minority Interest  Calculation of P & L A/c balance in Consolidated Balance Sheet:		Rs
Calculation of P & L A/c balance in Consolidated Balance Sheet:  Profit and Loss Account balance of H Ltd.	ations all to the Edward Edwar	Rs. 75000
Minority Interest	ations all to the Edward Edwar	
Calculation of P & L A/c balance in Consolidated Balance Sheet:  Profit and Loss Account balance of H Ltd.	e of he Capita buselidated B	Rs. 75000 16667 91667

## Calculation of General Reserve balance in Consolidated Balance Sheet:

the state of the s	KS.
General Reserve balance of H Ltd.	100000
Add: General Reserve balance of H Ltd. in S Ltd.	7500
General Reserve Balance	107500
Oche,	

# **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 effect in 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 including company's share in the post-acquisition profit. It will affect the cost of goodwill.

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

Liabilities	H Ltd.	S Ltd.	Assets	H Ltd.	S Ltd.
10039	Rs.	Rs.	(44)	Rs.	Rs.
Share Capital: 120000 Shares of Rs.			Fixed Assets Investments:	506000	256000
5 each	600000	***************************************	12000 shares in S Ltd.	200000	Tier and the
16000 Shares of Rs. 10			Stock	60000	20000
each		160000	Bills Receivables (Incl.	indicate and a second	
Capital Reserve		68000	2000 from S Ltd.)	4000	
General Reserve	40000	20000	Bank	40000	34000
Profit and Loss Account	100000	20000			34000
Bills Payables (Incl. Rs.					
2000 to H Ltd.)	(	7000	held by outsiders in S Ltd	established !	
Sundry Creditors	70000	35000	of the dwe to Opter decision S.	g Lagges 4	
WORLD FROST	810000	310000	er in Problem On public	810000	310000

H Ltd. acquired 12000 shares of Rs. 10 each from S Ltd. on 31<sup>st</sup> 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

	o beliance in Convolidated Bala	Note No.	Amount (Rs.)
A. Equity and Liabilities Shareholders' Fund a. Share Capital b. Reserves and Surplus Minority Interest	ni Shelisyaka bali sini bidi Hans Shelisyaka	1 2	600000 141000 67000
	0000 5000	mod sik z mod sik z mon spinir	105000 5000
Total  B. Assets	out of Capital Profit or Pre- information of accounts.	Armani aya Tarahin	918000

Non-curre Fixed Asse		Capital Prof.
a. Tangibl		762000
b. Intangil	Nil	
Current A	ssets to teleficial state and the set of the	leulation of M
Stock: H Ltd.	60000	
S Ltd.	20000 pled against	80000
Bills Rec	eivables (4000 – 2000)	2000
	Cash Equivalents – Bank	3 2 3 154
H Ltd. S Ltd.	40000 34000 builded a	7/1000
S Liu.	er 2014 and as follows:	74000
Total	The second of the second secon	918000
	Total H Local Association of the Little H	continuital
a bld c	Notes to Accounts	1002101
Note No.	Particulars	Amount (Rs.)
1.	Share Capital	01.821 to sprud
	Issued and Subscribed 12000 Shares of Rs. 5 each	600000
2.	Reserves and Surplus	000000
	Capital Reserve	1000
	General Reserve	40000
	P & L A/c	100000
	e of acquisition of shares in S Ltd. by H Ltd., S Ltd. had a Clane	141000
3.701	Fixed Assets – Tangible	1000 01 10 7011
orte oringer	H Ltd. 506000	
	S Ltd. <u>256000</u>	762000
		Wilon
	all and Cash Rout Salents	TO SHIP THE

alculation of	Capital 1101	II III S Liu	
areas			
the state of the s	A		

	KS.
Profit and Loss Account	20000
General Reserve	20000
Capital Reserve	68000
Capital Profit	108000
Capital 170/11 54 1-4- 11 141 - 100000-750/	- Da 91000

Share of capital profit due to H Ltd. = 108000x75% = Rs. 81000

Share of capital profit due to Outsiders in S Ltd. = 108000x25% = Rs. 27000

Calculation	of	Ca	pital	Reserv	ve:
( alcillation	-				

Calculation of Cupital Account	Rs.	Rs.
Cost of Shares in S Ltd.		200000
Cost of Shares in S Ltd. (12000x10)  Less: Face value of shares in S Ltd. (12000x10)	120000	
Less. Pace variety		

Capital Profit	81000	201000
Capital Reserve	1300	1000
		Tat white
Calculation of Minority Interest:		tere immi
1968/00		1(1)
Paid up value of Shares held by outsiders in S Ltd. (4000x10)	ks. 42300	Rs. 40000
Add: Share of capital profit due to Outsiders in S Ltd.	4000 - 1	27000
Minority Interest	9	67000

*Illustration 11:* The liabilities and assets of the holding company H Ltd. and its subsidiary S Ltd. as on 31<sup>st</sup> 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 each General Reserve Profit and Loss Account Sundry Creditors	300000 75000 37500 37500	75000 30000 22500 7500	Fixed Assets Investments: 6000 shares in S Ltd. Current Assets	75000 112500	75000
2000	450000	135000	DVII)	450000	135000

On the date of acquisition of shares in S Ltd. by H Ltd., S Ltd. had a General Reserve balance of Rs. 30000. S Ltd. capitalised Rs. 15000 out of profit earned after acquisition of its shares by H Ltd. by making a bonus issue of one share for every five shares held. Prepare the Consolidated Balance Sheet.

#### Solution:

Share of holdings by H Ltd.in S Ltd. = 6000 shares out of 7500 shares = 80%

Share of holdings by Outsiders in S Ltd. = 1500 shares out of 7500 shares = 20% Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd.

Particulars	as on 31 <sup>st</sup> December 2014	Note No.	Amount (Rs.)
A. Equity and Liabilities Shareholders' Fund	Charles (but Smark Mark)	Mayon	(TCS.)
<ul><li>a. Share Capital</li><li>b. Reserves and Surplus</li></ul>		1 2	300000 139500
Minority Interest		or all rits	25500
Current Liabilities Sundry Creditors:		ai-mirata	a laneaum.
H Ltd. S Ltd.	37500 7500	ritio S Spor	45000
Total		6	45000
	Control of the Contro	Lin zyrude)	510000

B. Assets Non-current Assets	(\$908xJ00c)	of Ponus Shares (	
Fixed Assets a. Tangible	Section of the sectio	3	337500 Nil
b. Intangible		and the second	IVII
Current Assets H Ltd. S Ltd.	112500 	furps held by our. some people lace to full profile fire to C	172500
Total	the second of the second of the	(600 5011008) 118	510000

BT-400	to	Accounts
Notes	w	Accounts

Note No.	Particulars	neets and blabilities	Amount (Rs.)
1. To pmi) o	Share Capital Issued and Subscribed 30000 Shares of Rs. 10 each	the fixed assets of salasdans	300000
2.	Capital Reserve	of holding chimping in covaluation	21000
	General Reserve	e goodwijk. The new lunden proffs outs interest The sharefol receip	75000 43500
rasiders in	since to receive in a cost of the prince of		139500
3.	Fixed Assets – Tangible H Ltd. S Ltd.	262500 <u>75000</u>	337500
	and the second of the second of the second	later 21. The grober 2016.	D. I.S. Visibil

Working Notes:
Calculation of Revenue Profit in S Ltd.:

Rs.
22500
15000
7500

Share of revenue profit due to H Ltd. = 7500x80% = Rs. 6000

Share of revenue profit due to Outsiders in S Ltd. = 7500x20% = Rs. 1500

Calculation of Capital Profit in S Ltd.:

General Reserve = 30000

Share of capital profit due to H Ltd. = 30000x80% = Rs. 24000

Share of capital profit due to Outsiders in S Ltd. = 30000x20% = Rs. 6000

Calculation of Capital Reserve:

Calculation of	Rs.	Rs.
at as in S I td	The state of the s	75000
Cost of Shares in S Ltd.  Cost of Shares in S Ltd. (6000x10)	60000	
Face value of shares in 5 Land	24000	
Capital Profit		

T 1 CD 01 (15000 000)	dramatic entraction	
Face value of Bonus Shares (15000x80%)	12000	96000
Capital Reserve	230244 1	21000
Calculation of Minority Interest:	1100 6 3 6 3 6 3 7	(13776, 33)
1 MV 2 CA Commence of the Comm	2017	and anis.
Paid up value of Shares held by outsiders in S Ltd. (1500x10)	82 10	Rs.
Add: Share of revenue profit due to Outsiders in S Ltd.	1500	15000
Share of capital profit due to Outsiders in S Ltd.	6000	
Bonus Shares (15000x20%)	3000	10500
Minority Interest		25500

#### 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 outsiders in 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 subsidiary company.

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.	S Ltd.	Assets	H Ltd.	S Ltd.
2. 10. 75645.8	Rs.	Rs.		Rs.	Rs.
Share Capital: Shares of Re. 1 each General Reserve Profit and Loss Account	300000 120000	240000 60000	Investments: 192000 shares in S Ltd. Other Assets	210000 300000	330000
(Current Year)	90000	30000	And the second second second second		
	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 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	The second secon	Note No.	Amount
A. Equity and Liabilities			(Rs.)
Shareholders' Fund		LLET	Hire will and the
a. Share Capital	100 (100 (100 (100 (100 (100 (100 (100	the section of	Shalin Massalla
		1	300000

b. Reserves and Surplus	2	295800
<b>Minority Interest</b>	cintion on Furniture (15000x5%)	73950
<b>Current Liabilities</b>	ANY 1875 TANKS OF BUILDING STREET, AND STR	Nil
Current Liabilities	000 40001 - 24000	I III
Total	officie to H Ltd. = 24750x\$276 = R8 19800	669750
B. Assets	rotacine to Outsidors in \$140 = 24750x 20% = 13	in material de pau
Non-current Assets	Commence of the contract of th	the sale fitting
Fixed Assets	Chil S r thost lai	258750
a. Tangible		Nil
b. Intangible	137(14)	Domit Mckerys
Current Assets	1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	dalalation Profit
Other Assets		411000
Total		669750

		TATE OF STREET	4
Notes	to	Accou	ints

Note No.	Particulars	but the to Outsiders in S Li	Amount (Rs.)
1.	Share Capital	a covine fi telic	culmion of Ca
	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
	Projection (1) and an include the		295800
3.	Fixed Assets – Tangible	216000	il. To nelzalno
	Plant and Machinery of S Ltd. Furniture of S Ltd.	42750 42750	258750
	the residence of the same of t	hores held-by-outsidens mith	d up Value offs

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	45000

## Calculation of Revenue Profit in S Ltd.:

	Rs.
Profit and Loss Account balance for the year	30000
Less: Additional Depreciation on Plant & Machinery (60000x10%)	6000

Add: Excess Depreciation on Furniture (15000x5%)	defus bur	24000 750
Revenue Profit	1,000	24750
		OF THE PARTY
Share of revenue profit due to H Ltd. = $24750x80\%$ = Rs. 19800		
Share of revenue profit due to Outsiders in S Ltd. = 24750x20% = Rs. 495	50	
Calculation of Capital Profit in S Ltd.:	Assets	
General Reserve		Rs.
Revaluation Profit	100	60000
	100	45000
Capital Profit		105000
Capital Projit		105000
62,599		105000
68,899		105000
Share of capital profit due to H Ltd. = 105000x80% = Rs. 84000	000	105000
Share of capital profit due to H Ltd. = 105000x80% = Rs. 84000  Share of capital profit due to Outsiders in S Ltd. = 105000x20% = Rs. 210	000	orar c No.
Share of capital profit due to H Ltd. = 105000x80% = Rs. 84000  Share of capital profit due to Outsiders in S Ltd. = 105000x20% = Rs. 210  Calculation of Capital Reserve:	Rs.	No. [1]
Cost of Shares in S Ltd.	Rs.	Rs.
Share of capital profit due to H Ltd. = 105000x80% = Rs. 84000  Share of capital profit due to Outsiders in S Ltd. = 105000x20% = Rs. 210  Calculation of Capital Reserve:  Cost of Shares in S Ltd.  Less: Face value of shares in S Ltd.	Rs. 192000	Rs.
Share of capital profit due to H Ltd. = 105000x80% = Rs. 84000  Share of capital profit due to Outsiders in S Ltd. = 105000x20% = Rs. 210  Calculation of Capital Reserve:  Cost of Shares in S Ltd.	Rs.	Rs. 210000 276000
Share of capital profit due to H Ltd. = 105000x80% = Rs. 84000  Share of capital profit due to Outsiders in S Ltd. = 105000x20% = Rs. 210  Calculation of Capital Reserve:  Cost of Shares in S Ltd.  Less: Face value of shares in S Ltd.	Rs. 192000	Rs. 210000 276000 66000

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

## Plant and Machinery of S Ltd.:

	A COLUMN TO THE STREET OF THE
Plant and Machinery	Rs.
Less: Depreciation @ 10%	240000
Plant and Machinery of S Ltd.	24000
	216000

## Furniture of S Ltd.:

Furniture	Taffol agognay esemplicated agona to applicate	Rs.
		45000

Less: Depreciation @ 5%	1250	2250
Furniture of S Ltd.	narel of had	42750
Other Assets in Consolidated Balance Sheet:	has been declared	bnabiyib o
Total Other Assets as per Balance Sheet Less: Plant and Machinery (180000 – Depn. 18000)	162000	Rs. 330000
Furniture (60000 – Depn. 3000) Other Assets	57000	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 of paid up value of shares held (including arrears of dividend accrued to the date of consolidation). If the balance sheet of the subsidiary company shows debit balance of profit and loss account, preference shareholders are not required to bear the proportionate 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 H Ltd. and its subsidiary S Ltd. as on 31<sup>st</sup> December 2014:

Liabilities	H Ltd.	S Ltd.	Assets	H Ltd.	S Ltd.
	Rs.	Rs.	Surplus Assert	Rs.	Rs.
Share Capital:			Fixed Assets	1000000	150000
12500 Equity Shares of	PARTON		Investments:	130000	I have
Rs. 100 each	1250000		10000 Equity Shares	AN AND DESIGN	1,5000
12500 Equity Shares of			in S Ltd.	125000	12000
Rs. 10 each		125000	Current Assets	312500	81250
6250, 8% Preference	and the second s				alama alama
Shares of Rs. 10 each	1	62500			
General Reserve	125000	25000			and market and
Sundry Creditors	62500	12500		51.12 of 18	mer a ginnio
Dividend due on	TO DO THE		02/18/1-00	nec a sura	will be to be
Preference Shares	1,77,87,71	6250	n>ca	a II a	CHANGE COLONIA
	1437500	231250	opyrizea a first beautiful	1437500	231250

S Ltd. had Rs. 18750 in general reserve as on the date of acquisition on 1<sup>st</sup> 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 31<sup>st</sup> December 2014

Particulars	Note No.	Amount (Rs.)
A. Equity and Liabilities	to great the second process the second company of the second compa	
Shareholders' Fund		160
a. Share Capital		1250000
b. Reserves and Surplus	Leading and the second	130000
Minority Interest		98750
Current Liabilities	the Molding company takes the	Sometime
Sundry Creditors:	of afrombovni hond our volvin a	worlde H., vinschin
H Ltd. 62500	shared hire sures with an ortal dense.	withman at the
0.141 10500	modulate a moralism of descent	75000
Total	Religio 10 Fini indue at r	eferenci Shar
B. Assets		1553750
Non-current Assets		
Fixed Assets	3 Bonn fort The sin ton accounts.	a) Preferent
a. Tangible	ada graups to agamient to as a sale	1150000
b. Intangible - Goodwill	North and the second thoughtness	1150000
Current Assets	s spends I will be the Outstates	10000
	e de cute bestones included austin	And 13/3/17 (4)
S Ltd. 81250	If to enormoundation of the come	202550
and has their to appelled that a real-		393750
Total	once specific artificial specification of the control of the contr	1553750
	AND A STORE THE RESIDENCE OF THE SECOND STREET, AND ASSESSED.	1000/30

#### Notes to Accounts

Note No.	Particulars	Amount
1.	Share Capital	(Rs.)
	Issued and Subscribed 12500Equity Shares of Rs. 100 each	
2.	Reserves and Surplus	1250000
	General Reserve (125000+5000)	130000
3.	Fixed Assets – Tangible	Manage of Street, other
	H Ltd. 1000000	of day (AO)
	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:

The same of the sa	Rs.	Rs.
Cost of Shares in S Ltd.	Daniel Front	125000
Less: Face value of shares in S Ltd. (10000x10)	100000	
Capital Profit	15000	115000
Goodwill	the one	10000

Calculation of Minority Interest:

Paid up value of Shares held by outsiders in S Ltd. (2500x10)		Rs. 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	1300038101	98750

*Illustration 14*: The following are the liabilities and assets of the holding company H Ltd. and its subsidiary S Ltd. as on 31<sup>st</sup> December 2014:

Liabilities	H Ltd.	S Ltd.	Assets	H Ltd.	S Ltd.
840000	Rs.	Rs.		Rs.	Rs.
Share Capital:	TIME TO BE		Fixed Assets	375000	210000
60000 Equity Shares of		Mann fit	Investments:	Town Town Street	
Rs. 10 each	600000	section in	Shares in S Ltd.	150000	
7500 Equity Shares of			Sundry Debtors	135000	15000
Rs. 10 each	The second second	75000	Bank	90000	15000
7500, 8% Preference			y Shares of Rs. 10 onell	n spanned in the spanned in	
Shares of Rs. 10 each		75000	d Starpins	ene ya viansil	
General Reserve			2VIII	Capron Ray	
(on 01/01/2014)	75000	45000	o Company	alan misnoc	
Profit and Loss Account	30000	15000	parties array or heavy of the same carry of the same	HAN WAS TO THE	
Sundry Creditors	30000	30000	and one T	STREET A SECTO	
Bank Overdraft	15000	e letrismo a	concernation of the	te Chex m	
Daine O veraner	750000	240000	210000	750000	240000

On 1st January 2014 H Ltd. acquired 80% of both the equity shares and preference shares at a total cost of Rs. 150000. S Ltd. had a profit of Rs. 7500 in profit and loss account on 1st January 2014. Dividend for the year 2014 is still to be paid. Prepare the Consolidated Balance Sheet.

Solution:

Share of holdings by H Ltd.in S Ltd. = 80%

Share of holdings by H Ltd.in S Ltd. = 80%
Share of holdings by Outsiders in S Ltd. = 20%
Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd.
as on 31<sup>st</sup> December 2014

Particulars			Note No.	Amount (Rs.)
A. Equity and Liabilit Shareholders' Fund a. Share Capital b. Reserves and Surpl Minority Interest		lec this method see the see the see that is seen to the see the see that is seen to the see the see that is seen to the seen that is seen to the seen	1 2	600000 123000 42000
Current Liabilities Sundry Creditors: H Ltd. S Ltd. Bank Overdraft	30000 30000	kem over hvi transmit i virk over hider die gegegen i die the ge na 1880 was den mondiere i skriveren nagen nast		60000 15000
Total			a State A state to	840000
B. Assets			Infact Indian	
Non-current Assets Fixed Assets			Bonnik .	reserved to the Di
a. Tangible b. Intangible			3	585000 Nil
Current Assets Sundry Debtors:			nothing by l	
H Ltd.	135000			AND DIVIDED BY TOO
S Ltd.	15000	the time that he have affects at	in Salahan	150000
Cash and Cash Equiva H Ltd.		nk:	arrive Hall &	
S Ltd.	15000		G RIE no sa	105000
			126-1-102-1-1	10000
Total	oure will in	PRA TO THE PROPERTY OF THE PARTY.		840000

Notes to Accounts					
Note No.	Particulars	_u000000 a	Amount (Rs.)		
12000	Share Capital Issued and Subscribed 60000Equity Shares of Rs. 10 each		600000		
2.	Reserves and Surplus Capital Reserve General Reserve P & L A/c		12000 75000 36000		
3.	Fixed Assets – Tangible H Ltd. 375000		123000		
Open.	S Ltd. 210000	11/109025	585000		

### 

Calculation of Revenue Profit in S Ltd.:

dated balance sheet which concern in histories either	Rs.
Profit and Loss Account (15000-7500)	7500
Less: Preference Share Dividend (75000x8%)	6000
Revenue Profit	1500

Share of revenue profit due to H Ltd. = 1500x80% = Rs. 1200

Share of revenue profit due to Outsiders in S Ltd. = 1500x20% = Rs. 300

Calculation of Capital Profit in S Ltd.:

TO THE BURNEY OF THE PARTY OF T	DELINATED OF THE STATE OF THE S	- Harris and the large	Rs.
General Reserve			45000
P & L Account		00000-5	7500
Capital Profit	00000 Curwent Assets		52500

Share of capital profit due to H Ltd. = 52500x80% = Rs. 42000

Share of capital profit due to Outsiders in S Ltd. = 52500x20% = Rs. 10500

Calculation of Capital Reserve:

000187   000	Rs.	Rs.
Cost of Shares in S Ltd.		150000
Less: Face value of equity shares in S Ltd. (75000x80%)	60000	152600
Face value of preference shares in S Ltd. (75000x80%)	60000	printing of
Capital Profit	42000	162000
Capital Reserve	ompany. Prepare th	12000

#### Calculation of Minority Interest:

Profit and Language matter 1978/1990/00 Callott bring with 1.2 miles	mhistnO vel sorih	Rs.
Paid up value of Shares held by outsiders in S Ltd.: Equity Shares (75000x20%)	15000	
Preference Shares (75000x20%)	15000	30000
Add: Share of revenue profit due to Outsiders in S Ltd.	300	
Share of capital profit due to Outsiders in S Ltd.	10500	
Dividend for Preference Shares (6000x20%)	1200	12000
Minority Interest	feto	42000

### Treatment of Dividend declared by Subsidiary Company

The dividend declared by the subsidiary can be taken in the financial statements as 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 the subsidiary 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 H Ltd. and it subsidiary S Ltd. as on 31<sup>st</sup> December 2014:

Liabilities	H Ltd.	S Ltd.	Assets	H Ltd.	S Ltd.
3 . 62	Rs.	Rs.		Rs.	Rs.
Share Capital:	- 191		Fixed Assets	240000	320000
24000 Equity Shares of			Investments:		
Rs. 10 each	240000		16000 Equity Shares	TOWN THE	
20000 Equity Shares of			in S Ltd.	208000	
Rs. 10 each	Charles also and	200000	Current Assets	16000	64000
General Reserve					01000
(on 01/01/2014)	48000	40000		10000	
Profit and Loss Account:	46 to 10 10 10 10 10 10 10 10 10 10 10 10 10	Tax I Are	108 x 0.0 € 7.0 = 10.7 1.1 € 1.0	an property	
Balance on 01/01/2014	16000	32000	e to Outsides in S Ltd	in ittera is	
Balance for 2014	120000	80000		THE PERSON NAMED IN	
Sundry Creditors	40000	32000		W Gregory	
R.S. L.A.	464000	384000		464000	384000

H Ltd. acquired 16000 shares of Rs. 10 each on 30<sup>th</sup> June 2014 for Rs. 208000 in 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.

Particulars			Note M	
			Note No.	Amount
A Tanitu and Tinkin		The T. C. I'll Sandaning As an	SHOW ONC.	(Rs.)
A. Equity and Liabili	ties			The Transporter
Shareholders' Fund			THE LATER OF	in Income
a. Share Capital			1	
b. Reserves and Surp	lus		2	240000
<b>Minority Interest</b>			2	257600
			the delication of	70400
<b>Current Liabilities</b>				
Sundry Creditors:				
H Ltd.	40000		continue year	Barren Commence

S Ltd.	32000		VOI DID HIG	72000
Total			emak Rustery	640000
B. Assets Non-current Assets	Cohirol Minere a	(or occat) but	Lid f shares in	ost of Shares in ess. Face value o
Fixed Assets a. Tangible b. Intangible		(38)	3	560000 Nil
Current Assets		1.5	(17) 10 m	b b
H Ltd. S Ltd.	16000 64000	ur assers of the host of	ocity/agerc	80000
Total			sares held b	640000

#### **Notes to Accounts**

Note No.	Particulars	1000 10000 Calling Ban	Amount (Rs.)
1.com	Share Capital	net reported by a partitle in	the second and the se
	Issued and Sub	scribed	
	24000Equity S	nares of Rs. 10 each	240000
2.	Reserves and S		Ne Account to 2014
	Capital Reserv	e food k suktooo:	57600
	General Reserve		48000
	P & L A/c		152000
	promoticated Bala		257600
3.	Fixed Assets -	angible	
	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.:

A CONTROL OF THE PROPERTY OF T	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. 22400

Calculation of Capital Reserve:

Cost of Shares in S Ltd.	Rs.	Rs. 208000
Less: Face value of shares in S Ltd. (16000x10)	160000	200000
Capital Profit	89600	
Dividend (16000x10x10%)	16000	265600
Capital Reserve		57600

#### Calculation of Minority Interest:

Paid up value of Shares held by outsiders in S Ltd.:		Rs. 40000
Add: Share of revenue profit due to Outsiders in S Ltd.	8000	10000
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:

P & L Account of H Ltd. on 01/01/2014	Rs. 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

## **REVIEW QUESTIONS**

## A. Short Answer Type questions

- 6. Define a holding company.
- 7. Define a subsidiary company.
- 8. What is a Consolidated Balance Sheet?
- 9. What do you mean by Minority Interest? 10. What do you mean by Pre-Acquisition Profits?
- 11. What is meant by Post-Acquisition Profit?

## **B. Short Essay Type Questions**

- 1. How would you ascertain the amount of minority interest?
- How would you ascertain the amount of
   Explain the treatment of debentures of the subsidiary company in consolidated balance

#### C. Essay Type Questions

- 1. Briefly explain the procedures to be followed in consolidation of accounts.
- 2. Write notes on the following terms:
  - a) Cost of Control
  - b) Minority Interest
  - c) Pre-Acquisition Profits
  - d) Post-Acquisition Profit

## D. Practical Problems

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

Liabilities	H Ltd.	S Ltd.	Assets	H Ltd.	S Ltd.
	Rs.	Rs.	202500 12500	Rs.	Rs.
Share Capital:			Fixed Assets	20000	12000
Equity Shares of Rs.10			Current Assets	23000	4000
Each	24000	10000	Cash and Bank	14000	2000
8% Preference Shares	s with our		phot show of avised limit	(III) Dell'An I	
of Rs. 10 each	8000	2000	d Balanco Sheet	omag idano	
Profit and Loss Account	5000	2000			A VON A
Sundry Creditors	20000	4000	eca ambasa, 60071 sy-	110 Lt Finth	DO DESCRIPTION
Sullary Creaters	57000	18000	sough sample pourprosu	57000	18000

H Ltd. acquired 90% of the equity shares of S Ltd. at Rs. 15 per share on 1<sup>st</sup> January 2015. Prepare the Consolidated Balance Sheet as on 1<sup>st</sup> January 2015.

(Answer: Goodwill – Rs. 2700; Minority Interest – Rs. 3200; Consolidated Balance Sheet Total – Rs. 64200).

2. The liabilities and assets of the holding company H Ltd. and its subsidiary S Ltd. as on 31<sup>st</sup> December 2014 are as follows:

31 20	H Ltd.	S Ltd.	Assets	H Ltd.	S Ltd.
Liabilities	Rs.	Rs.	000	Rs.	Rs.
1			Sundry Assets	120000	126000
Share Capital:	200000	100000	Investments:	000000000000000000000000000000000000000	
-1 06 10 000	20000	8000	8000 shares in S Ltd.	130000	
Profit and Loss Account	20000	10000			
a -mal Reserve	10000	8000			
Current Liabilities	250000	126000	CONTRACTOR DESCRIPTION OF THE PROPERTY OF THE	250000	126000

H Ltd. acquired shares in S Ltd. on 1<sup>st</sup> January 2014. On that date the Profit and Loss Account had a credit balance of Rs. 2000 and in Reserve Rs. 6000. Prepare the Consolidated Balance Sheet.

(Answer: Capital Profit – Rs. 8000; Revenue Profit – Rs. 10000; Goodwill – Rs. 43600; Minority Interest – Rs. 23600; Consolidated Balance Sheet Total – Rs. 289600).

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

<sup>7</sup> iabilities	H Ltd.	S Ltd.	Assets	H Ltd.	S Ltd.
Contrat Shares in Significant	Rs.	Rs.	lating	Rs.	Rs.
Share Capital: 30000 Shares of Rs.	Edge lo	notage (g	Fixed Assets Investments:	126500	64000
5 each 4000 Shares of Rs. 10	150000		3000 shares in S Ltd. Stock	50000 15000	5000
each	And the state of	40000	Bills Receivables (Incl.	13000	5000
Capital Reserve		17000	500 from S Ltd.)	1000	
General Reserve Profit and Loss Account	10000 25000	5000 5000	Bank	10000	8500
Bills Payables (Incl. Rs.	2000	2000		THE KILL	
500 to H Ltd.)		1750			
Sundry Creditors	17500	8750	a rigger S   Pright	2751	
27 (3.17 L)	202500	77500	(4) (8)	202500	77500

H Ltd. acquired 3000 shares of Rs. 10 each from S Ltd. on 31<sup>st</sup> 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.

(Answer: Capital Profit – Rs. 17000; Revenue Profit – Nil; Capital Reserve – Rs. 250; Minority Interest – Rs. 16750; Consolidated Balance Sheet Total – Rs. 229500).

Change Changette do 2 00, Amorto Inches In 200

#### MODULE - 3

## ACCOUNTING FOR CORPORATE RESTRUCTURING

- AMALGAMATION
- INTERNAL RECONSTRUCTION
- LIQUIDATION OF COMPANIES

#### LESSON 3

## AMALGAMATION OF COMPANIES

#### Introduction

There are many forms of business combinations to obtain the account production or to avoid the cut throat competition. They are amalgamation, absorptive reconstruction etc.

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

  Act 1956 or any other statute which may be applicable to companies.
- b. Transferor Company means the company which is amalgamated company.
- c. Transferee Company means the company to which a 6ransferor company amalgamated.
- d. Reserve means the portion of earnings, receipts or other surpluses (whether capital or revenue) appropriated by the management for a great purpose other than provision for depreciation or diminution in the value known liability

# Types of Amalgamation

As per AS-14 there are two types of amalgament 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:

- a. All the assets and liabilities of the Transferor Company or companies before amalgamation should become the assets and liabilities of the transferee company.
- b. 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.
- c. 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.
- d. The business of the Transferor Company/ companies is intended to be carried on by the transferee company.
- e. 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 pooling of assets and liabilities of the transferor companies as well as the share holders' interest. As such the shareholders of all the transferor companies continue to have substantial or proportionate share in the equity or management of Transferee Company.	1. One company acquires another. As a consequence, 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.
<ul><li>5. It is always intended to continue the business of transferor company.</li><li>6. All the assets of Transferor Company become the assets of the transferee company.</li></ul>	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. The term 'businesses' will always mean both the assets and liabilities.

Illustration 1: The following are the liabilities and assets of Amrita Ltd

Illustration 1: The following a Liabilities	Rs.	Assets	Rs.
Share capital Debentures Sundry creditors General reserve Profit & Loss A/c	60000 10000 6000 4000 20000	Goodwill Land & building Plant & Machinery Stock Debtors Cash Preliminary expenses	28000 16000 28000 16000 8000 2000 2000 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: Calculation of purchase consideration a taken over:

	22000
ilding	25000
Aachinery	24000
	13000
	8000
	92000
lities taken over	

labilities taken over:

creditors	5000	
res	10000	15000
sideration		77000

s in the form of cash, shares, securities etc. to the shareholders of the transferor by the transferee company. The following points are considered while ing purchase consideration under this method:

consideration includes the payments to shareholders only.

ayments made by the transferee company to some other party on behalf of the steror company are to be ignored.

2: The liabilities and assets of Jay Ltd as on 31 March 2015 is as follows:

Liabilities	Rs.	Assets	Rs.
tal scrve	200000 35000 20000 50000	Goodwill Land & building Plant & Machinery	40000 90000 75000
ditors	25000	Stock Debtors Cash	52000 58000 15000
The state of the s	330000	Company of the Compan	330000

decides to amalgamate into a new company New Ltd which will take over the receive one share of Rs.10 each, Rs.5 paid up and Rs.4 in cash. The liquidation expense of the local by New Ltd. calculate purchase consideration.

## ion of purchase consideration

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

Purchase consideration = 80000 = 180000

endon expense is not included in purchase consideration)

charge exchange or Intrinsic value Method: Under this method purchase consideration is add on the basis of intrinsic value of shares. The intrinsic value of a share is by dividing g the net assets available le for equity shareholders by the number shares. This value determines the ratio of exchange of the shares between the and transferor companies.

# nting procedure of amalgamation, absorption and external reconstruction from of purchase consideration.

minment of discharge of purchase consideration.

the books of transferor companies.

opening entries in the books of purchasing or Transferee Company.

### des in the books of Transferor Company

Accounting

1. For transferring assets to Realisation A/c: Realisation A/c To Assets A/c (individually at book value) (Note: (a). Fictitious assets should not be transferred to Realisation A/c (b). If cash in hand and bank are not taken over by transferee company should not be transferred to Realisation 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 Realisation A/c) 2. For transferring liabilities (outside liabilities only) to Realisation A/c: Dr (individually at book value) Liabilities A/c To Realisation A/c (Note: (a). If any liability is not taken over by transferee company should not be transferred to Realisation A/c, (b). Items in the nature of provisions are to be transferred to Realisation A/c and (c). Any fund which denotes both liability and reserve, the portion of liability should be transferred to Realisation A/c). 3. For purchase consideration due from transferee company: Transferee Company A/c To Realisation 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 Dr Debentures in Transferee company A/c Dr Cash/ Bank A/c To Transferee company A/c 5. For sale of assets not taken over by transferee company: Dr (Sale proceeds) Cash/ Bank A/c To Realisation A/c 6. For discharging liabilities not taken over by transferee company: Liability A/c Dr (if excess amount paid) Realisation A/c To Cash/ Bank A/c (If less payment is made) To Realisation A/c For liquidation (realisation) expenses: a. If liquidation expenses are met by transferor comp Realisation A/c 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 Dr (if excess amount paid) Realisation A/c To Preference shareholders A/c To Realisation 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
General reserve A/c
P&L A/c
Dividend equalization reserve A/c
Security premium A/c
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 Realisation A/c:

a. For loss on realisation (if debit > credit). Equity shareholders A/c Dr

To Realisation A/c

b. For profit on realisation (if credit > debit). Realisation A/c

To Equity shareholders A/c

13. For payment to equity shareholders:

Equity shareholders A/c

anoisivo Dr

To Equity shares in Transferee company A/c

To Cash/ Bank A/c (if any)

After payment to equity shareholders, all the accounts in the books of Transferor Company will be closed.

Accounting entries in the books of Transferee Company

(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

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

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).

Illustration 3: X Ltd acquired the business of Y Ltd on 31 March 2015 for a purchase consideration of Rs. 55000 to be paid by fully paid equity shares of Rs.10 each. The liabilities and assets of both the companies on the date of acquisition were as follows:

00022 Liabilities	X Ltd	Y Ltd	Assets	X Ltd	Y Ltd
	Rs.	Rs.	dention (received)	Rs.	Rs.
Equity shares of Rs.10 each	55000	32500	Land & Building	21500	13500
10 % Preference shares of			Plant & Machinery	40000	25000
Rs.10 each		6000	Furniture	7500	5000
General Reserve	17000	11000	Investment	12500	8000
Development Allowance			Inventories	25000	22500
Reserve		4000	Sundry Debtors	8500	5000
P&L A/c	7000	5000	Cash & Bank	3000	1500
Work men Compensation		170	Advance Tax	3500	3000
Fund 000A	3000	1500	A laurence and auto M		Den la
10% Debentures	20000	10000	ALST TERMINATE		
Fixed Deposit(unsecured)	7500	5000			PRINCE AND
Sundry creditors	5000	5500		2201111	
Bills Payable	3000		and the state of t		
Provision for tax	4000	3000	olders A/c	and the vites	
0008 Northing Ave.	121500	83500	Dr 6\An	121500	83500

Debenture holders of Y Ltd will be issued equity shares in X Ltd. Journalise 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	Rs.	D.
Realisation A/c Dr	83500	Rs.
To Land & Building A/c	33300	13500
To Plant & Machinery A/c	A STATE OF THE STA	25000
To Furniture A/c	thy talking over	5000
To Investment A/c	The state of the s	8000
To Inventories A/c	201 2011	22500
To Sundry Debtors A/c		5000
To Cash & Bank A/c		1500
To Advance Tax A/c		3000
(transfer of various assets to Realisation 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 Realisation A/c		23500
(transfer of various liabilities to Realisation A/c)		

X	Ltd A/c	Dr	55000	16/14/21/21/
stritical in	To Realisation A/c	paid by Airly paid	of 163, \$5000 upbe	55000
(p	ourchase consideration due from X	Ltd)	Estangeron until dica	
Ed	quity Shares in X Ltd A/c Dr		55000	
billy.	To X Ltd A/c	part a land so	Sorting	55000
(p	ourchase consideration received)	Real Real		
00£ 10	0% Preference share capital A/c	Dr	6000	armis words
12800	To Preference shareholders	A/c	10 33370833343	6000
000 (a	amount payable to Preference share	eholders		
	reference shareholders A/c	Dr	6000	RIOT TOTALIST
. 000 T	o Equity Shares in X Ltd A/c	Maria 4	DOMENTAL DE	6000
	distribution of equity shares receiv	ed from X Ltd)		
	quity share capital A/c	Dr	32500	
008 G	General reserve A/c	Dr	11000	
D	Development Allowance reserve A	c Dr	4000	
	&L A/c	Dr	5000	
V	Vorkmen compensation Fund A/c	Dr	1500	endae nasii
T	To equity shareholders A/c	Lines - 1000		54000
	transfer of equity shareholders' fur	nds)	5000	
	Equity shareholders A/c	Dr	5000	
	To Realisation A/c	Telestra 1005 L21	Maria Line	5000
	transfer of loss on realisation)		40000	
I	Equity shareholders A/c	Dr	49000	
di Sentin	To Equity shares in X Ltd A/c		The standard carry	49000
MI TOUT	distribution of equity shares received	ved from X Ltd)	they is the second fruit	Telegraphy and

## Realisation A/c

Preference shareholders A/c Rs.

Rs.

To Ed	quity shares in X Ltd A/c	6000	By 10%Prefer A/c	ence share ca	pital	6000
	120	6000	Alc Marin	ba	Halle I	6000
500		Class	97	1 sulgins	g bare a	Reserves
	ne Antenomation Adjusts	Equity share	holders A/c		del.Li	
003	the III N	Rs.	lioideis 7 D C	20/11/07/0	abd.m	and taken I
To Re	ealisation A/c (loss)	5000	By Equity sha	ro conital A /a	115002	Rs.
	quity shares in X Ltd. A/c	49000	By General re		dittion	32500
	eamation inclusion to be	47000			roldsy	11000
		and the same of	By Developm reserve	em Anowanc	e	1000
	dy's purchase consideration to	a mind minoran			775	4000
	MANUAL AND		By P&L A/c		1534	5000
	A grots Aug 10		By Workmen Fund A/c	compensation	bosek	1500
	and	54000	rund A/c		11,11	1500
	The state of the s	54000	int Work waters	1315 P (1) 339	3887	54000
	Opening Entries in	the books of	X Ltd (Transfe	eree Company	) ( s	
008	2		6 1 1 1 1 1 1 1 1		Rs.	Rs.
	Land & Building A/c		Dr	135		Other ne
	Plant & Machinery A/c		Dr	250		
	Furniture A/c		Dr	500		
	Investment A/c		Dr	800	the fact of the same	
	Inventories A/c		Dr	2250		
	Sundry Debtors A/c		Dr	500		
	Cash & Bank A/c		Dr	150		
	Advance Tax A/c		Dr	300		
	To 10% Debenture	s A/c	d entold	300	50	10000
	To Fixed Deposit A					5000
	To Sundry creditors			anslot	Pagin	5500
	To Provision for ta					3000
	To Liquidators of Y			Intliga Die	Shor	55000
	To Capital Reserve		bein	ed and Subser	Unia ( - )	5000
	(purchase consideration due a	and assets an	d Of all to	OO Manual says	120	3000
	liabilities taken over)		The state of the s	tyes and Sur	53 37 1	
	Liquidators of Y Ltd A/c		Dr	5500	00	
	To Equity Share ca	pital A/c	w community	017000000000000000000000000000000000000	,0	55000
	(payment of purchase consider	eration in equ	nity some vol	La transgulav	aC I	33000
002	shares)	ration in eq.	arted notified	egmos agmás	W	
UGU	10% Debentures A/c	Dr	A THE STATE OF	1000	00	
007	To Equity Share cap			1000	,0	10000
	(discharge of debentures by is		shares)	o roll mast s	mili	10000
000	Amalgamation Adjustment A	/c	Dr	550	00	
1005	To Development Allowa		~ .	atlangatt b	ax 3	4000
	To Workmen compensa	tion Fund A	/c	le Fayables	DE T	1500
000	(statutory reserves incorporate			dry Cashion	THE COL	1300
ŶĬ.	Balance Sheet of X Lt		lgamation) as	on 1 April 20	015	erin da
rticul			eterson			
Hucul				Note No.	Amo	
MANAGEMENT.		CANADA SALAMA	Melakironiya lakular		(Rs.)	

A. Equity and Liabilities	n grando a la contra de la contra della contra de la contra de la contra de la contra de la contra della contra de la contra de la contra de la contra de la contra della cont	, DLEZ. (U.)	ививулира от
Shareholders' Fund	3/4/		
a. Share Capital	0000	1	120000
b. Reserves and Surplus		2	37500
Non-current Liabilities	1000 107 117 119		
a. Long term borrowings	rabledounts supplied	3	20000
b. Fixed Deposit	71571:01	4	12500
Current Liabilities	8 WILL 0000	(szal) si A	12500
Current Liabilities		5 112	13500
a. Trade Payables b. Provisions for Tax		3 1 4	7000
b. Provisions for Tax	TO THE STATE OF THE STATE OF	1 1 1	7000
The property of the broaden frage of the special it so	T Jan 1	Maria de la compansión de	210500
Total	o Ju	MARK. 11-	210500
The first burner of the fi			
B. Assets	anak?		
Non-current Assets	20376		
Fixed Assets			
	ne even the books of X lets	6	112500
b. Non-current Investment		) (	20500
c. Other non-current Assets		7	5500
Current Assets	ALC: NO.	Magnurary	
Inventories		34.5	47500
Trade Receivables		DA ME	13500
Cash and Cash Equivalents: Cash and E	Bank	100 200	4500
Advance Tax		NA Smithod	6500
		Brok sine	JA 41.83
Total	176	SA XATA	210500

### Notes to Accounts

Note No.	Particulars	Amount (Rs.)
1,000	Share Capital	
	Issued and Subscribed	
	12000 Equity shares of Rs. 10 each	120000
2.	Reserves and Surplus	
	Capital Reserve	5000
	General Reserve	17000
	Development Allowance Reserve	4000
	Workmen compensation Fund	4500
	P & L A/c	7000
	Visa C	37500
3.	Long Term Borrowings	
	10% Debentures	20000
4.	Fixed Deposits	12500
5.	Trade Payables	A THE REST
	Sundry Creditors	10500
	Bills Payables	
	CARE HANDERS AND	13500
6.	Fixed Assets – Tangible	10000
	Land & Building	35000

25	Plant & Machinery	65000
	Furniture	12500
7.	Other Non-current Assets	112500
To QUOCHE.	Amalgamation Adjustment Account	5500
وفدنهم واللفراء أأتسب	A/c	Control Rusery

### Accounting entries in the books of Transferee Company (Amalgamation in the nature of merger)

a) 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)

b) 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).

c) Payment of liquidation expense by transferee company:

General Reserve/ P & L A/c

Dr

To Cash/ Bank A/c

d) For the payment of formation expenses:

Preliminary expenses A/c

Dr

To Cash/ Bank A/c

Illustration 4: The following is the summarized statement of liabilities and assets of Moon Ltd as on 31 March 2015.

UQUEET	Rs.	LOS Maciniards	Rs.
Share Capital		Fixed Assets	
40000 equity shares of Rs.10		Land & Building	200000
Each	400000	Plant & Machinery	100000
Reserves & Surplus		Furniture Turniture	80000
Capital Reserve A/c	180000	Investments	1,000 1. (c. <del></del>
P & L A/c	. 60000	Current Assets	
Secured Loan		Stock	40000
10% Debentures	200000	Sundry Debtors	60000
Current liabilities & Provisions	A. Delining	Bank	300000
Sundry creditors	20000	Cash	80000
les tak ast orași li m	860000	e caustocration dure and a sel	860000

On 1 April 2015 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.

Crefs video to dishbroket in

- 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 of merger.

Solution:

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

## In the books of Moon Ltd.

And Auguste Inhanen skelps	Realisati	on A/c	
To Land & Building A/c To Plant & Machinery A/c To Furniture A/c To Stock A/c To Sundry Debtors A/c To Bank A/c To Cash A/c	Rs. 200000 100000 80000 40000 300000 80000 860000	By 10% Debentures A/c By Sundry creditors A/c By Sun Ltd (PC) By Equity shareholders A/c (realisation loss)-Bal. figure	Rs. 200000 20000 550000 90000
	Sun Lt	d A/c	
To Realisation A/c	Rs. 550000 550000	By Equity shares in Sun Ltd.	Rs. 550000 550000
Eq.	uity Shares i	n Sun Ltd A/c	Paralaman Laranaman
To Sun Ltd A/c	Rs. 550000	By Equity shareholders A/c	Rs. 550000

00000E	550000	bill nool to bink a sure	550000
150000	Equity sharel	holders A/c	1480 1 1 22 (1611)
To Realisation A/c (loss) To Equity shares in Sun Ltd.	Rs. 90000 550000	By Equity share capital A/c By Capital Reserve A/c By P&L A/c	Rs. 400000 180000 60000 640000

Entries In the books of Sun Ltd

Entries In the books of Su	II Liu	
Land & Building A/c Dr	Rs. 200000	Rs.
Plant & Machinery A/c Dr	100000	
Furniture A/c Dr	80000	
Stock A/c Dr	DEPARTMENT OF A SECURITION OF	
C 1 D 1	40000	
	60000	fily shares of
C. 1 AZ	300000	bieq ylly paid
To 10% Debentures A/c	80000	inni Poserina
	the state of the state of	200000
To Sundry creditors A/c	06001	20000
To Capital Reserve A/c (Bal. Fig)	00001	30000
To P & L A/c	erstition & routers	60000
To Liquidators of Moon Ltd A/c	000513	550000
(purchase consideration due and assets and	45000	
liabilities taken over)	450000	
Liquidators of Moon Ltd A/c Dr	550000	
To Equity Share capital A/c		500000
To Security Premium A/c	inp farmol ynazesopi	50000
(payment of purchase consideration in 50000	baue (ii) ban nagar	
equity shares of Rs.10 at Rs.11)	against that Dovelops	
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	10000	
To Premium on Redemption of		
Debentures A/c		10000
(Premium on Redemption of Debentures	ALL AND THE REAL PROPERTY.	
adjusted)	e whichmers Apic	
Capital Reserve A/c Dr	10000	
To Bank A/c		10000
(liquidation expenses paid)	Debtom Ave -	Stanta 1

Working Note:

Calculation of Reserve:

Purchase consideration

550000

Less: Share capital of Moon Ltd	400000
Difference to be adjusted	<u>150000</u>
Capital Reserve in Moon Ltd	180000
Less: Difference adjusted	<u>150000</u>
Balance of Capital Reserve	<u>30000</u>

Illustration 5: A Ltd acquired the business of B Ltd on 31 March 2015 for a purchase consideration of Rs.2,50,00,000 to be paid by fully paid equity shares of Rs.10 each. The liabilities and assets of two companies on the date of acquisition were as follows:

Liabilities	A Ltd	B Ltd	Assets	A Ltd	B Ltd
00004	(Rs.)	(Rs.)		(Rs.)	(Rs.)
Equity shares of Rs.10		NA STATE	Land & Building	12000000	8000000
each fully paid	25000000	15000000	Plant & Machinery	20000000	18000000
General Reserve	12000000	1800000	Furniture	1000000	2000000
Development Rebate			Stock	5500000	4000000
Reserve	1000000	3700000	Sundry Debtors	4500000	4000000
P&L A/c	1000000	5300000	Bank	2000000	1700000
Workmen Compensation	Anna Carlos	FALL SOL	2 A 3 8 N. O		170000
Fund	1500000	2400000	eaty to studentiff or	罗拉 为 集	
Current Liabilities	4500000	9500000	par and countries	sample (pg)	
	45000000	37700000	Crayo hash	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:

When amalgamation is in the nature of merger:

Entries		. 4		CA	T / 1	
Hintriag	110	tha	haalra	at A	I ta	

		les in the books of A Liu		
2015	Land & Building A/c	Dr	8000000 193	(hogh)
Mar 31	Plant & Machinery A/c	Dr	18000000	Carlo Land
KANDEN IN	Furniture A/c	Dr	2000000	
	Stock A/c	Dr	4000000	Wild Pulls
	Sundry Debtors A/c	Dr	4000000	
	Bank A/c	Dr	1700000	bitten) Lines
	General Reserve A/c (Bal.	Fig) Dr	2900000	
	To Development Reba	te Reserve A/c	2500000	3700000
	To Workmen Compen	sation Fund A/c		
	To Current liabilities A	V/c		2400000
	To Liquidators of B Lt	d A/c	Love the Milde	9500000
	(purchase consideration due	and assets and		25000000
			According to the State of the S	

liabilities taken over)	nind .	25000000	
Liquidators of B Ltd A/c Dr To Equity Share capital A/c (payment of purchase consideration in equity shares)	10 (j. ) 10 (j. ) 10 (j. )	Burkhig A.a Machinerya wayo atau	25000000

Balance Sheet of A Ltd as on 1 April 2015 (after amalgamation)

Particulars 000000x1	Note N	o. Amount (Rs.)
A. Equity and Liabilities Shareholders' Fund a. Share Capital b. Reserves and Surplus Non-current Liabilities Current Liabilities	Common the second of the secon	50000000 18700000 Nil 14000000
B. Assets Non-current Assets Fixed Assets a. Tangible b. Non-current Investment c. Other non-current Assets Current Assets Stock Sundry Debtors Bank	Fig. A. Spectation (A. C.	61000000

### **Notes to Accounts**

Note No.	Particulars	Amount (Rs.)
2.	Share Capital Issued and Subscribed 5000000 Equity shares of Rs. 10 each, fully paid Reserves and Surplus General Reserve Development Rebate Reserve Workmen compensation Fund P & L A/c	50000000 9100000 4700000 3900000 1000000 18700000
3.	Fixed Assets – Tangible Land & Building Plant & Machinery Furniture	20000000 38000000 3000000 <b>6100000</b> 0

When amalgamation is in the nature of purchase:

Entries in the books of A Ltd.

	Entries in the books of A	Ltd.	CLANCE UPON PLASO	Midmid par
2015 Mar 31	Land & Building A/c Plant & Machinery A/c Furniture A/c Stock A/c Sundry Debtors A/c Dr Dr Dr Dr Dr Dr	hare de con in	Rs. 8000000 18000000 2000000 4000000 4000000	Rs.
0000 0000 0000 0000 0000	Bank A/c Dr To Current liabilities A/c To Liquidators of B Ltd A/c To Capital Reserve A/c (Bal. Fig) (purchase consideration due and assets and liabilities taken over)		1700000	9500000 25000000 3200000
0.800	Liquidators of B Ltd A/c Dr  To Equity Share capital A/c (payment of purchase consideration in equity shares)		25000000	25000000
1000	Amalgamation Adjustment A/c Dr To Development Rebate Reserve A/c To Workmen compensation Fund A/c (statutory reserves incorporated)		6100000	3700000 2400000

# Balance Sheet of A Ltd as on 1 April 2015 (after amalgamation)

Particulars	Not	e No.	Amount
A. Equity and Liabilities	Compared to the second		(Rs.)
Shareholders' Fund	Marke to Accounts		
a. Share Capital			
b. Reserves and Surplus	Market State State of the State	1	50000000
Non-current Liabilities	BELLEVILLE NEW PROPERTY OF THE	2	24800000
Current Liabilities	Sub-cribed of I a continue of the county purpose of Res. 10 conch. bully purpose of the conches of the concept of the conches of the concept of the conches		Nii 14000000
Total	sulque 6,		areastal.
B. Assets	ent their Reserve . Suggest to		88800000
Non-current Assets	SECTION AND ADDRESS OF THE PROPERTY OF THE PRO	Contract of	-1//
Fixed Assets			
a. Tangible	The state of the s	(14)	II
b. Non-current Investment		3	61000000
c. Other non-current Assets	and the second of the second o	11	Nil
Current As-els		1	6100000
Stock			0100000
Sundry Debtors		1600	9500000
Bank		AME	8500000
			3700000
Total			3700000
	Notes to Accounts		88800000

Note No.	Particulars	Amount (Rs.)
1. 000001 2. 08247	Share Capital Issued and Subscribed 5000000 Equity shares of Rs. 10 each, fully paid Reserves and Surplus Capital Reserve General Reserve Development Rebate Reserve Workmen compensation Fund P & L A/c	3200000 3200000 12000000 4700000 3900000 1000000 24800000
3.	Fixed Assets – Tangible Land & Building Plant & Machinery	20000000 38000000 3000000
4.	Other Non-current Assets Amalgamation Adjustment Account	6100000

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 liabilities and assets of A Ltd on the date of amalgamation stood as follows:

10008	Rs.	Noon A/d	Rs.
Share Capital 120000 equity shares of Rs.6	720000	Fixed Assets Land & Building Plant & Machinery	450000 218700
Each, fully paid up  Reserves & Surplus  General Reserve	360000	Current Assets Stock	273450
P & L A/c	34168	Sundry Debtors	229500
Creditors	132500	Bank Cash	74280 738
	1246668	estenakon noveda yanpa ta anitur	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	Rs.	Rs
To Land & Building A/c	1246668	
To Plant & Machinery A/c	of Sharest donner	450000
To Stock A/c	the collection of the collecti	218700
To Sundry Debtors A/c	abrows W.E. Co.	273450
To Bank A/c	Survived Lawrence	229500
To Cash A/c	red of tensories to the	74280
(transfer of various assets to Realisation A/c)	en como mantelo se la	738
Court days and 1th A.	122500	
To Realisation A/c	132500	
(transfer of sundry creditors to Realisation A/c)	and The same of the	132500
B Ltd A/c Dr	1200000	
To Realisation A/c	1200000	
(purchase consideration due from B Ltd)		1200000
Q 1 1 /	(00000	
Equity Shares in B Ltd A/c Dr	600000	
To B Ltd A/c	600000	
(purchase consideration received)	0.301	1200000
Equity share capital A/c Dr	720000	
General reserve A/c Dr	360000	
P&L A/c Dr	34168	
To equity shareholders A/c	34108	O getla manua
(transfer of equity shareholders' funds)	principous to analy-	1114168
Realisation A/c Dr	9000	
To Cash A/c	9000	
(liquidation expenses paid)		9000
Realisation A/c Dr	76832	
To Equity shareholders A/c	70032	and America
(transfer of profit on realisation)	A second distribution of the second distribution	76832
Equity shareholders A/c Dr	1191000	
To Equity shares in B Ltd A/c	1231000	(0000
To Cash A/c	100	600000
(distribution of equity shares and cash received)	muchino di M	591000
- 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1 - 1	13/13/1	

# Opening entries in the books of B Ltd

	Land & Building A/c Plant & Machinery A/c Stock A/c Sundry Debtors A/c Bank A/c Cash A/c Goodwill A/c (Bal. Fig)	Dr Dr Dr Dr Dr Dr Dr	Rs. 450000 218700 273450 229500 74280 738 85832	Rs
and the same of th	To Sundry Creditors A/c			132500

To Liquidators of A Ltd A/c (purchase consideration due and assets and	()	1200000
liabilities taken over)	110100	
Liquidators of A Ltd A/c Dr	1200000	480000
To Equity Share capital A/c To Security premium A/c	1 1 2 2 1 8 1	120000
To Cash A/c		600000
(payment of purchase consideration)		

### **Inter-company Owings or Debts**

Generally amalgamation or absorption takes place between companies having mutual transactions. One company may purchase goods on credit from the other. Sometimes, one company accepts the bills of exchange drawn by the other.

#### **Mutual Debts**

At the time of amalgamation or absorption, inter-company debts must be eliminated because after amalgamation or absorption both companies become one entity and nothing will be payable or receivables between them. The adjusting entry in the books of transferee company for the elimination is:

Sundry Creditors A/c

Dr

To Sundry Debtors A/c

Note: No adjusting entry is required in the books of transferor company.

## **Mutual Acceptance**

There may be mutual acceptance of bills of exchange between the companies. For such mutual acceptance the following adjusting entry is passed in the books of transferee company:

Bills Payables A/c

Dr

To Bills Receivables A/c

Note: No adjusting entry is required in the books of transferor company.

Illustration 7: Super Star Ltd. is formed to take over Super Ltd. and Star Ltd. for Rs. 390000 and Rs. 260000 respectively. The purchase consideration is payable in fully paid equity shares of Rs. 10 each.

The liabilities and assets of the two companies are as follows:

Liabilities  Equity Share Capital General Reserve	Super Ltd (Rs.) 312000 97500	Star Ltd (Rs.) 234000 13000	Assets  Land and Building Stock	Super Ltd (Rs.) 104000 143000	Star Ltd (Rs.) 65000
Sundry Creditors Bills Payable	78000 32500	26000 19500	Sundry Debtors Bills Receivable Cash at Bank	159900 159900 70850 42250	96200 83200 24180
Note: Bills discounted by	520000 Super I td. not	292500		520000	23920 292500

Note: Bills discounted by Super Ltd. not yet matured Rs. 7150.

### Additional Information:

- a) Sundry debtors of Star Ltd. include Rs. 24700 due from Super Ltd.
- b) Bills payables of Super Ltd. include Rs. 16250 acceptances in favour of Star Ltd. But bills receivable of Star Ltd. include Rs. 9100 accepted by Super Ltd.

Close the books of Super Ltd. and Star Ltd. and pass the acquisition entries in the books of Super Star Ltd. Also prepare the balance sheet of Super Star Ltd. (Amalgamation in the nature

Solution:

# Closing entries in the books of Super Ltd.

Realisation A/c Dr To Land & Building A/c		Rs. 520000	Rs
To Stock A/c		4 10 10 10 10 10 10 10 10 10 10 10 10 10	104000
To Sundry Debtors A/c	AND BIO	doff vibration (bulb)	143000
To Bills Receivable A/c	Scotte III		159900
To Cast at Bank A/c	0.362.07.19.00	Reg 5/ Copies Contra	70850
(transfer of various assets to Realisation A/o	c)	The state of the s	42250
Sundry creditors A/c	Or .	78000	
	Or	32500	
To Realisation A/c	To some pour	32300	100
(transfer of sundry creditors to Realisation A	(c)	twotter tell or	110500
Super Star Ltd. A/c Dr		390000	
To Realisation A/c		370000	200
(Purchase consideration due from Super Star	r Ltd.)	Place O . Hirton	390000
Equity Shares in Super Star Ltd. A/c D		390000	
To Super Star Ltd. A/c	the man the the		20000
purchase consideration received)			390000
Equity share capital A/c Dr	A PERFERENCE (N.) L. B.)	312000	
General reserve A/c Di	choo barillans	97500	
To Equity shareholders A/c			100500
transfer of equity shareholders' funds)			409500
Equity shareholders A/c Dr		19500	
To Realisation A/c			10500
transfer of loss on Realisation)			19500

Equity shareholders A/c To Equity shares in	Dr Super Star Ltd. A/c	390000	390000
(distribution of equity shares re-	ceived)	Langue to supply	upi februara

# Closing entries in the books of Star Ltd.

man programmer in the second text and second with	Rs.	Rs.
Realisation A/c Dr	292500	
To Land & Building A/c	a oldevnijek	65000
To Stock A/c	o\A hugh	96200
To Sundry Debtors A/c	and Total over the	83200
Го Bills Receivable A/c	Ammer of	24180
To Cast at Bank A/c	Mar sing of Park	23920
(transfer of various assets to Realisation A/c)	ompredam o 1976	
Sundry creditors A/c Dr	26000	PINGS
Bills Payable A/c Dr	19500	
To Realisation A/c	ELL ISIG TO PROTE	45500
(transfer of sundry creditors to Realisation A/c)	REMARKS OF	
Super Star Ltd. A/c Dr	260000	TOTAL STREET
To Realisation A/c	O PS R JOJUDO CA	260000
(Purchase consideration due from Super Star Ltd.)		
Equity Shares in Super Star Ltd. A/c Dr	260000	2.60006
To Super Star Ltd. A/c	A SALV SHIRL OT	260000
(purchase consideration received)	224000	
Equity share capital A/c Dr	234000	
General reserve A/c Dr	13000	247000
To Equity shareholders A/c	e i mai Yeri ten Min	247000
(transfer of equity shareholders' funds)	13000	
Realisation A/c Dr	13000	13000
To Equity shareholders A/c	Hadance St.	13000
(transfer of profit on Realisation)	260000	
Equity shareholders A/c Dr	200000	260000
To Equity shares in Super Star Ltd. Arc	12 1 5 3 M 20 1	200000
(distribution of equity shares received)	ealthirde). I	

# Opening entries in the books of Super Star Ltd.

1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1		Rs.	Rs.
a Parilding A/C	Dr	104000	
Land & Building A/c	Dr	143000	
Stock A/c	Dr	159900	So of
Sundry Debtors A/c Sundry Debtors A/c Sundry Debtors A/c		70850	
Bills Receivable A/c Dr	Dr	42250	
Cash at Bank A/c To Sundry Creditors A/c		A special state of the	78000
To Bills Payable A/c			32500
To Liquidators of Super	I td A/c		390000
To Liquidators of Super To Capital Reserve (Bal.	Fig.)	Examination In	19500

(purchase consideration due and assets a	nd	eligrehölders//	Equity
liabilities taken over)	muselin Stiper S	To Louisty	
Liquidators of Super Ltd. A/c Dr	(havisbly bands	390000	
To Equity Share capital A/c			390000
(payment of purchase consideration)			
Land & Building A/c	Dr	65000	
Stock A/c	Dr	96200	
Sundry Debtors A/c	Dr	83200	
Bills Receivable A/c Dr	W am blin	24180	
Cash at Bank A/c	Dr	23920	
Goodwill A/c (Bal. Fig.)	Dr	13000	
To Sundry Creditors A/c		A in Left manners of the	26000
To Bills Payable A/c		of Canada Ale	19500
To Liquidators of Star Ltd. A/o	The Times of the state	o principle to a	260000
(purchase consideration due and assets as	nd	AA statibus	
liabilities taken over)		o\A Jakeson	
Liquidators of Star Ltd. A/c Dr	a A c	260000	
To Equity Share capital A/c	in all or supply	no vibens to sel	260000
(payment of purchase consideration)	ACT.	0.4500	
Sundry Creditors A/c	Dr	24700	
To Sundry Debtors A/c	mid ment with a	dibirahiama salah	24700
(mutual debt set-off)	A BULL OF	2 11 212	
Bills Payable A/c	Dr	9100	
To Bills Receivable A/c	(Francisco de p	hitembianos na	9100
(mutual acceptance set-off)		12000	
Capital Reserve A/c	Dr	13000	
To Goodwill A/c	NA west from a red	To Emply	13000
(goodwill set-off against capital reserve)	Should Sepull outer	alle vitionality also	

# Balance Sheet of Super Star Ltd. (after amalgamation)

	Note No.	Amount (Rs.)
A. Equity and Liabilities	a Chancant smalls a who so you	Bibliosio)
Shareholders' Fund	and the second s	Later Land
a. Share Capital	1	650000
b. Reserves and Surplus	adeals of various some back 2	6500
Non-current Liabilities	and contains, passenger also marked.	Nil
Current Liabilities		INII
Trade Payables	3	122200
		122200
Total	NA stote	778700
	THE PARTY OF THE PARTY STATES OF	//0/00
B. Assets	AMERICAN STREET	Section 1
Non-current Assets	Tw. Sangley Credition A.s.	TO THE PARTY
Fixed Assets	William Payable Alexander	
a. Tangible	A Laura de La Company de La Co	1.000
b. Non-current Investment		169000
	,	Ni

c. Other non-current Assets	Nil
Current Assets Stock (143000+96200) Sundry Debtors (159900+83200-24700) Bills Receivable (70850+24180-9100) Cash at Bank (42250+23920)	0 1930
purel used from X Ltd. on which X Ltd. made a profit of LTD	778700

#### Notes to Accounts

Note No.	Particulars	Amount (Rs.)
1.	Share Capital Issued and Subscribed	to the finance
	65000 Equity shares of Rs. 10 each, fully paid	650000
2.	Reserves and Surplus Capital Reserve (19500-13000)	6500
70000	d Sundry Debiens A/c. V 1900 F 1900 F 1900 P 1900 P	
3.	Trade Payables Sundry Creditors (78000+26000-24700) Bills Payables (32500+19500-9100)	79300 42900
4.	Fixed Assets – Tangible Land & Building (104000+65000)	122200 169000

### Inter-company Stock

The stock of transferor company or transferee company may represent goods sold by transferee company or transferor company at a profit. The profit included in the unsold goods (stock) is called unrealized profit. But, no adjustment is required in the books of transferor company. In the books of transferee company, the following adjusting entry is passed:

Goodwill or Capital Reserve A/c

Dr

To Stock A/c (with unrealized profit)

Illustration 8: X Ltd. agrees to absorb Y Ltd. in the nature of purchase on 31st December 2014 on which date their liabilities and assets are as under:

Liabilities	X Ltd	Y Ltd	Assets	X Ltd	Y Ltd
Non-cauring against	(Rs.)	(Rs.)	graphs surface tocerr	(Rs.)	(Rs.)
Equity Share Capital of	10101 / 101	AGOOD GOLLED R	Fixed Assets	140000	98000
Rs. 10 each	280000	140000	Stock	130200	42000
Profit & Loss Account	84000	56000	Sundry Debtors	126000	70000
Sundry Creditors	105000	49000	Bills Receivable	65800	30800
Bills Payable	21000	7000	Bank	28000	11200

			AND RESIDENCE OF THE PARTY OF T	
HV	490000	252000	490000	252000

The purchase consideration is Rs. 224000 payable in equity shares of Rs. 10 each. The bills payables of X Ltd. include Rs. 11200 due to Y Ltd. and sundry debtors of X Ltd. include Rs. 21000 due from Y Ltd. The stock of X Ltd. includes Rs. 15400 worth of goods purchased from Y Ltd. on which Y Ltd. made a profit of 10% on cost and the stock of Y Ltd. includes Rs. 28000 worth of goods purchased from X Ltd. on which X Ltd. made a profit of 10% on sale price.

Pass journal entries in the books of both the companies and prepare the balance sheet of X Ltd. after absorption.

Solution:

### Closing entries in the books of Y Ltd.

The later of the state of the s	Rs.	Rs
Realisation A/c Dr	252000	
To Fixed Assets A/c	Hermassi trainer	98000
To Stock A/c		42000
To Sundry Debtors A/c		70000
To Bills Receivable A/c	rolds of page	30800
To Bank A/c	The antidities of tribing	11200
(transfer of various assets to Realisation A/c)	Cilia Payablas Cili	
Sundry creditors A/c Dr	49000	
Bills Payable A/c Dr	7000	
To Realisation A/c	Francish (Net book)	56000
(transfer of sundry creditors to Realisation A/c)		
X Ltd. A/c Dr	224000	
To Realisation A/c	15 Stock	224000
(Purchase consideration due from X Ltd.)		
Equity Shares in X Ltd. A/c Dr	224000	
To X Ltd.	and the second	224000
(purchase consideration received)	NAME OF TO ASSESSED	(1) 00101k
Equity share capital A/c Dr	140000	
P&L A/c Dr	56000	
To Equity shareholders A/c	CARL TOWNS THE SALE	196000
(transfer of equity shareholders' funds)		130000
Realisation A/c Dr	28000	
To Equity shareholders A/c		28000
(transfer of profit on Realisation)	(a charge this is	2000
Equity shareholders A/c Dr	224000	
To Equity shares in X Ltd. A/c		224004
(distribution of equity shares received)		22400
Opening entries in the books of X	Ltd.	

Fixed Assets A/c	Dr	Rs. 98000	Rs.
Stock A/c	Dr	42000	

	Sundry Debtors A/c	Dr	· hor	70000	
000	Bills Receivable A/c Dr	Di	1000	30800	
0.04	Bank A/c	Dr	1100	11200	
0000		Dr	esi live	28000	
	Goodwill A/c (Bal. Fig.)	DI	1-10	20000	49000
408	To Sundry Creditors A/c			In the second of	7000
77.71	To Bills Payable A/c	erbant in	maril o	M. Marketon Come	224000
	To Liquidators of Y Ltd. A/c	1			224000
1.7	(purchase consideration due and assets and	Pason C			
	liabilities taken over)	and the second	7222	224000	Million be alter.
	Liquidators of Y Ltd. A/c Dr			224000	224000
	To Equity Share capital A/c				224000
	(payment of purchase consideration)	3 251		1,1111111111111111111111111111111111111	
	Sundry Creditors A/c	Dr	SCHOOL	21000	21000
	To Sundry Debtors A/c		Sound	a Astrobate occasion	21000
	(mutual debt set-off)	A war a	SERVICE SERVICE	41000	
	Bills Payable A/c	Dr	MANUAL TO SERVICE	11200	11000
	To Bills Receivable A/c	of Carren	A. Land		11200
	(mutual acceptance set-off)			4.400	
	Goodwill A/c	Dr		1400	1.100
	To Stock A/c (15400x10/110)	COOPT 25-GOS	PC 13/8	and the state of the state of	1400
	(unrealized profit in stock purchased from	n Y Ltd.	KNOW I,	Tayan Alla willy	
	eliminated)				
	Goodwill A/c	Dr	(Lane)	2800	
	To Stock A/c (28000x10/100)		-	OCORS ODDU I	2800
	(unrealized profit in stock sold to Y Ltd.				
	eliminated)		-		
	Januariou)	A 200 ( 1990)		DOWN ROYALL SALE	CHARLES AND STREET

# Balance Sheet of X Ltd. (after amalgamation)

Particulars	ree company it froutest compan- ree company in candidate contant	Note No.	Amount (Rs.)
A. Equity and Liabilities	ic companies in each other	d the both li	A. Shares he
Shareholders' Fund			
a. Share Capital	cancerno to return it at vangote	o and bene	504000
b. Reserves and Surplus		2	84000
Non-current Liabilities		or experie active	Nil
Current Liabilities	LAMBER EN PROPERTIES	the murchas	a) Catedate
Trade Payables		3	149800
Total	community a polding in the francisco community of the community of the com	Account to the country of the countr	737800
B. Assets	toal disolation by constitute one	odt brog	
Non-current Assets		ned nerolten	at the second
Fixed Assets		colf action	CVS IN
a. Tangible		4	238000
b. Intangible - Goodwill		daniel show	32200
Current Assets		of or	
Stock (130200+42000-4200)	THE RESERVE THE SECOND SECOND	tament to a	168000

Sundry Debtors (196000-21000) Bills Receivable (96600-11200) Bank (28000+11200)	175000 85400 39200
Total	737800

#### Notes to Accounts

Note No.	Particulars AA Inigra made with the	Amount (Rs.)
1.	Share Capital (noise objection particular)	(103.)
The state of the s	Issued and Subscribed	
	50400 Equity shares of Rs. 10 each, fully paid	504000
2.	Reserves and Surplus	504000
	P&LA/c	the ligation is
	median // // // // // // // // // // // // //	84000
3.	Trade rayables	(2) (\$100m)
1400	Sundry Creditors (154000-21000)	Villay Co. 13
	Rills Payables (28000 11200)	133000
	Bills 1 ayables (28000-11200)	16800
4.	Fixed Assets – Tangible	149800
0089	(140000+98000)	
	(2,3333,3333)	238000

## Inter - company Investments (Inter - company Holdings)

There are three situations:

- 1. Shares held by transferee company in transferor company.
- 2. Shares held by transferor company in transferee company.
- Shares held by both the companies in each other.

## Shares held by transferee company in transferor company

The following steps are involved:

- a) Calculate the purchase consideration as usual.
- a) Calculate the purchase consideration by the transferee company must be reduced in proportion to transferee company's holding in the transferor company.
- c) In the books of transferor company:
  - Show the entire purchase consideration as due. i.
  - Record the actual discharge by transferee company (reduced by holdings of ii.
  - Transfer the balance in transferee company account to the equity shareholders iii.

Equity Shareholders A/c

Dr

To Transferee Company A/c

d) In the books of transferee company:

i. Transferee company's holding in transferor company represents investments in the books of transferee company.

ii. While discharging purchase consideration debit liquidator's account and credit investments account, with value of discharge for the number of shares of transferor company, held by transferee company.

iii. Transfer any balance in investment account to goodwill account or capital reserve as the case may be.

Illustration 9: Following are the liabilities and assets of A Ltd. and B Ltd. as on 31st March 2015.

Liabilities	A Ltd	B Ltd	Assets	A Ltd	B Ltd
Biadinties	(Rs. in	(Rs. in	Rentif	(Rs. in	(Rs. in
H. Calministration of the	Lakhs)	Lakhs)		Lakhs)	Lakhs)
40000 Equity Shares of	(Liabilities	J By Curre	Goodwill	Heve a name	0.50
Rs. 100 each	40	1 By Provis	Fixed Assets	30	3.50
20000 Equity Shares of	O Mad That I	DITV AST	Investments	21042/15	anity or
Rs. 50 each	Shareholder	10	Current Assets	65	14.00
General Reserve	30	5	000071		
Current Liabilities	30	muoooA 16	I A		
Provision for Tax	ngamisi, capita	1 1045 107 1			
Proposed Dividend	III A Life (T	I By Share	145000	3/A/ HOTE	amon or
Action of the Board of the Board	100	18	b 2015 (other amai	100	18

B Ltd. is to be amalgamated in the nature of purchase by A Ltd. on the following terms:

- 1. B Ltd. declares a dividend of 10% before absorption for the payment of which it is to retain sufficient amount of cash.
- 2. The net worth of B Ltd. is valued at Rs. 14.50 lakhs.
- 3. The purchase consideration is satisfied by the issue of fully paid-up shares of Rs. 100 each in A Ltd.

Following further information is also to be taken into consideration:

- a) A Ltd. holds 5000 shares of B Ltd. at a cost of Rs. 3 lakh.
- b) The stock of B Ltd. includes items valued at Rs. 1 lakh purchased from A Ltd. (cost to A Ltd. Rs. 0.75 lakh).
- c) The creditors of B Ltd. include Rs. 0.50 lakh due to A Ltd.
- d) A Ltd. takes fixed assets of B Ltd. in its books at Rs. 4.50 lakh.

Show ledger accounts in the books of B Ltd. to give effect to the above and make journal entries in the books of A Ltd. and also prepare the balance sheet of A Ltd. after completion of absorption.

Solution:

In the books of B Ltd.
Proposed Dividend Account

ant to show that is window	Rs.	nor ar gampa a vasquos estavais (15	Rs.
To Current Assets A/c	100000	By Balance b/d	100000
TOTAL STATE OF THE TO LOUIS	100000	SELECTION STREET TO A STREET OF THE STREET O	100000
	Current A	ssets Account	
AANSON UMBER 10 SUNOSUB IIIA	Rs.	and the many in Section of the section of	Rs
To Balance b/d	1400000	By Proposed Dividend A/c	100000
	tion that a state of	By Realisation A/c	1300000
- Abecalding and Controlled	1400000		140000
bi I B Lid	Realisat	ion Account	
art for 1 Catalant 1 of the	Rs.	4 subtraction for the state of	Rs.
To Goodwill	50000	By Current Liabilities	100000
To Fixed Assets	350000	By Provision for Tax	100000
To Current Assets	1300000	By A Ltd. (Purchase Consideration)	1450000
	Service to PARKET LE	By Equity Shareholders A/c (Loss)	50000
	1700000		
To Endince ball as In the		. Account	frescal 3
	Rs.	100-112 114 201-013	Rs.
To Realisation A/c	1450000	By Shares in A Ltd. (1450000x3/4)	1087500
		By Equity Shareholders A/c – set-off	362500
	1450000	(1450000x1/4)	
on the followants toring	1450000	o namen mili an bosconomi member of a p. 5. 1	1450000
nister or articulable to troopy	Shares in A	A Ltd. Account	
A to a real time of the second	Rs.	try Educat against a Shink to fruit the mon	Rs
To A Ltd.	1087500	By Equity Shareholders A/c	1087500
hi flaga 901 ast to sanda qu-t	1087500	fold of beliefied at homeofilence sublem	1087500
	Eit Cl	1-11	2) 1/ //
		Pholders Account	
To Realisation A/c (loss)	Rs. 50000	By Equity Share Capital	Rs
To Shares in A Ltd.	1087500	By General Reserve	1000000
To A Ltd. (set-off)	362500	by Ocheral Reserve	500000
TO A Liu. (Sol-Oll)	1500000	and the second s	1,010,000
	1300000	Mat GP () and refugered by a series of the control	1500000

# In the Books of A Ltd. Journal Entries

Goodwill A/c Fixed Assets A/c Current Assets A/c To Current Liabilities A/c To Provision for Tax A/c To Liquidators of B Ltd. A/c To Capital Reserve (Bal. Fig.) (purchase consideration due and assets and	Dr Dr	Rs. 50000 450000 1300000	Rs.  100000 100000 1450000 150000
To Capital Reserve (Bal. Fig.)			

000 (000 000 000	Liquidators of B Ltd. A/c Dr To Equity Share capital A/c To Shares in B Ltd. (payment of purchase consideration)	HIO)	1450000	1087500 362500
Ti stejes Castego	Shares in B Ltd. A/c To Capital Reserve A/c (362500-(profit on shares in B Ltd. transferred to Ca Reserve)	Dr 300000) apital	62500	62500
d yd bla	Bank A/c To P & L A/c (Dividend received from B Ltd.)	Dr	25000	25000
la jedi	Capital Reserve A/c To Stock A/c (unrealized profit in stock purchased from	Dr B Ltd.	25000	25000
	Creditors (Current Liabilities) A/c To Debtors (Current Assets) (cancellation of mutual –debt)	Dr	50000	50000
jengi	Capital Reserve A/c To Goodwill A/c (Goodwill set-off against capital reserve)	Dr	Account (Inviers in the Street From the Street From the Street St	50000

Balance Sheet of A Ltd.as on 31st March 2015 (after amalgamation)

Particulars  Particulars	Note No.	Amount (Rs.)
A. Equity and Liabilities		
Shareholders' Fund	em miswull	degree W. F.
a. Share Capital	1	5087500
b. Reserves and Surplus	2	3162500
Non-current Liabilities	-	Nil
Current Liabilities		STATE OF THE STATE
Current Liabilities (3000000+100000-50000) 3050000		A CONTRACTOR OF THE PARTY OF
Provision for Tax 100000		3150000
		doub 01 /a
Total 000001 000001 000001	- Pools	11400000
B. Assets	her work	A PERSONAL CONTRACTOR OF THE
Non-current Assets		
Fixed Assets		STATE OF STREET
a. Tangible (3000000+450000)		3450000
b. Intangible		Nil
Investments (500000-362500+62500)	7.57	200000
Current Assets	100 100 500	more by LA
Current Assets (6500000+1300000+25000-25000-50000)	Thus onser	7750000
Total	southeat A	11400000

Notes to Accounts

Note No.	Particulars	Amount (Rs.)
1.	Share Capital Issued and Subscribed 50875 Equity shares of Rs. 100 each, fully paid Reserves and Surplus	5087500

Capital Reserve (150000+62500-25000-50000)	137500
General Reserve	3000000
P & L A/c	25000
urchase consideration)	3162500

### Shares held by transferor company in transferee company

The following steps are involved:

- 1. Calculate the purchase consideration, depending on the method applicable. However,
- a) If purchase consideration is calculated under 'net assets method', investment held by transferor company in transferee company must not be considered as an asset.
- b) If purchase consideration is calculated under 'net payment method', deduct the number of shares of transferee company held by transferor company from total number of shares to be discharged by the transferee company.
- 2. In the books of transferor company:
- a) Shares held by transferor company in transferee company must not be transferred to Realisation Account. It must be shown as the balance in the Shares in Transferee Company Account (Investment Account).
- b) The shares received from Transferee Company as a part of purchase consideration must be debited to Shares in Transferee Company Account (Investment Account).
- c) Transfer the profit or loss on revaluation of investment to the Realisation Account.
- d) Transfer the balance in Shares in Transferee Company Account (Investment Account) to the Shareholders Account.
- 3. In the books of transferee company There will be no specific entry.

Illustration 10: Following are the liabilities and assets of Z Ltd. and A Ltd. as on 31st March 2015.

Liabilities	Z Ltd	A Ltd	Assets	Z Ltd	A Ltd
	Rs.	Rs.	roces 2. oncon i sedoca	Rs.	
Equity Shares of	The of	noni	Sundry Assets (no	Zer Fland	Rs.
Rs. 10 each	200000	400000	goodwill)	310000	HELVIOLE HELL
Reserves and Surplus	40000	100000	Loan to A Ltd.	30000	600000
7% Debentures of Rs.			Investments – 5000	30000	
100 each	100000		shares in A Ltd.	50000	
Loan from Z Ltd.		30000		50000	
Other Liabilities	50000	70000	(00000)	000000	
	390000	600000		390000	Babara Ave etc
030005-71-2018-6-70			100202300026		600000

A Ltd. merges Z Ltd. in the nature of purchase on the following terms:

- a) A Ltd. will issue sufficient number of shares at Rs. 11 each and pay Re. 0.50 each per
- b) 7% Debentures of Z Ltd. are taken over by A Ltd. along with other liabilities of Z Ltd. Show the ledger accounts in the books of Z Ltd. and pass journal entries in the books of

A Ltd. Also prepare the balance sheet of A Ltd. after amalgamation.

Solution:

Calculation of Purchase Consid Total number of shares of A Ltd Less: Shares of A Ltd. already New shares of A Ltd. to Total value of new shares (1500 Cash payment (20000x0.50) Purchase Consid	d. to be issued to held by Z Ltd. be issued 00x11)	o Z Ltd.		_ <u>5</u> _ <u>15</u> 	000 000 000 000 000
Le		in the books of 2	Z Ltc	over Semme	
00001		ion Account	10	To Cash A	D.
To Sundry Assets To Loan to A Ltd.	Rs. 310000 30000	By Shares in A	ilitie tures rchas Ltd	e Consideration)	Rs. 50000 100000 175000 5000 100000
Controllerations A	340000		4.6	Balance Sheet of	340000
		. Account	- Annie		economic resident
Rs. 175000 By Shares in A Ltd. (15000xRs. 11) By Cash			Rs. 165000 10000		
	175000	Market Title 1			175000
O POPULATION AND A STREET				and the only	marana da
		Ltd. Account			D.
To Balance b/d To A Ltd.	Rs. 50000 165000 5000	By Equity Shareholders A/c			Rs. 220000
To Realisation (Profit)	220000				220000
		14. Mag W. 18.			Charles and the Control of the Contr
		Account			
To A Ltd.	Rs. 10000 10000	By Equity Shareholders A/c			10000 10000
Section 2000 1 to the second section of the section of	T : 01				
10 (Mary 10 )   1   1   1   1   1   1   1   1   1	Rs.	cholders Accoun	lt		Rs
To Realisation A/c (loss) To Shares in A Ltd.	10000 220000 10000	By Equity Sha By Reserves a			200000 40000
To Cash A/c	240000			In temporal month	240000
000053		OHO OF TE TOO			
Sundry Assets A/c Loan of A Ltd. A/c	Dr	Dr	ANO.	Rs. 310000 30000	Rs.
Luan or I and I	abilities A/c		1 1	Marie Late Committee and the Committee of the Committee o	50000

	To 7% Debentures A/c	sparking assistant	100000
	To Liquidators of Z Ltd. A/c	this Aleragona's	175000
	To Capital Reserve (Bal. Fig.)	od chouds but A	15000
	Gurchase consideration due and assets and	arms of A Late to be	12000
	liabilities taken over)	x0008313 across \$130	To suite in
	Liquidators of Z Ltd. A/c Dr	175000	Marmet prize
	To Equity Share capital A/c (15000x10)	in this Consuler	150000
	To Securities Premium A/c (15000x1)	gied. A	15000
	To Cash A/c	and the same of the same	10000
	(payment of purchase consideration)	per deservation of the con-	1,000
	Loan from Z Ltd. A/c Dr	30000	
	To Loan of A Ltd. A/c	ar a construction of the	30000
EYU .	(Elimination of mutual - loan)		23000

# Balance Sheet of A Ltd.as on 31st March 2015 (after amalgamation)

Particulars	Note No.	Amount (Rs.)
A. Equity and Liabilities Shareholders' Fund a. Share Capital b. Reserves and Surplus Non-current Liabilities 7% Debentures Current Liabilities Other Liabilities (50000+70000)	1 2	550000 130000 100000 120000
B. Assets Sundry Assets: (600000+310000-10000 cash paid to Z Ltd.)  Total		900000

### **Notes to Accounts**

Note No.	Particulars	Amount
1.	Share Capital	(Rs.)
	I sued and Subscribed	
	55000 Equity shares of Rs. 10 each, fully paid	55000
2.	Reserves and Surplus	550000
	Reserves – given	100000
	Capital Reserve	100000
	Securities Premium	15000
		15000
		130000

### Shares held by both the companies in each other

- If purchase consideration is to be calculated under 'net payment method', the purchase consideration is calculated as under:
  - a) Calculate the number of shares to be given to the outside shareholders in transferor
  - b) Calculate the number of shares due to the transferee company as a shareholder in the transferor company.
  - c) Obtain the total of (a) and (b).
  - d) Deduct the number of shares already held by the transferor company from the total under
  - e) To calculate purchase consideration, multiply the number of shares as under (d) with the issue price.

Illustration 11: Following are the liabilities and assets of X Ltd. and Y Ltd. X Ltd. is to absorb Y Ltd., in the nature of purchase, by issuing 5 shares of Rs. 10 each at a premium of 10% for every 4 shares held in Y Ltd.

Liabilities	X Ltd	Y Ltd	Assets	X Ltd	Y Ltd
mopued	Rs.	Rs.	63 vH   F   F   F   F   F   F   F   F   F	Rs.	Rs.
Fauity Shares of			Fixed Assets	800000	400000
Equity Shares of Rs. 10 each General Reserves	1000000 100000	600000 80000	Investments: 12000 shares in Y		
Creditors	200000	120000	Ltd.	160000	
000000	Latine		10000 shares in X Ltd.	(t)	120000
7 ANA			Current Assets	340000	280000
00001	1300000	800000	SAVA L	130000	800000
TANK TO THE REAL PROPERTY OF THE PARTY OF TH			823000	0	

Show the important ledger accounts in the books of Y Ltd and opening entries in the books of X Ltd, assuming current assets of Y Ltd. are taken at Rs. 180000. Also prepare the balance sheet of X Ltd. after absorption.

#### Solution:

Calculation of Purchase Consideration: held by outsiders (60000-12000) = 48000

1	No of chares neld by outsiders (00000-12000) 40000	
	No. of shares due to outsiders (48000x5/4)  No. of shares due to outsiders (48000x5/4)	60000
	No. of shares due to X Ltd. (will not be issued)12000x5/4 No. of shares due to X Ltd. (will not be issued)12000x5/4	15000
b)	No. of shares due to A Blan (Will hot of losada) 1200016	75000
	-1.0(a) an(11)1	
1)	Less: Already held by Y Ltd.  Less: Already held by Y Ltd.	10000
d)	Less: Already held by T Etd.  No. of shares constituting purchase consideration	65000
e)	No. 01 Shares	

Purchase Consideration = 65000x Rs. 11 = Rs. 715000

Ledger Accounts in the books of Y Ltd. Realisation Account

1(0011	566020121222	
Rs.	AND ASTRONOMY AND UNION AND ASTRONOMY	Rs.
400000	By Sundry Creditors	120000
280000	By X Ltd. (Purchase Consideration)	715000
	Rs. 400000	Rs. 400000 By Sundry Creditors 280000 By X Ltd. (Purchase Consideration)

To Shares in X Ltd. (loss – 10000 shares @ Re.1)	10000	Toylor the companies in cash order.	d bladles
To Equity Shareholders A/c	145000	neer considerance, is to be on another	Sing the
(Profit)	145000	Statistical and maker	Condition !
the Control of the Co	835000	to be with the control of the latest and the latest	835000
o Bulanga Liganga Lisaki a sa ka		td Account	Benno
e Roboga Verra		td. Account	namer :
g Roboga Walisa   1842 p. a.	X I Rs.	vicental d	Rs.
To Realisation A/c	ΧI	vicental d	Rs. 550000
To Realisation A/c	X I Rs.	By Shares in X Ltd. (50000xRs. 11)	
To Realisation A/c	X I Rs.	vicental d	550000

water to the time were	Shares in 2	X Ltd. Account	an the nam
To Balance b/d To X Ltd.	550000	By Realisation (Loss on revaluation 10000xRe.1) By Equity Shareholders A/c	Rs. 10000 660000
	670000	exiliation was the second of the	670000

# In the Books of X Ltd. Journal Entries

No.	4 (co. Act) (co. Act)	Rs.	Rs.
	Fixed Assets A/c Dr	400000	
	Current Assets A/c Dr	180000	
	Goodwill A/c (Bal. Fig.)	255000	
	To Sundry Creditors A/c	inh after off outs the	120000
	To Liquidators of Y Ltd. A/c	Positive to X Lat.	715000
	(purchase consideration due and assets and	The state of the state of	. 12000
	liabilities taken over)	MALE WILLIAM MAN	
	Liquidators of Y Ltd. A/c Dr	715000	
	To Equity Share capital A/c (50000x10)		500000
• // /	To Securities Premium A/c (50000x1)	200 ca 4 molennish	50000
	To Shares in Y Ltd		165000
	(payment of purchase consideration)	A FOR COLUMN TO SERVICE AND ADDRESS OF THE PERSON OF THE P	102000
	Shares in Y Ltd. A/c Dr	5000	
	To Goodwill A/c (165000-160000)		5000
	(profit on revaluation of shares in Y Ltd. credited to		2000

Goodwill A/c)			apriesus agy	e duscu suos
no nature of purchase and amadematicaning	trai Wefer	ng)	utu haawadal	and order

### Balance Sheet of X Ltd. (after absorption)

Particulars	anticia i	Note No.	Amount (Rs.)
A. Equity and Liabilities		danada of .	stemp by a Z
Shareholders' Fund		ban enitth	Historica stella
a. Share Capital		1	1500000
b. Reserves and Surplus		2	150000
Non-current Liabilities		3)	Nil
Current Liabilities		Tol	registrate Chira
Sundry Creditors(200000+120000)		000	320000
Sandry Debtors Supplied Section 20000		Od Int	See Loss moon
Total 1000000000000000000000000000000000000		0.5	1970000
Bunk - Coom: Illining Sned			a Payable Tu
B. Assets		350	0.004
Non-current Assets			
Fixed Assets		comident	The purchasi
		abiliani di	1200000
b. Intangible - Goodwill		ott sivi Ja	250000
Current Assets (340000+180000)		W. made as	520000
estimator en 201 lo di ou a obem dal Vici		most bank	ston shoos to a
Total		all of thirds	1970000

### **Notes to Accounts**

Note No.	Particulars	Amount (Rs.)
1.	Share Capital	Sentilic of I
7 0	Issued and Subscribed	
	150000 Equity shares of Rs. 10 each, fully paid	1500000
2.	Reserves and Surplus	To the second se
2.	General Reserve	100000
	Securities Premium	50000
		150000

# **REVIEW QUESTIONS**

# A. Short Answer Type questions

- Define Amalgamation.
- What do you mean by amalgamation in the nature of merger?
- What is meant by amalgamation in the nature of purchase? 3.
- Define purchase consideration.
- What do you mean by net worth method of purchase consideration?

### **B. Short Essay Type Questions**

- 1. Distinguish between amalgamation in the nature of purchase and amalgamation in the nature of merger.
- 2. What are the various methods for calculation of purchase consideration?

#### C. Practical Problems

1. X Ltd. agrees to absorb Y Ltd. in the nature of purchase on 31<sup>st</sup>March 2015 on which date their liabilities and assets are as under:

Liabilities	X Ltd	Y Ltd	Assets	X Ltd	Y Ltd
18M (second abd/St)	(Rs.)	(Rs.)		(Rs.)	(Rs.)
Equity Share Capital of			Fixed Assets	100000	70000
Rs. 10 each	200000	100000	Stock (000001+0	93000	30000
Profit & Loss Account	60000	40000	Sundry Debtors	90000	50000
Sundry Creditors	75000	35000	Bills Receivable	47000	22000
Bills Payable	15000	5000	Bank	20000	8000
CALL CHARLES	350000	180000		350000	180000

The purchase consideration is Rs. 160000 payable in equity shares of Rs. 10 each. The bills payables of X Ltd. include Rs. 8000 due to Y Ltd. and sundry debtors of X Ltd. include Rs. 15000 due from Y Ltd. The stock of X Ltd. includes Rs. 11000 worth of goods purchased from Y Ltd. on which Y Ltd. made a profit of 10% on cost and the stock of Y Ltd. includes Rs. 20000 worth of goods purchased from X Ltd. on which X Ltd. made a profit of 10% on sale price.

Pass journal entries in the books of both the companies and prepare the balance sheet of X Ltd. after absorption (Amalgamation in the nature of purchase).

(Answer: Profit on Realisation- Rs. 20000; Balance Sheet Total - Rs. 527000).

2. The liabilities and assets of Sky Ltd. and Blue Ltd. as on 1st January 2015 were as under:

Liabilities	Sky	Blue Ltd	Assets	Sky	Blue Ltd
	Ltd	(Rs.)	t Subscribbility in	Ltd	(Rs.)
0000087	(Rs.)	TRIT STEEL IN	quity sharm of Rs. 18 of	(Rs.)	(-10.)
Equity Shares of	O Lawrence of		Land and Building	300000	400000
Rs. 10 each, fully paid	500000	1000000	Plant and	Asatono	
Profit & Loss Account	50000		Machinery	200000	300000
6% Debentures	50000		Goodwill	50000	50000
Sundry Creditors	50000	80000	Patents	10.7	10000
			Stock	20000	100000
	Pro-Common		Sundry Debtors	20000	120000
	Co. Letter		Cash at Bank	60000	50000
		Maria Land	Profit & Loss Account	ANA LUMB	50000
	650000	1080000		650000	1080000

Sky Ltd. and Blue Ltd. decided to amalgamate under the name of Sky Blue Ltd. which was floated for the purpose with an authorized capital of 20000 shares of Rs. 100 each.

Sky Blue Ltd. took over all assets except cash at bank, but considered goodwill of Blue Ltd. as valuables. It also agreed to take over trade creditors. For the purpose, it agreed to issue fully paid shares to the liquidators of the two companies.

Give journal entries and ledger accounts in the books of Sky Ltd. and Blue Ltd. and opening entries in the books of Sky Blue Ltd. Also show the balance sheet of Sky Blue Ltd. after the amalgamation (Amalgamation in the nature of purchase).

(Answer: Sky Ltd. – Purchase Consideration – Rs. 490000, Loss on Realisation- Rs. 50000; Blue Ltd. – Purchase Consideration – Rs. 900000, Profit/Loss on Realisation- Nil; Sky Blue Ltd. - Balance Sheet Total –Rs. 1520000).

3. Following are the liabilities and assets of P Ltd. and Q Ltd. P Ltd. is to absorb Q Ltd., in the nature of purchase, by issuing 5 shares of Rs. 10 each at a premium of 10% for every 4 shares held in Q Ltd.

Liabilities	P Ltd	Q Ltd	Assets	P Ltd	Q Ltd
and the second	Rs.	Rs.	reiten stenntes inch	Rs.	Rs.
Equity Shares of	Mary and and		Fixed Assets	1280000	640000
Equity Shares of Rs. 10 each	1600000	960000	Investments:		
General Reserves	160000	128000	19200 shares in		
Creditors	320000	192000	Q Ltd.	256000	
	Parameter State		16000 shares in P	CONTRACTOR OF THE	
	STATE OF THE PARTY		Ltd.	STANDARD TO	192000
		ALTERNATION OF	Current Assets	544000	448000
and Remobiliting limitation	2080000	1280000	Type of top boars	2080000	1280000

Show the important ledger accounts in the books of Q Ltd and opening entries in the books of P Ltd, assuming current assets of Q Ltd. are taken a 3s. 288000. Also prepare the balance sheet of P Ltd. after absorption.

(Answer: Purchase Consideration – 1144000; Profit on Realisation-Rs. 232000; Balance Sheet Total – Rs. 3152000).

## ACCOUNTING FOR INTERNAL RECONSTRUCTION

### Meaning of 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	1. The company losses its identity
2. The overvalued assets are revalued at their net worth and the losses written off.	2. The newly formed company takes over the assets and liabilities of the liquidated company at agreed values.
3. No new company is formed nor is any existing company liquidated. It is the internal matter of a single company.	3. A new company is formed in place of the old company.
4. Debenture holders, creditors and bank overdraft may continue.	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
				-	

1. 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

2. For consolidation of shares:

Share Capital (old) A/c

Dr

To Share Capital (New) A/c

3. For subdivision of shares:

Share Capital (old) A/c

share capital, the company must be nationized by its affected of pure passed at general meeting, and confirmation of court of

To Share Capital (New) A/c

4. For conversion of shares into stock:

Share Capital A/c

d. By reducing paid up capital Tolich is nocrepre

To Stock A/c

5. For conversion of stock into shares:

Stock A/c

Dr

To Share Capital A/c

Illustration 1: 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 2: X Ltd resolves to convert its 50000 equity shares of Rs.10 each fully paid into Rs.500000 worth of equity stock. Journalise the transaction.

Solution:

Equity Share Capital A/c

Dr 500000

To Equity Stock A/c

500000

Illustration 3: 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

M. T. R. Shane Cartes Ado.

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

To Share Capital (New) A/c

b. For paying off surplus capital:

Share Capital A/c

Dr

To Shareholders A/c

Shareholders A/c ii.

To Bank A/c

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

Share Capital (old) A/c

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 4: The following are the liabilities and assets of Brahma Ltd as on 31st March 2015.

Liabilities	Amount	Assets	Amount
of planta freeze taking be made with	(Rs.)	Physic districts of the exposure.	(Rs.)
5000 Equity shares of Rs.100	Tati Anni	Plant & Machinery	173000
each fully paid	500000	Patents	850000
7500 10% Preference shares of		Stock in trade	55000
Rs.100 each fully paid	750000	Sundry debtors	77000
Sundry creditors	50000	Profit & Loss A/c	145000
	1300000	Loaders Avion	1300000

The company suffered losses and the following scheme was adopted:

- a. Equity shares are to be reduced to an equal number of shares of Rs.25 each.
- b. The preference shares to be reduced to an equal number of shares of Rs.50 each.
- c. The amount available to be used to write off Rs.39240 of plant and machinery and Rs.15000 of stock in trade.
- d. Made a provision of Rs.15300 for doubtful debt.

e. The balance being used to write off patents.

Journalise the transactions and prepare the balance sheet after reconstruction.

#### Solution:

	(Inligas besuber to hyome) if Journal			
2015	Equity Share Capital (Rs.100) A/c Dr	lang	Rs. 500000	Rs.
Mar 31	To Equity Share Capital (Rs.25) A/c  To Capital Reduction A/c  (reduction of equity share capital to Rs.25 each)		dapida nan	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)	epour d ban deds r Ave	750000	375000 375000
	Capital Reduction A/c 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)	iol zi non za L gatan	750000	145000 39240 15000 15300 535460

## Balance Sheet of X Ltd (After reconstruction) as on 1st April 2015

Particulars	Note No.	Amount (Rs.)	
A. Equity and Liabilities	A colon party Acres Colon	(RS.)	
Shareholders' Fund	AA - min AT		
a. Share Capital	1	500000	
b. Reserves and Surplus	2	500000	
Non-current Liabilities	3	Nil	
<b>Current Liabilities</b>	in an emphysical	Nil	
a. Trade Payables	4	50000	
		20000	
Total	THE OTHER STATES	550000	
COORD Program		230000	
B. Assets	W. Yalland Street, St.		
Non-current Assets			
a. Fixed Assets	The state of the s		
i. Tangible	5	122760	
ii. Intangible - Patents (850000-535460)		133760	
b. Non-current Investment	Militar Indiana (Ins. 7.40)	314540	
c. Other non-current Assets	min and the second	Nil	
Current Assets		Ni	
Stock in trade (55000-15000)		uniteres in the face	
Sundry debtors (77000-15300)		40000 61700	

Total	550000

#### Notes to Accounts

Note No.	Particulars Particulars	Amount (Rs.)
.19 000 0007 0007 0007	Share Capital Issued and Subscribed 5000 Equity shares of Rs.25each fully paid 7500 10% Preference shares of Rs.50 each fully paid	125000 375000 <b>500000</b>
2. 000 3.00	Reserves and Surplus  Non-current Liabilities	Nil Nil
4.	Trade Payables Sundry Creditors	50000
5.	Fixed Assets – Tangible Plant & Machinery(173000-39240)	133760

Illustration 5: The following are the liabilities and assets of Jay Ram Ltd as on 31st March 2015

Liabilities	Amount	Assets	Amount
profession therefore, in	(Rs.)	291	(Rs.)
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		870.88
does a dament page for a	250000	a mark with cratitors of the season	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

			Rs.	Rs. o.c
2015	Equity Share Capital (Rs.10) A/c Dr		100000	
Mar 31	To Equity Share Capital (Rs.7) A/c		Congress in	70000
	To Capital Reduction A/c	net:	Section 1	30000
11-115	(reduction of equity share capital to Rs.7 each)	077	TO THORSE	
	7% Preference Share Capital (Rs.100) A/c Dr	12 60	100000	
	To 8%Preference Share Capital(Rs.75)A/c		aranymist a p	75000
	To Capital Reduction A/c	wile	L. Lieban	25000
	(reduction of preference share capital to Rs.75)	DOING.	reserves or manife	
	Capital Reduction A/c Dr	BU	55000	3.
	To P&L A/c	18 /30	HOISINET SEET	26000
	To Goodwill A/c	100	edun u9	25000
	To Fixed assets A/c	LUX-10	The part of	4000
	(utilization of capital reduction A/c)	18.18	State Barrier	.500

# Balance Sheet as on 1 April 2015 (After reconstruction)

Pa	Note No.	Amount (Rs.)	
A. Equity and Liabilities	Section 1985 Section 1985 Section 1985	CHARLET CONTRACTOR	(IXS.)
Shareholders' Fund			
a. Share Capital		1	
b. Reserves and Surplus		2	145000
Non-current Liabilities		3	Nil
Current Liabilities		3	Nil
a. Trade Payables		4	
45-10000-01 and 12-2	grown has extract a not but	7	50000
Total		idean original	
			195000
B. Assets			
Non-current Assets	2,50000		
a. Fixed Assets			
i. Tangible		5	
ii. Intangible		Deptaris resid	100000
b. Non-current Investment		Edor & W. C.	Nil
c. Other non-current Assets		ALL THE STATE OF	Nil
Current Assets	titly bus and lifebour 20 A 1123 and 20	and the Should	Nil
HOLES INTERFER TO THE STATE OF			95000
Total			
			195000

Notes to Accounts

Note No.	nent to receive states or del articulars eldement el claims of credi	Amount
		(Rs.)
1.	Share Capital	
	Issued and Subscribed	
Aller Andrew	10000 Equity shares of Rs.7each fully paid	70000
	1000 8% Preference shares of Rs.75 each fully paid	75000
		145000
2.	Reserves and Surplus	Nil
	inthon of layed assets: state a supply as a supply is a state of the control of	
3.	Non-current Liabilities	Nil
	gorston did to proporte and or the second se	
4.	Trade Payables	months
	Sundry Creditors	50000
	reginary departs Ard J. Franciscon and Contraction Statement of the Contraction of the Co	Portage
5.	Fixed Assets – Tangible	- MOORING -
	Fixed assets (104000-4000)	100000
	1 1100 455015 (104000-4000)	100000

### 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:

1. For sacrifice by debenture holders:

Debentures A/c

Dr (with amount sacrificed)

To Capital Reduction A/c

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

Debentures A/c

(old)

Di

To Debentures/ Share Capital A/c (New)

3. For sacrifice by creditors:

Creditors A/c

Dr (with amount sacrificed)

To Capital Reduction A/c

4. 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:

1. For appreciation of fixed assets:

Fixed assets A/c

Dr (with amount of appreciation)

To Capital Reduction A/c

2. For expense incurred on reconstruction:

Capital Reduction A/c

Dr

To Bank A/c

Illustration 6: The liabilities and assets of Gloomy Ltd as on 31 March 2015 was as follows:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
4000 Equity shares of Rs.100 each fully paid 2000 5% Preference shares of Rs.100 each fully paid 6% Debentures Bank overdraft Sundry creditors	400000 200000 100000 35000 100000 835000	Goodwill Freehold premises Plant & Machinery Stock in trade Sundry debtors Cash in hand Profit & Loss A/c	15000 200000 300000 50000 40000 5000 225000 83500

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.

Journalise the transactions and prepare the balance sheet after reconstruction.

Solution:

### Journal

0001		Rs.	Rs.
2015	Equity Share Capital (Rs.100) A/c Dr	400000	1.60000
Mar 31	To Equity Share Capital (Rs.40) A/c		160000
	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	rrooti o	120000
	To Capital Reduction A/c		80000
	(reduction of preference share capital to Rs.60)	- Agent of the contract of	Charles Laborator
	6% Debentures A/c Dr	100000	
	To Stock in trade A/c	THURSDAY NEORCE	50000
	To Sundry debtors A/c	Schrits Almber	40000
00008	To Capital Reduction A/c (Bal. Fig)	io hototory and	10000
	(stock and debtors taken over by debenture	AM sometimes	
	holders)	20000	
	Freehold premises A/c Dr	20000	100.2
	To Capital Reduction A/c		20000
	(Freehold premises appreciated by 10%)	250000	
	Capital Reduction A/c Dr	350000	15000
	To P&L A/c		15000
	To Goodwill A/c	ROTTING	225000
	To Plant and machinery A/c	当らから呼び	100000
	To Bank A/c (expenses)	A Company	4000
	To Capital Reserve A/c	THE RESIDENCE	6000
	(utilization of capital reduction A/c)	anging side	

## Balance Sheet as on 1 April 2015 (After reconstruction)

Particulars	Note No.	Amount (Rs.)	
A. Equity and Liabilities	connection the shareholder		
Shareholders' Fund			
Chare Canital		280000	
b. Reserves and Surplus		6000	
Non-current Liabilities	3	35000	
Current Liabilities			
a. Trade Payables	4	100000	
Total	y and animal transfer was	421000	
B. Assets			
Non-current Assets	A twinters		
a. Fixed Assets			
i. Tangible	5	420000	
: Intengible		Nil	
b. Non-current Investment	Martin Salto reserve de la la Salta Sa	Nil	

c. Other non-current Assets Current Assets	nera es de latritad		Nil
Cash in Hand (5000-4000)	100) A/c Dr	all lating a mode of	1000
Total	tersion According SA (0) 48	priry Same Capitak (I	421000

#### Notes to Accounts

Note No.	Particulars	Amount (Rs.)
1: 000 000 000	Share Capital Issued and Subscribed 4000 Equity shares of Rs.40each fully paid 2000 5% Preference shares of Rs.60 each fully paid	160000 120000
2.	Reserves and Surplus Capital Reserve	280000 6000
3.	Non-current Liabilities Bank Overdraft	35000
4.	Trade Payables Sundry Creditors	100000
5.	Fixed Assets – Tangible Freehold Premises (200000+20000) Plant & Machinery(300000-100000)	220000 200000
May Joseph		420000

### 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:

1. On surrender of shares:

Share capital A/c

Dr

To Surrendered shares A/c

2. On poissue of surrendered shares:

Surrendered shares A/c

Dr

To Share capital A/c

3. 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	ratial standards of	i marcilo to
WAS 1994 of some britished but to senting 00000 at	Rs.	Rs
Equity Share Capital (Rs.100) A/c Dr	1000000	
To Equity Share Capital (Rs.10) A/c	, and	1000000
(subdivision of equity shares into Rs.10 each)	Tunnorsum of	
Equity Share capital A/c Dr	500000	Description.
To Surrendered shares A/c	and the lintellities w	500000
(50% of shares surrendered)		Linkilli
Surrendered shares A/c Dr	300000	
15% Debentures A/c Dr	400000	מוניפט מל אל
To Equity Share capital A/c	ercs of Rail CO	30000
To Capital Reduction A/c		40000
(issue of 60% surrendered shares to debenture	does not it	
holders in full settlement of their claims)		
Surrendered Shares A/c Dr	200000	
To Capital Reduction A/c		20000
(cancellation of unissued surrendered shares)	on Joya Suffred to No.	ung aos ar

# **REVIEW QUESTIONS**

# A. Short Answer Type questions

- 6. What do you mean by internal reconstruction?
- 7. What is Capital Reduction account?
- 8. What do you mean by surrender of shares?

# B. Short Essay Type Questions

- 3. Distinguish between internal reconstruction and external reconstruction.
- 4. How will alter the share capital of a company?

# C. Essay Type Questions

3. Write an essay on forms or methods of internal reconstruction.

#### D. Practical Problems

1. The following are the liabilities and assets of Jaya Ltd as on 31st March 2015

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
15000 Equity shares of Rs.10 each fully paid 1500 12% Preference shares of Rs.100 each fully paid Sundry creditors	150000 150000	Land and Building Machinery Stock Debtors Cash at Bank Profit and loss A/c	145000 35000 25000 40000 5000 150000

It was decided that equity shares of Rs.10 each be reduced to shares of Rs.4 each and 12% preference shares of Rs.100 each be reduced to 12% preference shares of Rs.40 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 down stock by Rs. 10000, writing off the debit balance in P&L A/c, reducing the machinery by Rs. 10000 and with the balance for providing the provision for bad debts against sundry debtors.

Journalise the transactions and prepare the balance sheet after reconstruction. (Answer: Total Capital Reduction – Rs. 180000; Balance Sheet Total – Rs. 220000).

2. The following are the liabilities and assets of Ghosh Ltd as on 31st December 2014

Liabilities	Amount	Assets	Amount
Equity shares of Rs.10 each 10% Preference shares of Rs.100 each fully paid Reserve 11% Debentures of Rs. 100 each Creditors	(Rs.) 500000 200000 226750 100000 137250 1164000	Fixed Assets Stock Debtors Cash Profit and loss A/c	(Rs.) 233500 406200 233750 12300 278250

The company after the approval of the court puts the following scheme of reconstruction: a) Each existing preference share is to be reduced to Rs. 35, of which Rs. 20 will be

represented by new 12% preference shares and Rs. 15 by new equity shares.

b) Each debenture of Rs. 100 is to be exchanged for Rs. 50 of new 13% debenture, one new 12% preference shares of Rs. 25 ach and four new equity shares of Rs. 2.50 each.

c) Each existing equity share is to be reduced to Rs. 2.50.

The reduction of capital and reserves are utilized for writing off losses, 50% stock and debtors and balance, if any, is used for writing-down fixed assets. Show the necessary journal entries and draw the revised balance sheet.

entries and draw the revised balance sheet.

(Answer: Hint – Reserve is transferred to Capital Reduction A/c; Total Capital Reduction – Rs. 746750; Balance Sheet Total - Rs. 417250).

### LESSON 5

## LIQUIDATION OF COMPANIES

#### Introduction

A company comes into existence through a legal process and also a company can comes to an end by law. Some legal formalities are required to close the affairs of a company. Such legal procedures can be called as liquidation of companies.

#### Meaning of Liquidation

O Simply, liquidation or winding up is the legal procedure by which a company comes to its end. Liquidation or winding up of a company can be defined as "the process whereby its life is ended and its property is administered for the benefit of its creditors and members". An administrator, namely a Liquidator, is appointed and he takes control of the company, collects its assets, pays its debts and finally distributes any surplus among the members in accordance with their rights.

Unlike an insolvent individual or partnership firm, insolvency proceedings are not applicable to a company. A solvent as well as insolvent company may be liquidated.

# Modes of Winding up or Liquidation

According to section 271 of the Companies Act, 2013 a company can be liquidated or wound up in the following ways:

- a) By the Tribunal
- b) Voluntary

Notwithstanding anything contained in any other Act, the provisions of this Act with respect to winding up shall apply to the winding up of a company in any of the modes specified under this section.

# Winding up by the Tribunal

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

- (1) A company may, on a petition under section 272, be wound up by the Tribunal -
  - (a) if the company is unable to pay its debts;
  - (b) if the company has, by special resolution, resolved that the company be wound up by the Tribunal;
  - (c) if the company has acted against the interests of the sovereignty and integrity of India, the security of the State, friendly relations with foreign States, public order, decency or morality;
  - (d) if the Tribunal has ordered the winding up of the company under Chapter XIX (of the Companies Act, 2013 dealing with revival and rehabilitation of sick companies);
  - (e) if on an application made by the Registrar or any other person authorised by the Central Government by notification under this Act, the Tribunal is of the opinion

that the affairs of the company have been conducted in a fraudulent manner or the company was formed for fraudulent and unlawful purpose or the persons concerned in the formation or management of its affairs have been guilty of fraud, misfeasance or misconduct in connection therewith and that it is proper that the company we wound up;

- (f) if the company has made a default in filing with the Registrar its financial statements or annual returns for immediately preceding five consecutive financial years; or
- (g) if the Tribunal is of the opinion that it is just and equitable that the company should be wound up.

#### Contributory

Contributoryis a person liable to contribute to the assets of the company in the event of winding up. A contributory's liability is legal, not contractual. A contributory can be either a present member or a past member.

#### 1. Present Members ('A' List of Contributories)

A present member is that member whose name is included in the register of members when the company is wound up. He is liable to contribute the amount remaining unpaid on the shares held by him if the amount is needed to make the payment to the legal claimant. In the case of company limited by guarantee, he is liable for the payment of guaranteed amount at the time of winding up.

#### 2. Past Members ('B' List of Contributories)

Past members are those members who ceased to be shareholders (except by death) within one year of winding up of the company and can be called upon to pay, if the present contributories are not able to pay the liabilities of the company. Section 285 of the Companies Act, 2013 provides that:

- (a) A past member is not liable to contribute in respect of any liability of the company contracted after he ceased to be a member of the company.
- (b) A past member is not liable to contribute if he ceased to be a member of the company for one year or upward before the commencement of the winding up.
- (c) A past member is liable to contribute only if it appears to the Tribunal that present members are unable to make the contributions required to be made by them in pursuance of the Companies Act.
- (d) In the case of a company limited by shares, no contribution is required from any member excluding the amount (if any) unpaid on the shares in respect of which he is liable as such member.
- (e) In the case of a company limited by guarantee, no contribution is required from any member excluding the amount undertaken to be contributed by him in the event of the company being wound up.

#### Liquidator

A liquidator is the person who is appointed for the purpose of liquidating the company. The main job of a liquidator is to realise all assets of the liquidating company, collects the amount due from the contributories and distribute the sale proceeds of assets of the company.

among the right claimants. The company must submit a Statement of Affairs to the liquidator

within 21 days of the passing of the winding up order.

In case of winding up of a company by the Tribunal, the Tribunal at the time of passing of the order of winding up, shall appoint an Official Liquidator or a liquidator from the panel maintained by the Central Government consisting of the names of the Chartered Accountants, advocates, Company Secretaries, Cost Accountants and such other professional as may be notified by the Central Government having atleast 10 years' experience in company matters.

In case of voluntary winding up, the voluntary liquidator is appointed by resolution in

general body meeting of the members and or of the creditors.

#### Order of Payment

The amounts realised from the assets not specifically pledged and the amounts contributed by the contributories must be distributed in the following order of preference:

1. Expenditure of winding up incl. liquidator's remuneration.

- 2. Creditors (Debentures etc.) secured by a floating charge on the assets of the company.
- 3. Preferential Creditors.

4. Unsecured Creditors.

5. Surplus, if any among contributories (Preference shareholders and equity shareholders) according to their respective rights and interests

## **Preferential Creditors**

Preferential creditors are unsecured creditors, having priority of claims over other unsecured creditors, not because of any security held by them but because of the provisions in the Companies Act. They are:

a) All revenues, taxes, cesses and rates, payable to the Government or local authority, due and payable by the company within 12 months before the date of commencement of

winding up.

b) All wages or salaries (including commission) of any employee in respect of services rendered to the company and due for a period not exceeding four months within the said 12 months before the relevant date.

c) All sums due as compensation under Workmen Com ensation Fund Act, from a

provident fund, pension fund, gratuity fund or any other er loyee welfare fund.

# Statement of Affairs

Where the court has made a winding up order or appointed the official liquidator as provisional liquidator unless the court in its otherwise order, a statement as to the affairs of the provisional inquited out and submitted to the official liquidator. This statement is known as a company shall be made it is always open to increase inquidator within 21 days from the date of winding up order. It is always open to inspection to the contributories or creditors of the company, on payment of a prescribed fee.

# Form of Statement of Affairs

Statement as to the affairs of ...Ltd., on the... day of .....20.... being the date of the Statement as to the date of the winding up order appointing Provisional Liquidator or the date directed by the Official winding up order appointing the showing assets of estimated realisable values and liabilities expected to rank. Estimated

Realisable Value (Rs.)

Assets not Balance at Cash in Ha Marketable Bills Recei Trade Debt Loans and Unpaid Cal Stock in Tr Work in Pre	nd Securities vables ors Advances ls	for, Tribunal, dis- col Liquidator or the manace his and such (Cyenra as per harr liquidator	winding up old company by the count on Office near consisting lost Accounta howing attents.	standards the con- the passing of the winding up shall a inding up, shall a of Central Governo any Secretaries, if what Governoon, voluntary winding the of the media	
Plant and n Furniture, I	roperty, Land and Bu Property nachinery Fittings, Utensils etc. s other than marketal	ildings	ist be distributed by his buted by a store of the store o		oma odi ili b vo bolydo od librogribi il coribo izrokali ili ratigno gatrooso
Assets spec	Eifically pledged (as (a) Estimated realisable values (Rs.)	per list 'B')  (b)  Due to  Secured  Creditors  (Rs.)	(c) Deficiency ranking as unsecured (Rs.)	(d) Surplus carried to last column (Rs.)	nanatari nanatari nana bancasa Systemoro 3 a 12/21   A - (s con bro
Estimated to	surplus from assets spotal assets available to a floating charge, and	or preferential	creditors, debe	nture holders	ighw ItA (d) becaling a land of the land o
Gross realis Other Asset Gross Asset	sable value of assets s ts	RY OF GROS	S ASSETS dged	Rs <u>Rs</u>	Totally  Spirit Innexerve  Mark yourse  That is monator
Gross Liabilities (Rs.)	(to be deducted from		lities ded to deficiend		Carlo Varano Carlo Varano Carlo II nan
Approblem	Secured creditors (a estimated to be cove (b) whichever is les	ered by assets s	specifically pled	dged item (a) or	to ha sietent a so makhopu sirates bythox
	Preferential creditor	s (as per list 'C	C')		
	Estimated balance of secured by a floating	of assets availal g charge and u	ole for debentur nsecured credite	re holders ors.	

m <del>akat ad t</del> o	Debenture holders secured by a floating charge (as per list 'D')	atge <del>s Ad</del>
pledged. Ti	Estimated Surplus/ Deficiency as regards debenture holders	Und-entre
il filiw DSD	Unsecured creditors (as per list 'E')	821 ( <del>193</del>
nottlengern er e e ette	Estimated unsecured balance of claims of creditors partly secured on specific assets, brought from preceding page.	OM: o Then c
The state of the s	Trade Accounts  Bills Payables  Outstanding Expenses  Contingent liabilities (state nature)	odob resulta bell 18.821 05821 it is
Constance	Estimated Surplus/ Deficiency as regards creditors (being difference between Gross Assets and Gross Liabilities)	Illuspration I: on 31 <sup>th</sup> March
industry -	Issued and Called-up Capital: Preference Shares of each Called-up (as per list 'F') Equity Shares of Each Called-up (as per list 'G')	Cash to band Stock in trade
Little	Estimated Surplus/Deficiency as regards members (as per list 'H')	

#### Lists to be attached to the Statement of Affairs

As per the Companies Act, the following lists are to be attached to the Statement of Affairs:

- 1. List 'A' A complete list of assets not specifically pledged.
- 2. List 'B' A list of assets which are specifically pledged in favour of fully secured and partly secured creditors.
- 3. List 'C' A list of preferential creditors.
- 4. List 'D' A list of debenture holders and other creditors having a floating charge on the assets of the company.
- 5. List 'E' A list containing the names, addresses and occupations of unsecured creditors and the amount due.
- 6. **List 'F'** A list containing names and number and value of shares held by various preference shareholders.
- 7. List 'G'- A list showing the names and holdings of equity shareholders.
- 8. List 'H' A list showing the surplus or deficiency in the Statement of Affairs that has been arrived at.

#### Procedure for preparation of the Statement of Affairs

The following points are to be kept in mind while preparing the Statement of Affairs:

- 1. Assets which are not specifically pledged are taken first. These assets are to be taken at realisable values. Calls in arrears are also treated as assets not specifically pledged. The uncalled capital is not shown as an asset.
- 2. If there is any surplus from assets specifically pledged that should be added with the realisable value of assets not specifically pledged.
- 3. From the resulting figure deduct the amount of preferential creditors.
- 4. Then deduct the amount of creditors having floating charge (E.g. Debenture holders). The balance will be surplus or efficiency as regards debenture holders.
- 5. From the balance amount obtained, deduct the amount of unsecured creditors. The resultant figure will be either surplus or deficiency as regards unsecured creditors.
- 6. If the balance amount is surplus, the share capital is to be deducted out of that amount or if it is deficiency, the share capital is to be added with the amount. The resultant figure may be surplus or deficiency as regards members or contributories.

Illustration 1: The following information were extracted from the books of a limited company on 31<sup>st</sup> March 2015 on that date a winding up order was made:

Cutted-un Capitat:	Rs.
Cash in hand	6000
Stock in trade (Estimated to produce Rs. 18000)	24000
Furniture and fittings (Estimated to produce Rs. 2520)	3600
Plant and machinery (Estimated to produce Rs. 18720)	18000
Freehold land and buildings (Estimated to produce Rs. 54000)	36000
Book debts (Estimated to produce Rs. 6240)	7440
Unsecured creditors	84000
Preferential creditors	2400
Creditors fully secured (Value of securities Rs. 13200)	10800
Creditors partly secured (Value of securities Rs. 7200)	12000
Bank overdraft secured by a second charge on all assets of company	9600
10% Debentures secured by floating charge (interest paid to date)	60000
Equity share capital – 7200 shares of Rs. 10 each	72000
11% Preference share capital – 7800 shares of Rs. 10 each	78000
Calls in arrears on equity shares (Estimated to produce Rs. 1200)	3000

Prepare a Statement of Affairs as regards creditors and contributories.

Solution:

Statement of Affairs

-049 Sec 10	- 0000	as on 31	st March 2015	Sante Overdraft	1 100960 -
They're		and a least	remelah sharen	dimeted Surplies as	Estimated Realisable
37080			HIDOOR BOOK I		Value (Rs.)
A scota not s	masifically plades	d (as now list 6	A 2)	stonberg bernaken	value (163.)
Cash in Han		d (as per list 2		i asecured Creditor	6000
Sundry Deb					6240
Calls in arre					1200
Stock in Tra			Land Sandara		18000
	nd and Buildings			daaA 28710 mont	
				aracr. Earmrach	18720
Plant and m			construction	Land of Paris Lorida	2520
Furniture an	ia Fittings			gied and Called-up	
	leally pledged (al.		ion in repaire of	800, 11% Proferen	106680
Assets spec	ifically pledged (a	s per list 'B')	Ter steady or he		
abbets spec	(a)	(b)	(c)	(d)	
	Estimated	Due to	Deficiency	Surplus carried	
	realisable	Secured	ranking as	to last column	
	values	Creditors	unsecured	to last column	
	(Rs.)	(Rs.)	(Rs.)	(Rs.)	
Security	13200	10800	(165.)	2400	
Security	7200	12000	4800	Mr. Shrings is app	then when 25
Total	20400	22800	4800	2400	"July 2015."
Estimated s	urplus from assets	specifically ple	dged	ative indicamannish	2400
Estimated to	otal assets availabl	e for preferentia	al creditors, debe	enture holders	and Identified
secured by	a floating charge, a	and unsecured c	reditors (carried	forward)	109080
	CHINARA	ADV OF CDO	CC ACCETO		ook Delits
100358		ARY OF GRO		D- 20400	SIDENTER
	sable value of asset	s specifically p	leugeu	Rs. 20400	mornin in alla
Other Asset				Rs. 106680	broad ni den
Gross Asset	ts <u>Rs. 127080</u>		118 027 E		Atplus Ave (N
	Carbe kleptured for				
Gross	may by		oilities		
Liabilities	(to be deducted fi	rom surplus or a	added to deficien	ncy as the case	
(Rs.)	may be)				aradau,
	EDBOOKS WITH SE	hyana ay dalay a		ample terrology of the second	POSTE THEMOTOR
	Secured creditors	(as per list 'B'	) to the extent to	which claims are	STATE OF THE STATE
10000	estimated to be c	overed by asset	s specifically ple	edged item (a) or	trade 8 a vs
18000	(b) whichever is	less [insert in G	ross Liabilities (	column only]	NEW TREE
2400	Preferential credi	tors (as per list	'C')		2400
		Mary Mary 198	The 3 magainst		2400
	Estimated balance secured by a float	e of assets avail	lable for debenta unsecured credi	ire holders itors.	106680
	Dehenture holder	re secured by	floating 1		
	Debenture holder Debenture holder	ere	maning charge (		1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1
	Debenture noid	010		60000	

69600	Bank Overdraft 2.102 double 10 to the	9600	69600
	Estimated Surplus as regards debenture holders		37080
	Unsecured creditors (as per list 'E')	distant pleif	13D
	Unsecured Creditors	84000	A LAND
88800	Unsecured balance of partly secured	4800	88800
178800	bhageboldent.	Ti I	00000
00087	Estimated Deficiency as regards creditors (being diffe	erence	
	between Gross Assets and Gross Liabilities)	Appliblications be	51720
	Party and the second of the se	to what y	31720
	Issued and Called-up Capital:	annu b	
	7800, 11% Preference Shares of Rs. 10 each		
	Called-up (as per list 'F')		78000
	7200 Equity Shares of 10 Each	theatry pledged (	70000
	Called-up (as per list 'G')	72000	
	Less: Calls in arrears	1800	70200
	Estimated Deficiency as regards members (as per list	'H')	199920

Illustration 2: Mr. Sharma is appointed as the liquidator of Sun Ltd. in voluntary liquidation on 1<sup>st</sup> July 2015. The following are the balances extracted from the books on that date:

Debit Balances	Rs.	Credit Balances	Rs.
Machinery	49500	Capital:	BALL ON THE LAND
Leasehold Properties	66000	26400 Equity shares of Rs.5	
Stock in trade	1650	each	132000
Book Debts	99000	Reserves for bad debts	16500
Investments	9900	Debentures	82500
Calls in arrears	8250	Bank Overdraft	29700
Cash in hand	1650	Liabilities for purchases	33000
Surplus A/c (Negative Bal.)	57750	BULL SH	23000
and the same of the same of the same	293700	Ministers, 1977, The State of t	293700

Prepare a statement of affairs to be submitted in the meeting of the creditors. The following assets are valued as under:

Machinery Rs. 99000; leasehold properties Rs. 119900; investments Rs. 6600, and stock in trade Rs. 3300.

Bad debts are Rs. 3300 and the doubtful debts are Rs. 6600 which are estimated to realise Rs. 3300. The bank overdraft is secured by deposit of title deeds of leasehold properties. Preferential creditors are Rs. 1650. Telephone rent outstanding Rs. 132.

Solution:

Statement of Affairs of Sun Ltd. as on 1<sup>st</sup> July 2015

30.78					Real	mated lisable le (Rs.)
Assets not s	pecifically pledge	d (as per list 'A	<b>\</b> ')			46982
Cash in Hand					Estin	1650
Book Debts					Gros	92400
Calls in arrea	ars					8250
Stock in Tra					Issue	3300
Machinery					200	99000
nvestments				ed-up (as per list '	(Call	6600
Light College						211200
					1	
Assets speci	fically pledged (a	Autobal de la de positione	ragards membe	ated Deficiency as	nisa	
	(a)	(b)	(c)	(d)	1	
	Estimated	Due to	Deficiency	Surplus carried	1757	
	realisable	Secured	ranking as	to last column	1	Lanac
	values	Creditors	unsecured			
	(Rs.)	(Rs.)	(Rs.)	(Rs.)	rome	
Leasehold	The part same times	of rolly build	of boildmin at	which are a daidw	no a	
Properties	119900	29700	The promitting of	90200	ר אמון	
A STATE OF THE PARTY OF THE PAR		00000	THE PERSON NAMED IN ASSOCIATION OF THE PERSON NAMED IN COLUMN TWO IN COLUMN TO SERVICE ASSOCIATION OF THE PERSON NAMED IN COLUMN TWO IN COLUMN TO SERVICE ASSOCIATION OF THE PERSON NAMED IN COLUMN TO SERVICE ASSOCIATION OF THE PERSON OF THE PERSON NAMED IN COLUMN TO SERVICE ASSOCIATION OF THE PERS	90200		
Estimated to	119900 urplus from assets otal assets available a floating charge, a	e for preferentia	al creditors, debe	enture holders	od be to see in to see in asses	odro monosi
Estimated su Estimated to secured by a Gross realisa Other Assets	urplus from assets otal assets available floating charge, a SUMMA able value of assets	specifically ple e for preferentia nd unsecured c	al creditors, debereditors (carried	enture holders	d be as a second according to the second according to	odro monosi
Estimated su Estimated to secured by a Gross realise Other Assets	urplus from assets otal assets available floating charge, a SUMMA able value of assets	specifically ple e for preferentia nd unsecured c	al creditors, debereditors (carried	enture holders forward)  Rs. 119900	n be in the in t	norani
Estimated su Estimated to secured by a Gross realise Other Assets Gross Asset	urplus from assets otal assets available floating charge, a SUMMA able value of asset s  S. Rs. 331100	specifically ple e for preferentia nd unsecured c ARY OF GRO s specifically pl	al creditors, debereditors (carried SS ASSETS ledged	enture holders forward)  Rs. 119900  Rs. 211200	to be in the in the in the in the interest in	odro monosi
Estimated su Estimated to secured by a Gross realise Other Assets	urplus from assets otal assets available floating charge, a SUMMA able value of assets	specifically ple e for preferentia nd unsecured c ARY OF GRO s specifically pl	al creditors, debereditors (carried SS ASSETS ledged	enture holders forward)  Rs. 119900  Rs. 211200	to be in the financial state of the color of	odro monani
Estimated su Estimated to secured by a Gross realise Other Assete Gross Asset  Gross Liabilities	riplus from assets available a floating charge, a SUMMA able value of assets as Rs. 331100 (to be deducted from ay be)	specifically ple e for preferentia nd unsecured c  ARY OF GRO s specifically pl  Liab rom surplus or a s (as per list 'B'	al creditors, debereditors (carried SS ASSETS ledged bilities added to deficier to the extent to specifically please to the speci	enture holders forward)  Rs. 119900  Rs. 211200  acy as the case which claims are edged item (a) or	to be in the in	odro monani
Estimated su Estimated to secured by a Gross realise Other Assets Gross Asset Gross Liabilities (Rs.)	surplus from assets otal assets available floating charge, a SUMMA able value of asset is Rs. 331100 (to be deducted from ay be)  Secured creditors estimated to be certain.	specifically ple e for preferentia nd unsecured c  ARY OF GRO s specifically pl  Liab rom surplus or a s (as per list 'B' overed by asset less [insert in G	al creditors, debereditors (carried SS ASSETS ledged bilities added to deficier to a specifically pleaross Liabilities of the specifically pleaross Liabilities Decomposities Liability pleaross Liabilities Decomposities Liabilities Decompositi	enture holders forward)  Rs. 119900  Rs. 211200  acy as the case which claims are edged item (a) or	id be in the interest and i	301400
Estimated su Estimated to secured by a Gross realisa Other Assets Gross Asset Gross Liabilities (Rs.)	surplus from assets otal assets available a floating charge, a SUMMA able value of asset as Rs. 331100  (to be deducted from may be)  Secured creditors estimated to be could be considered to be	specifically ple e for preferentia nd unsecured c  ARY OF GRO s specifically pl  Lial from surplus or a s (as per list 'B' overed by asset less [insert in G  tors (as per list e of assets avai	al creditors, debereditors (carried SS ASSETS ledged bilities added to deficier to seecifically pleaross Liabilities ('C')	enture holders forward)  Rs. 119900 Rs. 211200  acy as the case  which claims are edged item (a) or column only]	id be in the in the interest of the interest o	90200 301400 165 29975
Estimated su Estimated to secured by a Gross realisa Other Assets Gross Asset Gross Liabilities (Rs.)	surplus from assets otal assets available a floating charge, a SUMMA able value of assets as Rs. 331100  (to be deducted from any be)  Secured creditors estimated to be control (b) whichever is a Preferential credit Estimated balance	specifically ple e for preferentia nd unsecured c  ARY OF GRO s specifically pl  Liab rom surplus or a  s (as per list 'B' overed by asset less [insert in G  ttors (as per list e of assets avai ting charge and	al creditors, debereditors (carried SS ASSETS ledged bilities added to deficier to a specifically pleaross Liabilities (C')	enture holders forward)  Rs. 119900 Rs. 211200  acy as the case  which claims are edged item (a) or column only]  are holders itors.	to be a case of the case of th	301400

fie Inc	Unsecured creditors (as per list 'E') Liability for purchases		
22122		THE PARTY NAMED IN	133
33132	Telephone rent outstanding	331	32
146982	at a plantic of the part last vivil and the part of the	o Imperior	
りともとい	Estimated Surplus as regards creditors (being difference between	Land 6	8
0.000	Gross Assets and Gross Liabilities)	1044	
03250	sian sele set nout to paid in precimench to produce that it is not represented	1841	18
900E	Issued and Called-up Capital:	Acceptance of	
000000	26400 Equity Shares of Rs. 5 Each	The state of the s	
0000	Called-up (as per list 'G')	The section of the section of	
	cance up (us per list of)	1320	00
-60% (11%)	the applications to the following stemps	10.18	
	Estimated Deficiency of records	1,575 66	
Children Co.	Estimated Deficiency as regards members (as per list 'H')	521	15

#### **Deficiency or Surplus Account**

The official liquidator will specify a date for period (not less than three years) beginning with the date on which information is supplied for preparation to an account, to explain the deficiency or surplus. On that date either assets could exceed capital plus liabilities (or reserve) or there could be deficit or negative balance in Surplus Account. Deficiency Account is divided into two parts as follows:

- 1. The first part starts with the deficit on the given date, and contains every item that increases deficiency or reduce surplus such as losses, dividend etc.
- 2. The second part starts with the surplus on the given date and indicates all profits.

If the total of the first exceeds that of the second, there could be a deficiency to the extent of the difference and if the total of the second part exceeds that of the first, there could be a

COLIN	of Deficiency or Surplus Account (List H)	Harally I
	Arrors and a support so gamble to be about to discount the beautiful	
tems	contributing to Deficiency or Reducing Surplus:	Rs.
1.	shown by Balance Sheet (copy appared).	
	Net dividend and bonus declared during the period from20 to	
	Net trading losses (after charging items shown in note below) for the same period.	199 283
4.	Losses other than trading losses written off or for which provision has been made in the books during the same period (give particulars or annex schedule)	Cally 3 Subara
	Estimated losses now written off or for which provision has been made for purposes of preparing the statement (give particulars or annex schedule)	georg.
6.	Other items contributing to Deficiency or reducing Surplus	

#### Total flow holls discounted was PlatoT)

Items reducing Deficiency or Contributing to Surplus:

- 7. Excess (if any) of Assets over Capital and Liabilities on the ...20... as shown in the Balance Sheet (copy annexed)
- 8. Net trading profit (after charging items show in note below) for the period from the ....20... to the date of statement.
- 9. Profits and income other than trading profits during the same period (give particulars or annex schedule)
- 10. Other items reducing Deficiency or contributing to Surplus
  Total

Deficiency or Surplus as shown by the Statement

Note: as to Net Trading Profits and Losses:

- 1. Provision for depreciation, renewals or diminution in value of fixed assets.
- 2. Charges for Indian income tax and other Indian taxation on profits.
- 3. Interest on debentures and other fixed loans.
- 4. Payments to directors made by the company and required by law to be disclosed in the accounts.

Exceptional or non-recurring expenditure

Less: Exceptional non-recurring receipts

Balance being other trading profits or losses

Net trading profits or losses as shown in Deficiency or Surplus Account above.

Note: In case the company in liquidation has not maintained proper books of accounts after a certain date, a trial balance should be prepared with the available information by taking items at their book values. Any difference found in the trial balance is the profit or loss made by the company during the period the company did not maintain books of accounts.

*Illustration 3:*A compulsory winding up order was made against Mayoori Ltd. on 31<sup>st</sup> January 2015. The following particulars are given:

Cash in hand	Rs. 130
Debtors (estimated to produce Rs. 4680)	Rs. 5200
Land and Building (estimated to produce Rs. 62400)	Rs. 78000
Furniture	Rs. 26000
Unsecured Creditors	Rs. 26000
Debentures (Secured on Land and Building)	Rs. 54600
Debentures (Secured on floating charge)	Rs. 13000
Preferential Creditors	Rs. 7800
Share Capital – 4160 shares of Rs. 100 each	Rs. 416000

Estimated liability for bills discounted was Rs. 7800, estimated to rank at Rs. 7800. Other contingent liabilities were Rs. 15600, estimated to rank at Rs. 15600.

The company was formed on 1<sup>st</sup> January 2010 and has made losses of Rs. 408070. Prepare Statement of Affairs and Deficiency Account.

as the attractive and income other than trading profits during the same pr

Solution:

# Statement of Affairs of Mayoori Ltd. as on 1<sup>st</sup> January 2015

	000			to see shown by the	Estimated Realisable Value (Rs.)	
Assets not specifically pledged (as per list 'A') Cash in Hand Debters						
Debtors					130 4680	
Furniture		ng no nollaxis na			26000	
					30810	
Assets spe	cifically pledged (	as per list 'B')			30010	
					Tay II STORMAN	
					* WHEREADE	
			Aminon VI		Water depoxit	
	(a)	(b)	(c)	(d)	AAAD SINSO J	
	Estimated	Due to	Deficiency	Surplus carried	A barrenger	
	realisable	Secured	ranking as	to last column	HIDEH 1518	
	values	Creditors	unsecured	to last column		
	(Rs.)	(Rs.)	(Rs.)	(Pa)	par again of	
Land and	(105.)	(KS.)	(105.)	(Rs.)	in data, a Tes	
Building	62400	54600		7800	Political Diame	
		34000	ALL PROPERTY AND ADDRESS OF THE PARTY OF THE	7800	THE THE WAY OF THE	
Total	62400	54600		7800		
Total	62400	54600	ne entire was an	7800		
	METERIA INC. HOO	acte dgiming religi	ged	7800	a Ass. nonce	
Estimated :	surplus from assets	specifically pled		A my supportant in Authorized Authorized in	7800	
Estimated :	surplus from assets	specifically pled	creditors, debe	nture holders	7800	
Estimated :	surplus from assets	specifically pled	creditors, debe	nture holders	7800	
Estimated s	surplus from assets	specifically pled	creditors, debe	nture holders	- S. Parking to	
Estimated s Estimated s secured by	surplus from assets total assets available a floating charge, a	specifically pled e for preferential and unsecured cre	creditors, debe	nture holders	- S. Parking to	
Estimated s Estimated to secured by Gross realis	surplus from assets total assets available a floating charge, a SUMM. sable value of asset	specifically pled e for preferential and unsecured cre	creditors, debe	nture holders forward)	- S. Parking to	
Estimated secured by  Gross realications	surplus from assets total assets available a floating charge, a SUMM sable value of asset ts	specifically pled e for preferential and unsecured cre	creditors, debe	nture holders forward) Rs. 62400	- S. Parking to	
Estimated secured by  Gross realisother Asse	surplus from assets total assets available a floating charge, a SUMM sable value of asset ts	specifically pled e for preferential and unsecured cre	creditors, debe	nture holders forward)	- S. Parking to	
Estimated secured by Gross realianther Asse	surplus from assets total assets available a floating charge, a SUMM sable value of asset ts	specifically pled e for preferential and unsecured cre	creditors, debe	nture holders forward) Rs. 62400	S PARTY IN	
Estimated secured by  Gross realications Assecures  Gross Assecures	surplus from assets examples from assets available a floating charge, a SUMM sable value of asset to Rs. 93210	specifically pled e for preferential and unsecured cre ARY OF GROS is specifically ple	creditors, debeeditors (carried S ASSETS dged	nture holders forward)  Rs. 62400  Rs. 30810	- S. Parking to	
Estimated secured by  Gross realication Asset Gross Asset Gross Liabilities	surplus from assets total assets available a floating charge, a SUMM sable value of asset to Rs. 93210 (to be deducted fi	specifically pled e for preferential and unsecured cre ARY OF GROS is specifically ple	creditors, debeeditors (carried S ASSETS dged	nture holders forward)  Rs. 62400  Rs. 30810	S Sugara	
Estimated secured by  Gross realications Assecures	surplus from assets total assets available a floating charge, a SUMM sable value of asset ts	specifically pled e for preferential and unsecured cre ARY OF GROS is specifically ple	creditors, debeeditors (carried S ASSETS dged	nture holders forward)  Rs. 62400  Rs. 30810	7800 38610	
Estimated secured by  Gross realication Assessing Gross Gross Assessing Gross Liabilities	surplus from assets total assets available a floating charge, a SUMM sable value of asset to Rs. 93210 (to be deducted from any be)	specifically pled e for preferential and unsecured cre ARY OF GROS is specifically ple  Liabil from surplus or ad	creditors, debeeditors (carried S ASSETS dged	nture holders forward)  Rs. 62400  Rs. 30810  cy as the case	S Sugara	
Estimated secured by  Gross realication Assessing Gross Gross Assessing Gross Liabilities	surplus from assets total assets available a floating charge, a SUMM sable value of asset ts Rs. 93210  (to be deducted from asset to the deducted from the because of the secured creditors	specifically pled e for preferential and unsecured cre ARY OF GROS is specifically ple  Liabilition surplus or ad	creditors, debe	nture holders forward)  Rs. 62400  Rs. 30810  cy as the case	- S. Parking to	
Estimated secured by  Gross realication Assessing Gross Gross Assessing Gross Liabilities	surplus from assets total assets available a floating charge, a SUMM sable value of asset to Rs. 93210 (to be deducted fi	specifically pled e for preferential and unsecured cre ARY OF GROS is specifically ple  Liabil from surplus or ad (as per list 'B') (as per list 'B') (as per list 'B')	creditors, debe	nture holders forward)  Rs. 62400 Rs. 30810  cy as the case  which claims are	- S. Parking to	

ed C	ms made by the contributories. 199	7800
7800	Preferential creditors (as per list 'C')	30810
070)5	Estimated balance of assets available for debenture holders secured by a floating charge and unsecured creditors.	
	the state of the s	13000
13000	Debenture holders secured by a floating charge (as per list 'D'):	otebiuni I
	10 11	17810
	Estimated Surplus as regards debenture holders	er Paymont
	Unsecured creditors (as per list 'E')	
	Unsecured Creditors 26000	
	Liability for Bills Discounted 7800	49400
49400	Contingent Liabilities 15600	sa di al
124800	Estimated Deficiency as regards creditors (being difference	Noval ton al val
	between Gross Assets and Gross Liabilities)	31590
	Detween Gloss Assets and Gloss Entermises)	ablered by the
	Issued and Called-up Capital:	
	4160 Equity Shares of Rs. 100 Each	416000
	Called-up (as per list 'G')	447590
	Estimated Deficiency as regards members (as per list 'H')	

## Deficiency Account (List H)

	con State to	Rs.
Items contributing to Deficiency:  Excess of capital and liabilities over assets	the way to	408070
imated losses now written off for which provision has been in	ade for the	
purpose of preparing the statement:		mayor 4 bigi
Land and Building	15600 520	
Debtors Contingent liabilities (7800 + 15600)	23400	39520
Contingent habilities (7800 + 13000)	CONTRACTOR CO.	447590
Items reducing Deficiency:	Sec. 11	Nil
Deficiency as shown by the Statement of Affairs	Los Here	447590

# Liquidator's Final Statement of Account

The main job of liquidator is to collect the assets of the company and realise them and distribute it among right claimants. He maintains a cash book for recording the receipts and payments and submit an abstract of cash book to the court (incase winding up by the Tribunal), payments and to the company (in case of voluntary winding up). The liquidator also prepares an account of winding up. Such an account is called as Liquidator's Final Statement of Account.

All the receipts are shown on the debit side of this account. They include the following:

- a) Amount realised on sale of assets.
- b) Amount received from delinquent directors and other officers of the company.

c) Contributions made by the contributories.

On the credit side of this account the following payments are shown in the given order:

- a) Payment of secured creditors and dues to workmen upto their claim or upto the amount of securities held by secured creditors. b) Cost of winding up (legal charges).
- c) Liquidator's remuneration.
- d) Payment to creditors having a floating charge on the assets of the company.
- e) Payment of preferential creditors.
- f) Payment of unsecured creditors.
- g) Amount paid to preference shareholders.
- h) Amount paid to equity shareholders.

In the preparation of Liquidator's Final Statement of Account, the principle of double entry is not involved. It is only a statement although presented in the form of an account.

## Form of Liquidator's Final Statement of Account

Receipts	Amount Rs.	Payments	Amount Rs.
Assets: Cash at Bank Cash in Hand Marketable Securities Bills Receivables Trade Debtors Loans and Advances Stock in Trade Work in Progress Freehold Property Leasehold Property Plant and Machinery Furniture, Fittings, Utensils etc. Patents, Trade Marks etc. Investments other than Marketable Securities Surplus from Securities Unpaid calls at commencement of winding up Amount received from calls on contributories made in the winding u Other Property	ag an) maga (H bei J) an and and an and and an being a single ord day; and agap a apply ad P. for	Legal Charges Liquidator's remuneration: % on amount realised % on amount distributed Liquidation Expenses or Cost of Winding up Debenture holders or other creditors having a floating charge on the assets of the company Preferential Creditors Other Unsecured Creditors Preference Shareholders (Refund of Capital) Equity Shareholders (Refund of Capital)	Rs.

#### Liquidator's Remuneration or Commission

A liquidator gets remuneration in the form of commission. It is paid as a percentage of the assets realised as well as a certain percentage of the payments made to unsecured creditors. The following points are relevant while calculating liquidator's remuneration:

- 1. Commission on assets given as securities to secured creditors The liquidator gets commission on the surplus from such assets left after making the payment of secured creditors because he makes an effort of realising the surplus of such assets from secured creditors. However, if he sells the assets himself, he gets commission on the total proceeds of such assets.
- 2. Cash and Bank Balance If the liquidator is to get a commission on cash and bank balance unless otherwise stated.
- 3. Unsecured Creditors If the liquidator is to get a commission on amount paid to unsecured creditors, unsecured creditors will also include preferential creditors for the purpose of calculation of remuneration unless otherwise stated.

If amount available is sufficient to make the full payment of unsecured ed creditors, the commission can be calculated as follows:

$$Commission = \frac{Amount\ due\ to\ unsecured\ creditors\ x\ \%\ of commission\ on concreditors}{100}$$

If the amount available is not sufficient to make the full payment on secured creditors, the commission can be calculated as follows:

$$Commission = \frac{Amount\ available\ for\ unsecured\ creditors\ x\ \%\ of\ commission}{100 + \%\ of\ commission}$$

Illustration 4: A liquidator is entitled to receive remuneration @ 3% of the assets realised and 2% on the amount distributed among the unsecured creditors. The assets realised Rs. 8400000 against which payment was made as under:

Cost of liquidation Rs. 60000, Preferential Creditors Rs. 180000, Secured Creditors Rs. 4800000 and Unsecured Creditors Rs. 3600000.

Calculate the liquidator's remuneration.

Solution:

# Calculation of Liquidator's Remuneration

The state of the s	Rs.
<ul> <li>a. Liquidator's commission on assets realised (8400000x3/100)</li> <li>b. Liquidator's commission on amount paid to preferential creditors</li> </ul>	252000
b. Liquidator's commissions	3600
(180000x2/100)	60871
	008/1
c. Liquidator's communication creditors (3104400x2/102)  Total Liquidator's Remuneration	316471
Total Liquidator's Kemunistation	GITTALORA, J. C. C.

Working Note:

Calculation of amount available to Unsecured Creditors

cration in the form of commission that pult and man noticeting of	Rs.	Rs.
Total assets realised	n an Hn v an 16	8400000
Less: Cost of liquidation	60000	320
Preferential creditors	180000	1
Secured creditors	4800000	aloung )-UK
3% commission on assets realised	252000	
2% commission on amount paid to preferential creditors	3600	5295600
Amount available to unsecured creditors	However, if	3104400

Illustration 5: Prepare the Liquidator's Final Statement of Account of a limited company went into voluntary liquidation, with the following liabilities:

Transportation and experience stated and a state of the s	Rs.	Rs.
Trade Creditors		16800
Bank Overdraft	Aller Sall	28000
Capital:	SI PROPERTY	20000
14000 Preference shares of Rs. 100 each, Rs.7 called up	E DEFEIRMED S	98000
14000 Equity shares of Rs. 10 each, Rs. 9 called up	126000	78000
Less: Calls in arrears	2800	123200
Cash received in anticipation of calls:		123200
On preference shares	33600	orem others
On equity shares	5600	39200

The assets realised Rs. 280000. Cost of liquidation amounted to Rs. 2800. Liquidator's remuneration Rs. 4200.

Solution.

Liquidator's Final Statement of Account

Receipts	Amount	Payments	Amount
And the Outcome of Committee	Rs.	sourced Circuitors Far. 3600000	Rs.
Assets Realised	280000	Cost of Liquidation	
Calls in Arrears	2800	Liquidator's Remuneration	2800
		Bank Overdraft	4200 28000
	Management of	Trade Creditors	16800
the state of the second of the second		Calls in advance	
		Preference Shareholders	39200
	The last of Last	Equity Shareholders	98000
	(001) E-00	@ Rs. 6.70 per share (Bal. Fig)	02900
Committee of the control of the cont	282800	(Bail, 11g)	93800
			282800

Illustration 6: The liabilities and assets of Kaloor Ltd as on 31st March 2015 are as follows:

Liabilities	Amount Rs.	Assets	Amount
Share Capital: Authorised and Subscribed:		Land and Buildings Plant and Machinery	Rs. 320000 800000

6400, 6% Preference Shares of	ALLOGISTIAN	Patents	512000
Rs. 100 each	640000	Stock at Cost	176000
3200 Equity shares of Rs. 100	old a sprov	Sundry Debtors	352000
each, Rs. 75 per share paid up	240000	Cash at Bank	96000
9600 Equity Shares of Rs. 100	Lauribushof		
each, Rs. 60 per share paid up	576000		
5% Debentures (having a	Sone is tone		
floating charge on all assets)	320000		
Interest outstanding on	- midrat		
Debentures (also secured as	TO ELECTION		
above)	16000	tope from stational and course the	Contains
Creditors	464000	the statement of the male to part	11111111111
nes, Ragueria	2256000		2256000

On that date, the company went into liquidation. The dividends on preference shares were in arrear for two years. The arrears are payable on liquidation as per the Articles of the company. Creditors include a loan of Rs. 160000 on mortgage on land and building. The assets realised as under:

Land and building Rs. 384000, Plant and machinery Rs. 640000, Patents Rs. 96000, Stock Rs. 192000 and Sundry debtors Rs. 256000.

The cost of liquidation is amounted to Rs. 34880. The liquidator is entitled to a commission of 3% on al assets realised (except cash at bank) and a commission of 2% on amount distributed among unsecured creditors. Preferential creditors amounted to Rs. 48000. All payments were made on 30<sup>th</sup> September 2015.

Prepare the Liquidator's Final Statement of Account.

Solution:

Kaloor Ltd
Liquidator's Final Statement of Account

Receipts	in Golg side	Amount Rs.	Payments		Amount Rs.
Assets Realised: Cash at Bank Sundry Debtors Stock Patents Plant and Machinery Land and Building	96000 256000 192000 96000 640000 384000	1664000	Secured Creditors Cost of Liquidation Liquidator's Remuneration: On assets realised except cash (1568000x3%) On payment to preferential creditors (48000x2%) On payment to unsecured creditors (256000x2%)	47040 960 5120	160000 34880 53120

19001 - 0.0001 - 0.0001	atoms speck at Cor	5% Debentures Add: Interest for 1 ½	320000	9 and 00 a
Description of the second second second		years upto 30 <sup>th</sup> Sep 2015 @5%	24000	244000
BUILDE THE STATE OF THE STATE O	med in deni	Preferential Creditors	24000	344000 48000
		Unsecured Creditors		256000
18800 F 2000 W 2000		Preference		an medical MAP
178600		Shareholders:		Months ed
The second secon	113 ( 17)	Capital	640000	hnorest upter
The state of the s	0 34.14 65	Arrears of Dividend Equity Shareholders:	76800	716800
after the marking to	O TOPPO	Rs. 15.25 per share	the state of	Bulovods
2256000		on 3200 shares, Rs.		
the same of the state of the same		75 paid up	48800	(1)
dividuals on preference shares were	of Ty sound	Re. 0.25 per share on 9600 shares, Rs. 60	on edi Politika (edi Politika (edi	ie erikonomio Giga Giganomio mio
and building. The assets realised as		paid up	2400	51200
Rg, o-10000, Patents Rs, 95000, Stock	1664000	ng Rs. 384bng, Princand	statued by a	1664000

Working Notes:

Calculation of Unsecured Creditors:

Tetal Conditions	Rs.	Rs.
Total Creditors given	the Principal at Lauri Schier	464000
Less: Mortgage Loan	160000	
Preferential Creditors	48000	208000
Unsecured Creditors	g mka kengalati.	256000

# Calculation of Payment of Capital to Equity Shareholders:

Total Equity share capital paid up (Rs. 240000+ Rs. 576000) Less: Balance available after payment to preference shareholders (1664000-	Rs. 816000
160000-34880-53120-344000-48000-256000-716800) Loss to be borne by equity shareholders	51200 764800

Loss per Equity Share = 764800/12800 = Rs. 59.75

Amount repayable to 3200 equity shareholders = (Rs. 75 - Rs. 59.75)

= Rs. 15.25 per share

Amount repayable to 9600 equity shareholders = (Rs. 60 - Rs. 59.75)

#### = Re. 0.25 per share

Illustration 7: Munna Ltd. went into voluntary liquidation. Prepare the liquidator's final statement of account, from the following details regarding liquidation:

#### Share Capital:

- a) 3400, 8% Preference shares of Rs. 100 each, fully paid up.
- b) Class A 3400 Equity shares of Rs. 100 each, Rs. 75 paid up.
- c) Class B 2720 Equity shares of Rs. 100 each, Rs. 60 paid up.
- d) Class C 2380 Equity shares of Rs. 100 each, Rs. 50 paid up.

Assets including machinery realised Rs. 714000. Cost of liquidation amounted to Rs. 25500.

Munna Ltd. has borrowed a loan of Rs. 85000 from Noor & Co. against the mortgage f machinery (which realised Rs. 136850). In the books of the company salaries of four clerks for four months at the rate of Rs. 510 per month and salaries of four peons for three months at the rate of Rs. 255 per month are outstanding. In addition to this, the company's books show the creditors worth Rs. 148580.

#### Solution:

Munna Ltd.

Liquidator's Final Statement of Account Amount Payments

Receipts	Amount	Payments	Amount
the state of the state of the state of	Rs.		Rs.
Assets Realised	714000	Secured Creditors (Loan)	85000
Proceeds of call @ Re. 1 per		Cost of Liquidation	25500
share on 2380 equity shares of		Preferential Creditors	11220
	2380	Unsecured Creditors	148580
class C		Preference Sharel ders	340000
	description.	Equity Sharehold .s:	
		Rs. 24 per share on 3400 equity	
		shares of class A	81600
	Lawrence	Rs. 9 per share on 2720 equity	enter the second
		shares of class B	24480
The state of the position of the state of th	716380	one with home strain date andress	716380

# Working Notes:

# Calculation of Preferential Creditors:

	Rs.
Ps. 510 per month (510x4x4)	8160
Salary for 4 clerks @ Rs. 510 per month (510x4x4) Salary for 4 peons @ Rs. 255 per month (255x4x3) Preferential Creditors	3060
g land for 4 peolis w 12	11220
Preferential Creditors	

# Calculation of amount returnable or receivable to equity shareholders:

700000000000000000000000000000000000000	Rs.	Rs.
The state of the s	one of the state o	714000
Assets Realised		

Less: Payments	a acceptant with	
Secured Creditors	85000	
Cost of Liquidation	25500	newswife.
Preferential Creditors	11220	lo matèrin.
Unsecured Creditors	148580	270300
Balance available for shareholders	LESSE Professor	443700
Less: Capital to be returned to Preference Shareholders	6A - 3400 Ed	340000
Amount available for Equity Shareholders	1 1 2 2 2 2 1 Eq.	103700
Less: Equity Shares paid up	METORES CHES	
Class A – 3400 Equity shares @ Rs. 75 each	255000	
Class B – 2720 Equity shares @ Rs. 60 each	163200	
Class C – 2380 Equity shares @ Rs. 50 each	119000	537200
Loss to be borne by Equity Shareholders	vittich testined	433500

Loss per equity share = Total Loss/ Total No. of equity shares

= 433500/8500

= Rs. 51 per share

nount Payment Statement Statement Comment of the Statement Comment of t	Class A Shares Rs.	Class B Shares Rs.	Class C Shares Rs.
Paid up amount per share	75	60	50
Less: Loss per share	51	51	51
Amount returnable or receivable to equity shareholders	24	9	1-1-

# Receiver for Debentureholders

In case of liquidation of companies, the debentureholders may appoint an independent person as receiver to take over the assets specifically or generally charged in their favour. The receiver will realise such assets and after meeting his expenses, remuneration and making payment to claimants entitled to get payment in priority to the debentureholders, he will make payment to the debentureholders. The receiver will hand over the surplus, if any, to the liquidator of the company so that the latter may make the payment to the claimants who are to get the payment after the debentureholders. Thus, if a receiver is appointed two statements of accounts namely Receiver's Statement of Account and Liquidator's Final Statement of Account have to be prepared.

Illustration 8: The liabilities and assets of Bharath Ltd. as on 30<sup>th</sup> September 2015 as follows:

Liabilities	Amount Rs.	Assets	Amount Rs.
Share Capital: Issued – 11% Preference Shares		Land and Building	285300
133ded - 11% Fletelence Shares		Sundry Current Assets	711000

of Rs. 10 each	180000	Expenses on issue of Debentures	3600
18000 Equity Shares of Rs. 10 each, fully paid up	180000	of Res (1.3) pergeone (1.0) assistant	Sale proceed
9000 Equity Shares of Rs. 10 each, Rs. 7.50 paid up	67500	loan [44000 10 125000 s	gagnoin to
13% Debentures	270000	NAME OF THE PARTY	
Mortgage Loan	144000	1000081/	
Bank Overdraft	54000		
Trade Creditors	57600	Binest	V CHI STORY
Income tax arrears (Assessment	to momats	2 Inni 3 s'ropphygi, l	1111
concluded in July 2015) AY 2013-14 37800	Part of the second	decempls Amount Amount	e division of
AY 2014-15 <u>9000</u>	46800	tidd formy that	
0402 Wholis a flouidate 7 nontro	999900	s broads so	999900

Mortgage loan was secured against land and building. Debentures were secured by a floating charge on all the other assets. The company was unable to meet the payments and therefore the debentureholders appointed a receiver and this was followed by a resolution for member's voluntary winding up. The receiver for the debentureholders brought the land and building to auction and realised Rs. 270000. He also took charge of sundry assets of the value of Rs. 432000 and realised Rs. 360000.

The liquidator realised Rs. 180000 on the sale of the balance of sundry current assets. The bank overdraft was secured by a personal guarantee of two of the directors of the company and on the bank raising a demand, the directors paid off the dues from their personal resources.

Costs incurred by the receiver were Rs. 3600 and by the liquidator Rs. 5040. The receiver was not entitled to any remuneration but the liquidator was to receive 3% fee on the value of assets realised by him. Preference shareholders had not been paid dividend for period after 30<sup>th</sup> September 2013 and interest for the last half year was due to the debentureholders.

Prepare the Receiver's Statement of Account and the Liquidator's Final Statement of Account.

Solution:

Bharath Ltd.

Receipts	Amount Rs.	Payments	Amount Rs.
Sundry Assets Realised		Cost of Receiver	3600

Surplus realised from	mortgage:	en seanne	Payment to Debe	ntureholders:	00 a 191 - 31 5
Sale proceeds of land	d and		Principal	270000	
building	270000		Add: Interest for	r ½ year	)[1]
Less: Applied to disch	narge		@ 13% p.a	17550	287550
of mortgage loan	144000	126000	Surplus handed o		45.15.42
The Participant			Liquidator	The second of	194850
William		486000	1000001		486000

Bharath Ltd.

Liquidator's Final	Statement of Account
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Receipts	Amount Rs.	Payments	Amount Rs.
Surplus received from the		Cost of Liquidation	5040
Receiver	194850	Liquidator's Remuneration @	3040
Sundry assets realised by		3% of assets realised	
Liquidator	180000	(180000x3%)	5400
han attantioned with the or of alchange	374850	Payment to Preferential creditors	5400
Amount realised from	di Longonii	(Income tax within 12 months)	46900
Contributories:	the same are	Payment to Unsecured Creditors:	46800
From 9000 equity shareholders	distribute soli	Trade Creditors 57600	
@ Rs. 2.17 per share.	19530	Payment of amount	
	1,555	due to directors for Bank	
to balance of smility during territories	to sale of t	Overdraft 54000	111600
two of he di ectors of incommun		Payment to Preference	111600
los from their passars trasscreta		Shareholders:	
		Principal 180000	
the liquidates for 2010. The receiver	yd bas 00?	Arrears of dividend	
to sultry will the but all which of a	ave nonships	@ 11% p.a for 2 years _39600	219600
15. July Dec. 20 301 Revision Shine a	and for his	de printiplement de l'alle	388440
the debendary and selections are	or nut es w	Payment to Equity Shareholders:	300440
		18000 Shares fully paid	
ing Liquidana a rimal Bancment of	bes made	@ Re. 0.33 per share	5940
	394380		394380

Working Notes:

Calculation	f amount payable by partly paid	charaholders.
Calculation	I dilloull payable by partly paid	chareholders.

	Rs.	Rs.
Amount available before call from partly paid shareholders		328050
Less: Amount payable to various claimants:		
Cost of liquidation	5040	
Liquidator's remuneration	5400	
Unsecured Creditors	111600	
Preference Shareholders	219600	241640
Deficiency	217000	341640
Add: Total amount receivable from partly paid shareholders on the		- 13590
basis of notional call of Rs. 2.50 per share on 9000 shares		
Net Surplus after notional call	Sacraffica .	22500
The state of the s		8910

Number of shares deemed fully paid = 18000 + 9000 = 27000 shares.

Refund on each fully paid shares = 8910/27000 = Re. 0.33 per share.

Call on partly paid shares = Rs. 2.50 - Re. 0.33 = Rs. 2.17 per share.

## **REVIEW QUESTIONS**

#### A. Short Answer Type questions

- 9. Define liquidation of a company.
- 10. State the modes of winding up of a company.
- 11. Who is a contributory?
- 12. Who is a present member?
- 13. Who is a liquidator?
- 14. Who is a receiver for debentureholders?
- 15. What do you mean by Deficiency or Surplus Account?

# B. Short Essay Type Questions

- 5. Briefly explain the circumstances when a company may be wound up by the Tribunal.
- 6. What are the types of contributories?
- 7. Write a note on preferential creditors.
- 8. How to prepare a statement of affairs?
- 9. How to calculate the liquidator's remuneration?
- 10. Write a note on Liquidator's Final Statement of Account

#### C. Practical Problems

1. The following information were extracted from the books of a limited company on 31<sup>st</sup> March 2015 on that date a winding up order was made:

	Rs.
Cash in hand	10000
Stock in trade (Estimated to produce Rs. 30000)	40000
Furniture and fittings (Estimated to produce Rs. 4200)	6000
Plant and machinery (Estimated to produce Rs. 31200)	30000
Freehold land and buildings (Estimated to produce Rs. 90000)	60000
Book debts (Estimated to produce Rs. 10400)	12400
Unsecured creditors	140000
Preferential creditors	4000
Creditors fully secured (Value of securities Rs. 22000)	18000
Creditors partly secured (Value of securities Rs. 12000)	20000



Bank overdraft secured by a second charge on all assets of compa	ny 16000
10% Debentures secured by floating charge (interest paid to date)	100000
Equity share capital – 12000 shares of Rs. 10 each	120000
11% Preference share capital – 13000 shares of Rs. 10 each	130000
Calls in arrears on equity shares (Estimated to produce Rs. 2000)	5000

Prepare a Statement of Affairs.

(Answer: Gross Assets - Rs. 211800; Estimated Deficiency as regards members - Rs. 317200).

2. The following information were extracted from the books of a limited company on 31<sup>st</sup> December 2014 on that date a winding up order was made:

Rs.	
Equity share capital – 40000 shares of Rs. 10 each, Rs. 8 called up	320000
Preference share capital – 4000 shares of Rs. 100 each, fully paid	400000
Calls in arrears on equity shares (Estimated to produce Rs. 1200)	2000
15% Debentures secured by first floating charge on assets	400000
Bank overdraft secured by a second charge on all assets of company	200000
Investments (Estimated to produce Rs. 120000)	160000
Land and buildings (Estimated to produce Rs. 160000)	80000
Plant and machinery – secured to creditors	
(Estimated to realise Rs. 160000)	240000
Rent and taxes	8000
Wages and salaries	6000
Bills payable	48000
Sundry Creditors	120000
Bills receivable (Estimated to realise Rs. 4000)	12000
Debtors (Estimated to realise 60%)	280000
Bills discounted (Rs. 60000 likely to rank)	16000
Contingent liability likely to accrue	12000
Cash in hand	6400
Stock in trade (Estimated to produce Rs. 76000)	120000

seignpon ca

Entry for accrued salary of Rs. 8000 and rent of Rs. 4000 has still to be made in the books. Prepare a statement of affairs and deficiency account.

(Answer: Gross Assets – Rs. 695600; Estimated Deficiency as regards to members – Rs. 965600).

- 3. The capital of Dinesh Ltd. was as under:
  - (a) 2000 equity shares of Rs. 100 each fully paid.
  - (b) 1500 equity shares of Rs. 100 each, Rs. 80 per share paid up.
  - (c) 500 preferences shares of Rs. 100 each, fully paid, and
  - (d) 500 deferred shares of Rs. 100 each, Rs. 80 per share paid up (these shares, under the Articles are to be paid after satisfying the claims of equity shareholders).

The various creditors amounted in all to Rs. 50000 including liquidator's remuneration of Rs. 1250. The liquidator has made a call on the remaining Rs. 20 on the deferred shares which were paid in full. He also realised all assets amounting to Rs. 95500. A call of Rs. 15 per share was made on the equity shares which were partly paid up. This was paid in full with the exception of that on 50 shares.

Prepare the liquidator's final statement of account, showing the return of money to the shareholders.

(Answer: Payment to fully paid equity shareholders – Rs. 20000; Payment to partly paid equity shareholders – Rs. 7250; Calls on deferred shares – Rs. 10000).

#### MODULE – 4

# VOYAGE ACCOUNTS

#### FARM ACCOUNTS

#### LESSON 6

#### VOYAGE ACCOUNTS

#### Meaning of Voyage Accounting

The method of accounting followed by shipping companies is known as Voyage Accounting. Shipping companies prepare their accounts periodically and also prepare the results of each voyage separately. Shipping companies carry goods from one place to another. Some companies carry passengers also in addition to goods from one place to another place. Each voyage covers both outward and return journey of vessel.

#### Voyage Account

In order to ascertain the result of operating a ship's voyage, Voyage Account is prepared. The Voyage Account is a revenue account. Voyage Account is similar to an ordinary P&L A/c.It is important to note that there is no difference in the manner of preparing accounts period-wise and voyage-wise.

All expenses connected with the voyage, such as port charges, wages and salaries of the crew, captain and other staff, transhipment, agency fees, provisions, loading and unloading charges, bunker and harbour wages, freight and insurance, insurance of the ship on a time policy according to duration of voyage, depreciation arising as a result of the journey, address commission paid to brokers for freight for the ship, commission to captain on net profit etc. are debited to concerned Voyage Account. All incomes such as freight on cargo carried, passagemoney, primage etc. are credited to this account.

## **Expenditures and Incomes relating to Voyage Accounts**

Voyage Account is debited usually with the following expenses:

#### 1. Bunker Cost

This is the expenditure incurred on fuel oil, diesel, coal and fresh water used during the voyage. Now-a-days oil and diesel are used in place of coal. The bin or storing place of coal is referred to as bunker. Hence these are called as bunker costs.

2. Port Charges

Port is used by the shipping companies for loading and unloading of goods and parking of ships, hence the charges paid for these purposes are known as port charges. 3. Depreciation

Depreciation of the ship for the period of voyage is calculated and charged to the Voyage Account.

4. Insurance

Insurance premium of cargo must be entirely debited to the concerned Voyage Account whereas the insurance charges of the ship are charged proportionately to each voyage on the basis of time of voyage.

5. Address Commission and Brokerage

This is payable to the brokers and agents who help the shipping company in procurement of cargo, i.e., freight or business. This is calculated at a certain per cent of the freight earned including the primage or surcharge and debited to Voyage Account. Address commission is payable to the Charterer whereas brokerage is payable to the agent of the charterer.

6. Stevedoring Charges

The expenses which are incurred in loading of goods on the ships and unloading of goods from the ships are known as stevedoring charges.

7. Port Charges

These are the charges paid to port authorities for allowing the ship to use the port either for loading or unloading the cargo.

8. Stores

If any stock of stores is brought for use during the voyage, then on ship's return the stores in hand must be valued and brought into account. Stores consumed are to be debited.

8. Salaries and wages of the crew, captain and other staff.

9. Harbour charges

10. Manager's commission, if any.

Voyage Account is credited usually with the following incomes:

1. Freight

The amount which is charged by the shipping companies for taking goods or cargo from one place to another is called freight. It is an income.

2. Primage

It is additional freight just like surcharge on freight originally collected for the captain of the ship. It is treated as income of the shipping company.

3. Passage Money

Fare collected from the passengers travelled in addition to the fare collected for merchandise.

4. Closing Stocks of Coal, Fuel etc.

Excess of credit side of Voyage Account over its debit side is profit on the voyage. Excess of debit side of Voyage Account over its credit side is loss on the voyage. This profit or loss is transferred to General Profit and Loss Account of the shipping company.

#### **Vovage in Progress**

A part of voyage is incomplete at the end of accounting period is called voyage in progress. Income and expenditure for such part of voyage are calculated on most appropriate basis and carried forward to subsequent period to ascertain the correct profit.

Illustration 1: Ocean Shipping Ltd gives the following details in connection with a voyage, commenced from port W on 1<sup>st</sup> November 2014. The voyage was completed on 31<sup>st</sup> December 2014 by the arrival of ship 50 port Z.

5000 tons and 1250 tons were loaded at port X for port Z and port Y respectively.

Another 750 tons were loaded at Y for Z. the freight charges were as follows:

Port W to port Z - Rs. 100 per ton Port W to port Y - Rs. 80 per ton Port Y to port Z - Rs. 50 per ton The freight is subject to 10% primage, address commission @ 5% and brokerage @ 3%. The freight was insured @ ½ % and the hull was insured for the voyage @ 1%. Depreciation is provided @ 5% per annum.

Cost of the ship is Rs. 30,00,000. The expenses at different ports were as under:

and Administration than the	W (Rs.)	X (Rs.)	Y (Rs.)	Z (Rs.)
Port charges	12500	2500	7500	7500
Coal	45000		10000	
Captain's expenses	3000	2000	1500	2250
Harbour wages	10000	Indian Artes	7500	6250

Stores purchased at the commencement amounted to Rs. 20000. Opening stock of stores was Rs. 12500 and closing stock is estimated at Rs. 5000. Opening stock and closing stock of coal were Rs. 3750 and Rs. 11250 respectively. Salaries and wages of sailors etc. amounted to Rs. 30000 per month.

Prepare the voyage account for the period ended 31<sup>st</sup> December 2014.

Solution:

Voyage Account for the period ended 31st December 2014

To Address commission	Rs.	mb sair tol intubed at amous 16 age	Rs.
To Address commission (701250x5%)	25062	By Freight: 500000 500000	
To Brokerage	35063		
(701250x3%)	21038	_ /===	to mountain
To Insurance on freight	21038	Y to Z (750x50) 37500 By Primage	637500
(701250x1/2 %)	3506	(637500x10%)	
To Insurance on hull	3300	(03/300/10/0)	63750
(3000000x1%)	30000	Commence of the State State of the State of	
To Depreciation	30000	THE SALE OF STATE OF STREET AND STREET AND STREET ASSESSED.	
(3000000x5%x2/12)	25000	and an artist of the state of t	
To Port Charges	25000	AND ASSESSMENT OF THE PROPERTY OF THE OWNER OF THE COURSE	
(12500+2500+7500+7500)	30000	AND THE PERSON OF THE PERSON O	
To Coal consumed	in the Leading	way wasterpressed and more than	
[3750+(45000+10000)-11250)	47500		
To Captain's expenses	73.8° Mas 9	SHIPPING LOCK IN	
(3000+2000+1500+2250)	8750	more served to the him to	
To Harbour wages	at about the	an asyo inuous August in a	
(10000+7500+6250)	23750	strong Company St of Charles Cons. Accou	
To Stores consumed			
(12500+20000-5000) Γο Salaries & wages	27500		
(30000x2)	60000		
To Net Profit	60000		
10 1401 110111	389143		
	man la b	or and its realignment as subvenily	
	a agayov	o find unit and anaphuse's pire	
		a octoo rec management of the commit	
	701050		ALL DESIGNATION
	701250	and some experience of the control o	701250
			101230

Illustration 2: Maharaja Shipping Co. Ltd. of Mumbai acquired a new ship at a cost of Rs. 7500000. The ship was ready for service on 1<sup>st</sup> January 2014. An insurance policy was taken @ 2% per annum on the ship. Freight was insured at Rs. 20000 per annum. During 3 months ended 31<sup>st</sup> March 2014, the ship was completed one round trip to Kolkata and was half through the

The ship carried the following cargo:

To Kolkata - 18000 tons @ Rs.300 per ton From Kolkata – 20000 tons @ Rs. 270 per ton

To Kolkata – 24000 tons @ Rs. 250 per ton Commission @ 5% was paid to agents in addition to address commission @ 1%. The other expenses were as follows:

Salaries and wages of crew	Rs. 1600000
Fuel	Rs. 800000
Sundry stores	Rs. 160000
Port dues (Mumbai Rs. 140000, Kolkata Rs. 100000)	Rs. 240000
Stevedoring @ Rs. 20 per ton	Rs. 1240000
Share of overheads for the ship for the period	Rs. 500000
D. i.i. demonistion for the period @ 50/ per annum	

Provide depreciation for the period @ 5% per annum. Prepare the consolidated voyage account for the period of three months ending 31st

March 2014. Solution:

Maharaja Shipping Co. Ltd
Voyage Account
of from 1<sup>st</sup> January 2014 to 31<sup>st</sup> March 2014

To Insurance on ship (7500000x2%x3/12) To Insurance on freight	Rs. 37500	By Freight: 18000x300 5400000 20000x270 5400000 24000x250 6000000	Rs. 16800000
(20000x3/12) To Address commission (16800000x1%)	168000	By Voyage in Progress	1525917
To Agent's commission (16800000x5%) To Salaries & wages To Fuel To Sundry Stores To Port dues To Stevedoring	840000 1600000 800000 160000 240000 1240000 500000	Verbeiteren geragen on Vergee in in der verbeiteren von Vergee in in der Archaute por stiller Schiller Schiller verbeiteren der verbeiteren verbeitere	
To Overheads To Depreciation (7500000x5%x3/12) To Provision for incomplete Voyage (Freight) To Net Profit	93750 6000000 6641667	this surject to 10% primage, 3% next at 1 the half was into per per 15% primage, 3% next at 1 the half was into per 15% cast of the half was into per 15% cast of the half was into 25% at 15% per 15% cast of the half was at 15% per 15% cast of the half was at 15% per 15%	pane na apparity na ni bola a na panellati
Inchiquinaea Chenqua E Res. 200001	18325917	Kolle RE	18325917

Working Notes:

#### Calculation of voyage in progress

	AS.
Insurance on ship (1/5)	7500
Incurance on freight (1/5)	1000
Address commission (6000000x1%)	60000
Agent's commission (6000000x5%)	300000
Salaries & wages (1/5)	320000
Fuel (1/5)	160000
Gundry Stores (1/5)	32000
Dort dues (at Mumbai 140000x1/3)	46667
Stevedoring (24000 tons @ Rs. 20)	480000
Overheads (1/5)	100000
Depreciation (1/5)	18750
Depres	

1525917 Hbo

The ship started from Mumbai to Kolkata and reached Mumbai in the first round

In second round trip it again started from Mumbai (voyage in progress).

When the ship started from Mumbai, it did only loading. On returning it did unloading and loading. So the stevedoring charges are apportioned at a reasonable basis (1/3) for incomplete voyage.

#### REVIEW QUESTIONS

A. Short Answer Type questions

16. What do you mean by voyage account?

17. What is address commission?

18. What do you mean by stevedoring charges? 19. What is primage?

20. What do you mean by voyage in progress?

B. Short Essay Type Questions

11. Explain the expenditures and incomes relating to voyage accounts

C. Essay Type Questions

4. Write an essay on voyage accounts.

#### D. Practical Problems

1. S.S. Ganga sailed from Kolkata on 1st February 2015 and arrived at Chennai Port on 31st March 2015 via Vishakhapatnam port on Voyage No. 302. The following goods were loaded:

1000 M.T. and 200 M.T at Kolkata port for Chennai port and Vishakhapatnam port respectively. Another 500 M.T were loaded at Vishakhapatnam for Chennai. The freight charges were:

Kolkata port to Chennai port Rs. 600 per M.T Kolkata port to Vishakhapatnam port Rs. 500 per M.T Vishakhapatnam port to Chennai port Rs. 400 per M.T

The freight is subject to 10% primage, 5% address commission and 2.5% brokerage. The freight was insured at ½ %. The hull was insured for the voyage at 1%. Depreciation was provided at 3% p.a. The cost of the ship is Rs. 1 crore. The following were the expenses incurred at different ports:

Correction and State Control of the	Kolkata Rs.	Vishakhapatnam Rs.	Chennai Rs.
Port charges	36000	20000	20000
Coal	100000	30000	
Captain's contingencies	7000	2000	10000
Harbour wages	10000	20000	15000

Stores purchased for the voyage amounted to Rs. 50000. Opening stock of stores was Rs. 40000 and closing stock was estimated at Rs. 30000. Stock of coal at close was estimated at Rs. 30000 as against stock of Rs. 10000 at the beginning. The ship will not come back to Kolkata port in the near future as part of the voyage programme. Salaries and wages amounted to Rs.

Prepare this Voyage No. 302 account.

(Answer: Profit – Rs. 290800)

#### LESSON 7

## **FARM ACCOUNTS**

#### Introduction to Farm Accounting

Farm accounting is intended to keep a record of farming activities. Farming activities include agriculture, horticulture, animal husbandry, poultry farming, pisciculture, dairy, sericulture, nurseries for plants, fruits & flowers etc.Farm accounting is also called as Farm Book keeping.

The following are some of the definitions of farm accounting:

Farm accounting is defined as an application of the accounting principles to the business of farming.

Farm accounting can be defined as "the art as well as the science of recording in the books business transactions in regular and systematic manner so that their nature, extend and financial affects can be readily ascertained at any time of the year".

In India, Small farmers, mostly being illiterate, do not maintain accounts of agricultural operations. Medium & big farmers keep accounts only for ascertaining amounts receivable & payable. Farms in corporate sector maintain accounts, as they have to keep accounts under the Companies Act.

In India, farm accounting is in its infant stage and not popular as it is in advanced countries due to the following reasons:

- 1. Limited number of organised farms.
- 2. Mostly based on small scale operation of the household.
- 3. Low level of education of small & average farmers.

# **Characteristics of Farm Accounting**

- Notional Transactions Some of the crops and products of the farm are consumed by the family of the farm owner. Such consumption is treated as income of the farm and drawings of the farm owner. The transactions between the farm and farm household are called notional transactions.
- 2. A single bank account may be opened both for private & business purposes Being so, private transactions should be segregated from business transactions so that profit or loss and financial position of farming activities may be ascertained.
- 3. Family provides labour for the farm Valuation of such labour should be made and added to the cost of production for ascertaining correct cost of production or profit.
- 4. Farming activities are subject to natural calamities To meet the losses due to draught, flood, diseases etc. insurance policies for various farming activities should be taken.
- Valuation of farm inventory is a difficult task Inventory valuation is very difficult especially in case of standing crops, cattle, poultry etc.

6. Exchange transactions- Output of one farming activity may become the input of another farming activity. For example, a part of crop produced may be used in cattle rearing, poultry farming etc. Such transactions are called as exchange transactions and should be valued at the opportunity cost (market price).

#### Objectives of Farm Accounting

- 1. True cost of each farming activity can be ascertained. So farm practices can be improved to reduce the cost of production.
- 2. Profit on each line of farming activity can be ascertained. It helps to ensure better managerial
- 3. It is helpful in maintenance of proper accounting records of farming activities,
  - 4. Return on capital employed in farming activities can be ascertained.

#### Importance of Farm Accounting

- 1. It permits the farmer to find out the size of the income which is derived from the farm.
- 2. To know the total value of the farm business and to know which part is actually owned by the farmer and which by others.
- 3. Farm accounts provide the indispensable tool for farm management. In other words, accounting is needed to obtain and to maintain the most profitable use of farm resources.
- 4. To detect loss or theft of cash or stock.
- 5. To provide the necessary data for a correct income tax assessment.
- 6. To claim expenses for work done by others.

## Recording of Farming Transactions

Farm accounting can be done on double entry system. All subsidiary books and ledger can be maintained for recording farm transactions. As farming businesses are mostly on cash basis, single entry system of accounting can also be followed. To obtain cost and profit of each product detailed accounts should be kept for different crops like rice, wheat, cotton jute etc. Each crop account is debited with opening stock and expenses and credited with sale proceeds and closing stock. Common costs can be apportioned suitably among different crops. The balance of crop account will be the profit on that crop.

In case of livestock, separate accounts should be maintained for each type of livestock. All the costs relating to livestock are debited and sale proceeds and other incomes are credited to the livestock account. The resultant figure shall be profit or loss.

Generally a Farm Account is prepared for all the farm items. A Crop Account is prepared for all crops like wheat, rice, jute, cotton, vegetables etc. A DairyAccount can be maintained for all types of livestock, milk, butter, cream etc. All activities relating to poultry farming can be

For proper ascertainment of profit & financial position, farmer should value inventories and other assets. The basis of inventory valuation should be at cost or market price whichever less is. It is very difficult to ascertain the cost of livestock and standing crops. In such a case, as a

general practice, the value of livestock is taken as 75% of market price and the crops are valued at 85% of market price.

The livestock may be fixed asset or current asset. It is a fixed asset when livestock are kept for crop purposes. But, these are taken as current assets when livestock are kept for trading purposes.

Proper depreciation should be provided for farm machinery, equipment and farm buildings in order to ascertain the correct profit or loss from farming activities.

As the farming business is family type the item of drawings should be carefully recorded. Apart of cash drawings there may be consumption of crop, dairy or poultry products. The following entry is passed to record the consumption of farm products by farm proprietor:

Drawings A/c

Dr

To Farm A/c

When farm products are consumed by labourers or paid in kind:

Wages A/c

Dr

To Farm A/c

# **Books of Accounts**

- 1. Cash Book for keeping a record of cash transactions.
- 2 Debtors & Creditors Register for keeping a record of credit transactions.
- 3. Stock Register for keeping a record of details of input goods and output goods, sales, utilisation, wastage and balance of stock.
- 4. Fixed Assets Register for keeping a record of cost of fixed assets, depreciation on fixed assets and balance of fixed assets.
- Loan Register for keeping a record of borrowings from banks, friends, relatives and other agencies along with interest paid and payables.
- Register for Notional Transactions for making a record of transactions between farm and farm household.
- 7. Cost Analysis Register for keeping a record of cost of each farming activity for ascertaining profit of each farming activity.

**Expenses and Incomes of Farming Activities** 

A. Crops

#### Expenses:

- 1. Seeds
- 2. Fertilisers
- 3. Pesticides
- 4. Irrigation expenses
- 5. Wages
- 6. Running and maintenance cost of agricultural machinery and equipment
- 7. Depreciation on fixed assets
- 8. Interest on borrowed capital
- 9. Rent on agricultural land
- 10. Notional rent, interest on owned capital or wages
- 11. Land revenue, cesses and other taxes

#### Incomes:

- 1. Sale of main products & by products
- 2. Value of farm products consumed by family members
- 3. Value of output transferred to other farming activity
- 4. Value of output exchanged for input

#### B. Poultry

#### Expenses:

- 1. Cost of chickens
- 2. Cost of feed
- 3. Cost of stocks like hay, packing boxes etc.
- 4. Maintenance cost of poultry sheds
- 5. Salaries & wages

#### Incomes:

- 1. Sale of eggs
- 2. Sale of chickens, broilers & hens
- 3. Sale of poultry excrements as manures

#### C. Dairies

#### Expenses:

- 1. Cattle feed & hay
- 2. Cost of cultivation of feed crop
- 3. Salaries & wages
- 4. Cost of insecticides
- 5. Cost of maintaining milk processing facilities

#### Incomes:

- 1. Sale of milk
- 2. Sale of milk products
- 3. Sale of calves
- 4. Sale of slaughtered cattle

#### D. Fisheries

#### Expenses:

- 1. Cost of spawn like seeds
- 2. Cost of water
- 3. Cost of fish feed
- 4 Tank maintenance cost
- 5. Catching expenses
- 6. Salaries & wages

#### Incomes:

1. Sale of fish

# Final Accounts of Farm Activities

The final accounts of farming activities can be prepared under both single entry system and double entry system.

# Single Entry System

Under single entry system, opening statement of affairs snowing assets and liabilities at the beginning of the year and closing statement of affairs showing assets and liabilities at the end of the year are prepared and thereby profit or loss for the year is ascertained.

# **Double Entry System**

Under double entry system, a trial balance can be prepared which becomes the basis for preparation of Farm Account or Trading and Profit and Loss Account and Balance Sheet. Nominal accounts are closed by transferring them to Farm Account or Trading and Profit and Loss Account and balances of personal and real accounts are shown in Balance Sheet. Balance of Farm Account or Trading and Profit and Loss Account being profit or loss is transferred to Capital Account or Farm Household Capital Account.

Illustration 1: Prepare a Crop Account from the following information to ascertain the profit made by the farm's crop division.

Opening Stock (Rs.)

Closing Stock (Rs.)

Wheat

15000

12000

Seeds	3000		2100
Fertilisers	4500		2400
Purchases:			
Seeds		Rs. 1800	
Fertilisers		Rs. 2700	
Wages:			
Paid in cash		Rs. 20400	
Paid in kind (Wheat)		Rs. 13800	
Sale of Wheat		Rs. 106200	
Wheat consumed by proprietor	*Amount !	Rs. 4800	
Depreciation on farm machinery		Rs. 6000	

#### Solution:

#### Crop Account

To Opening Stock:			By Sale (Wheat)	106200
Wheat	15000		By Wages in kind (Contra)	13800
Seeds	3000		By Drawings (Wheat consumed)	
Fertilisers	4500	22500	By Closing Stock:	4800
To Purchases:	or! asbon L		Wheat 12000	
Seeds	1800		Seeds 2100	
Fertilisers	2700	4500	Fertilisers 2400	16500
To Wages:				16500
Cash	20400			
Kind(Contra)	13800	34200	Shirt Come Barbaran and St. According	
To Depreciation on m	achinery	6000	state trained manage ware attack	
To Crop profit transfe	erred to		S Indirectate or sold business of the	
P&L A/c	ortortas as	74100	are to bring view U slaw bringers	
		141300	Capa No. 18.2% percentage	141300

Illustration 2: From the following trial balance of a farmer, prepare Trading and Profit and Loss Account for the year ended 31<sup>st</sup> December 2014 and Balance Sheet as on that date.

Debit Balances	Rs.	Credit Balances	P
Opening Stock:	and the second state of the	Sales:  244000 Milk  16000 Paddy  11200 Livestock  8800 Creditors  Capital  46400  9600  4800  27200	Rs.  121600 210400 36000 47200 684800
Livestock Paddy Cattle feed Fertilisers	16000 11200		
Purchases: Livestock Fertilisers Seeds Cattle feed Crop expenses:	46400 9600 4800		

Labour	28800	000025	
Other direct expenses	3200		To General Expenses
Livestock Expenses:			To Depreciation on energy
Medicines	4800		(6) 10%
Labour	28800		To Net Profit transferred to
Dairy expenses	6400	100000000000000000000000000000000000000	Capited
General expenses	48000		
Tractor	144000		
Land	400000		
Cash in hand and at bank	68000	Till Balanc	ice officer Forat - 81, 1,57,1007,
the receipt the last of the combact	1100000		1100000

Also consider the following adjustments:

#### a. Closing stock:

Livestock	Rs. 240000
Paddy	Rs. 12000
Cattle feed	Rs. 7200
Fertilisers	Rs. 4800

b. The proprietor has consumed the following items out of his farm output:

Milk Rs. 19200 Paddy Rs. 4800

c. Provide 10% depreciation on tractor.

#### Solution:

# Farm Account (Trading and Profit and Loss Account) for the year ended 31<sup>st</sup> December 2014

To Opening Stock:		7 434	By Sales:	afao aar mind	XX / L
Livestock	244000		Milk	121600	
Paddy	16000		Paddy	210400	
Cattle feed	11200		Livestock	36000	368000
Fertilisers	8800	280000	By Products consumed		
To Purchases:			by proprietor:	OpenQ aut I	
Livestock	46400		Milk	19200	
Fertilisers	9600		Paddy	4800	24000
Seeds	4800		By Closing Stock:	SOUTH THE PARTY AND	
Cattle feed	27200	88000	Livestock	240000	
To Crop expenses:	Continues of		Paddy	12000	
Labour	28800		Cattle feed	7200	
Other direct exp.	3200	32000	Fertilisers	4800	264000
To Livestock Exp:	being Brock i		Opening Siges (But		
Medicines	4800		000		
Labour	28800		The Towns		
Dairy expenses	6400	40000	0081	ministra	
To Gross Profit c/d	PARTY STATE	216000	LE PER A CAPPELLONING	1200 111 2	

To General Expenses	656000 48000	By Gross Profit b/d	656000 216000
To Depreciation on tractor @10% To Net Profit transferred to	14400	4800 28800	A Medicilies Nedicilies Labour
Capital	153600	6009	Daily axpe
	216000	HOUGH STATE	216000

Balance Sheet as on 31st December 2011

Liabilities		Rs.	Assets		Rs.
Creditors Capital: Opening Balance Add: Net Profit Less: Drawings	684800 153600 838400 24000	47200 814400	Cash in hand and bank Closing Stock: Livestock Paddy Cattle feed Fertilisers	240000 12000 7200 4800	68000 264000
The strategy and s	u of his fluttn	861600	Tractor Less: Depreciation Land	144000 14400	129600 400000 861600

#### **REVIEW QUESTIONS**

#### A. Short Answer Type questions

- 21. Define farm accounting.
- 22. What are the reasons for slow growth of farm accounting in India?

## **B. Short Essay Type Questions**

- 12. Explain the objectives of farm accounting.
- 13. Write a note on importance of farm accounting.
- 14. Give the list of expenses and incomes of different farming activities.
- 15. What are the books of accounts maintained under farm accounting? 16. Briefly explain the characteristics of farm accounting.

## C. Essay Type Questions

- 5. Briefly explain the procedures of recording transactions under farm accounting.
- 6. What is farm accounting? Explain its characteristics and importance.

#### D. Practical Problems

D. Practical Problems

1. Prepare a Crop Account from the following information to ascertain the profit made by the

	Opening Stock (Rs.)	Closing Stock (Rs.)
Wheat	5000	4000
Seeds	1000	700
Fertilisers	1500	800

#### Purchases:

Seeds Fertilisers	Rs. 600 Rs. 900
Wages:	D (000
Paid in cash	Rs. 6800
Paid in kind (Wheat)	Rs. 4600
Sale of Wheat	Rs. 35400
Wheat consumed by proprietor	Rs. 1600
Depreciation on farm machinery	Rs. 2000
Depreciation on farm machinery	103. 2000

(Answer: Crop Profit transferred to General P&L A/c – Rs. 24700; Balance Sheet Total – Rs. 137500). 2. From the following trial balance of a farmer, prepare Trading and Profit and Loss Account for

the year ended 31st December 2014 and Balance Sheet as on that date.

Debit Balances	Rs.	Credit Balances	Rs.
Opening Stock:	GRINT BROOKS TO	Sales:	The representation
Livestock	30500	Milk	15200
Paddy	2000	Paddy	26300
Cattle feed	1400	Livestock	4500
Fertilisers	1100	Creditors	5900
Purchases:		Capital	85600
Livestock	5800	DERNE BRIDGE A LESSE DIRECTES DE CONTRACTOR	The state of the s
Fertilisers	1200	mentions where to determine the property	Section of the second
Seeds	4000	duponia eta un di Indiana 19 ha emissississi	
Crop expenses:		an ununti pautian seu zannunai	PI THE STATE OF TH
Labour	3600	mang proping of people in graph	Water Will Holder
Other direct expenses	400	Selector from heat in a clinic background at	
Livestock Expenses	5000	GREEK BRITING DEFILER SPRING B	tribite.
General expenses	6000	Simple Libertheyinkyin admin 70	riconneumanp.
Tractor	18000		communicate."
Land	50000	appropriately and debt holders	
Cash in hand and at bank	8500	asmentagent anyloved vine ten ARIA	The state of the s
AND THE RESIDENCE AND ADDRESS OF THE COMMENTS	137500	Company and the propagate street, by the	137500

Also consider the following adjustments:

a. Closing stock:

Livestock Rs. 30000
Paddy Rs. 1500
Cattle feed Rs. 900
Fertilisers Rs. 600

b. The proprietor has consumed the following items out of his farm output:

Milk Rs. 2400 Paddy Rs. 600

c. Provide 10% depreciation on tractor. (Answer: Gross Profit – Rs. 27000; Net Profit transferred to Capital A/c – Rs. 19200; Balance Sheet Total – Rs. 107700).

## MODULE -5

## HUMAN RESOURCE ACCOUNTING (HRA)

## ACCOUNTING FOR PRICE LEVEL CHANGES (INFLATION ACCOUNTING)

## LESSON 8

# HUMAN RESOURCE ACCOUNTING (HRA)

## Meaning and Definition of Human Resource Accounting

Human resource accounting is the process of identifying and reporting investments made in the human resources of an organization that are presently unaccounted for in the conventional accounting practices. It is an extension of standard accounting principles. Measuring the value of human resources can assist organizations in accurately documenting their assets.

The American Accounting Association's (AAA) has defined Human Resource Accounting as "the process of identifying and measuring data about human resources and communicating this information to interested parties".

Eric Flamholtz has defined Human Resource Accounting as "the measurement and reporting of the cost and value of people in organizational resources"

Stephen Knauf defined Human Resource Accounting as "the measurement and quantification of human organizational inputs such as recruiting, training, experience and commitment."

Thus HRA not only involves measurement of all the costs or investments associated with the recruitment, placement, training and development of employees, but also the quantification of the economic value of the people in an organization.

## Objectives of Human Resource Accounting

- 1. To furnish cost value information for making proper and effective management decisions about acquiring, allocating, developing, and maintaining human resources in order to
- 2. To monitor effectively the use of human resources by the management.
- To monitor effectively the use of human Asset, i.e. whether such assets are conserved, depleted,
- 4. To aid in the development of management principles and proper decision making for the future, by classifying financial consequences of various practices.

## Development of Human Resource Accounting (HRA)

Research during the early stages of development of HRA was conducted at the University of Michigan by a research team including the late organizational psychologist Rensis Likert, R. Lee Brummet, William C. Pyle and Eric Flamholtz. The group worked on a series of research projects designed to develop concepts and methods of accounting for human resources. One outcome of this research was a paper representing one of the earliest studies dealing with human resource measurement and the one in which the term "Human Resource Accounting" was used for the first time. They focused on HRA as a tool for increasing managerial effectiveness in the acquisition, development, allocation, maintenance, and utilization of its human resources. But the traces of a rudimentary HRA can be found in the Medieval European practice of calculating the cost of keeping a prisoner versus the expected future earnings from him.

#### Need and Importance of Human Resource Accounting

In the recent decades concentration is switching from manufacturing organization to service rendering organization, where human is the main resource. But not only for the service organization but also human resource accounting is also necessary for the manufacturing organization to measure their production personnel's expertise. The necessities of the HRA can be as follows.

- 1. Measuring the expertise of the employees and management of the organization.
- 2. Find out the true value of the assets and liabilities hold by the organization. As the expertise of the employees is considered as assets and value to be provided to the employees are considered as liabilities.
- 3. Applying a strong monitoring process on the human resources of the organization.
- 4. It provides the management a sound basis for controlling the human resource.
- 5. Provide a better basis of determining organizational goal and ways of achieving these goals.
- 6. Provide the investors of the organization, shareholders and debt holders, accurate information for better decision making
- 7. Find out the true picture of the future prospects of the organization, as the utilization of other resources are fully depending on the human resources.
- 8. Giving the stakeholders information about, how much value addition is done by the organization to country's human resource as part of the corporate social responsibility.

### Methods of Human Resource Accounting

There are different models in the valuation of human resources. They can be discussed under the two heads as follows:

#### A. Cost Based Models:

- 1. Historical Cost Model
- 2. Replacement Cost Model
- 3. Opportunity Cost Model
- 4. Standard Cost Model

## B. Value Based Models:

- 1. Present Value of Future Earnings Model or Lev and Schwartz Model
- 2. Rewards Valuation Model or Flamholtz Model

- 3. Certainty Equivalent Net Benefit Model
- 4. Chakraborty Model
- 5. Dasgupta Model

#### Historical Cost Model

This approach is also called an acquisition cost model. This approach was developed by Brummet, Flamholtz and Pyle. But the first attempt towards employee valuation was made by a footwear manufacturing company, R. G. Barry Corporation of Columbus Ohio with the help of Michigan University in 1967.

This method measures the organization's investment in employees using the five parameters: recruiting, acquisition, formal training and familiarization, informal training and informal familiarization, and experience and development. This model suggests that instead of charging the costs to profit and loss statement, it should be capitalized in the balance sheet. The process of giving a status of asset to the expenditure item is called capitalization. In human resource accounting, it is necessary to amortize the capitalized amount over a period of time. The unamortised cost is shown as investments in the human assets. If an employee leaves the firm (i.e. human assets expire) before the expected service life period, then the net value to that extent is charged to the current revenue.

#### Merits of Historical Cost Model

- This model is very simple to understand and easy to work out. i.
- It meets the traditional accounting concept of matching cost with revenue. ii.
- It provides a basis for evaluating a company's return on its investments in human iii. resources.

### Limitations of Historical Cost Model

- The valuation method is based on the false assumption that the rupee is stable. i.
- This method measures only the costs to the organization, but ignores completely any ii. measure of the value of the employee to the organization.
- It takes only the cost of acquisition of employees and thus ignores the aggregate value of iii. their potential services.
- It is too tedious to gather the related information regarding the human values. iv.
- It is difficult to determine the number of years over which the capitalised expenditure is V. to be amortised.

## Replacement Cost Model

The historical cost model was highly criticised as it only considers the sunk costs which are irrelevant for decision making. Thus a new model for HRA was conceptualised which took into the account, the costs that would be incurred to replace its existing human resources by an identical one. This model measures the cost of replacing an employee. According to Rensis Likert, replacement cost includes recruitment, selection, compensation, and training cost (including the income foregone during the training period). The data derived from this method could be useful in deciding whether to dismiss or replace the staff.

### Merits of Replacement Cost Model

- i. This model is more realistic as it considers the current value of human resources in a company.
- ii. It is more representative and logical.

#### Limitations of Replacement Cost Model

- i. This method may also lead to an upwardly biased estimate because an inefficient firm may incur a greater cost to replace an employee
- ii. There may be no similar replacement for a similar certain existing asset.

#### **Opportunity Cost Model**

This model was advocated by Hekiman and Jones in 1967. This model is also called as Market Value Model. This model of measuring human resources is based on the concept of opportunity cost (i.e. the value of an employee in its alternative best use, as a basis of estimating the value of human resources). The opportunity cost value may be established by competitive bidding within the firm, so that in effect, managers bid for any scarce employee. A human asset therefore will have a value, only if it is a scarce resource.

#### **Limitations of Opportunity Cost Model**

- i. This model excludes the employees who are not scarce.
- ii. Under this model, valuation on the basis of opportunity cost is restricted to alternative use within the organisation.

#### **Standard Cost Model**

This model was developed by David Watson. This model envisages establishment of a standard cost per grade of employee updated every year. Replacement costs can be used to develop standard costs of recruitment, selection, training and developing individuals. Such standards can be used to compare result with those planned. Variance should be analysed and would form a suitable basis for control. But under this model, determination of standard cost for each grade of employee is a difficult process.

#### Present Value of Future Earnings Model or Lev and Schwartz Model

In 1971, Lev and Schwartz proposed an economic valuation of employees, based on the present value of future earnings, adjusted for the probability of employees' death, separation or retirement. This method helps in determining what an employee's future contribution is worth today.

According to this model, the value of human capital embodied in a person who is 'r' years old, is the present value of his or her future earnings from employment and can be calculated by using the following formula:

$$V_r = \frac{I(t)}{(1+R)^{t-r}}$$

Where,  $V_r$  = expected value of a 'r' year old person's human capital

t = the person's retirement age

I(t) = expected annual earnings of the person upto the retirement

R = discount rate.

### Limitations of Present Value of Future Earnings Model

i. This model ignores the possibility and probability that an individual may leave an organisation for reasons other than death or retirement.

ii. This model also ignores the probability that people may make role changes during their careers.

## Rewards Valuation Model or Flamholtz Model

This model was developed by Flamholtz. He advocated that an individual's value to an organisation is determined by the services he is expected to render. This model is an improvement to the Present Value of Future Earnings Model. The model is based on the presumption that a person's value to an organisation depends upon the positions to be occupied by him in the organisation. The movement of people from one organisational role to another is a stochastic process with rewards. As people move and occupy different organisational roles, they render services (i.e. rewards) to the organisation. However, the roles they will occupy in future will have to be determined probabilistically for each individual.

This model suggests a five steps approach for assessing the value of an individual to the organisation.

- 1. Forecasting the period a person will remain in the organisation, i.e. his expected service life.
- 2. Identifying the service states, i.e. the roles that he might occupy, of course, the time at which he will leave organisation.

3. Estimating the value derived by the organisation when a person occupies a particular position for a specified time period.

4. Estimation of the probability of occupying ach possible mutually exclusive state at specified future times.

5. Discounting the value at a predetermined rate to get the present value of human resources.

### Limitations of Rewards Valuation Model

1. It is difficult to estimate the probabilities of likely service states of each employee.

- 2. Determining the monetary equivalent of service states is also very difficult and costly
- 3. Since the analysis is restricted to individuals, it ignores the value added element of individuals working as groups.

## Certainty Equivalent Net Benefit Model

This model was suggested by Pekin Ogan in 1976. Under this model, the value of human resources is determined by taking into consideration the certainty with which the net benefits in future will accrue to the enterprise. The model involves the following steps:

- 1. Net benefit from each employee.
  - 2. Certainty factor at which the benefits will be available in future.
  - 3. The certainty equivalent benefits will be calculated by multiplying the certainty actor with the net benefits from all employees. This will be the value of human resources of the enterprise.

## Chakraborty Model or Aggregate Payment Model

This model was suggested by Prof. S.K. Chakraborty in 1976. He was the first Indian to suggest a model on human resources of an enterprise. Under this model the value of human resources can be calculated by dividing the employees into two groups - Managerial and nonmanagerial, and then multiplying average tenure of group of employees with their average salary. The value thus obtained is discounted at the expected average after tax return on investment (ROI) over the average tenure period, so that value of human asset does not fluctuate frequently.

## Dasgupta Model or Total Cost Model

Prof. N. Dasgupta suggested this model in 1978. According to this model the total cost incurred by the individual upto that position in the organisation should be taken as the value of a person which is further adjusted by his intelligence level. The value thus calculated is revised time to time on the basis of age, performance, experience and other capabilities.

## **Benefits of Human Resource Accounting**

The following are the important benefits of Human Resource Accounting.

- 1. Helpful in proper implementation of Return on Capital Employed
- 2. Improves managerial decision making by maintaining detailed records relating to internal human resources. 3. It serves social purpose by identifying human resource as a valuable asset.
- 4. It helps to increases the productivity of human resources.
- 5. It is very essential where human element is the prime factor.
- 6. Helps in investment decisions.

# Limitations of Human Resource Accounting

Although there are various advantages to an organisation by HRA it is not free from the limitations. The following are the important limitations of HRA.

- 1. There are no clear cut and specific procedures or guidelines for finding costs and value of human resources of an organization. The systems that are being adopted have certain drawbacks.
- 2. The period of existence of human resources is uncertain and hence valuing them under uncertainty in the future seems to be unrealistic.
- 3. The much needed empirical evidence is yet to be found to support the hypothesis that HRA as a tool of management facilitates better and effective management of human resources.
- 4. Since human resources are incapable of being owned, retained, and utilized, unlike physical assets, this poses a problem to treat them as assets in the strict sense.
- 5. There is a constant fear of opposition from the trade unions as placing a value on employees would make them claim rewards and compensations based on such valuations.
- 6. In spite of all its significance and necessity, Tax Laws don't recognize human beings as assets.
- 7. There is no universally accepted method of the valuation of human resources.

## REVIEW QUESTIONS

# A. Short Answer Type questions

- 23. Define Human Resource Accounting.
- 24. What are the objectives of HRA?

## **B. Short Essay Type Questions**

- 17. Briefly explain the benefits of HRA.
- 18. What are the limitations of HRA?
- 19. Write a note on development of Human Resource Accounting.
- 20. Explain the need and importance of Human Resource Accounting.

## C. Essay Type Questions

- 1. Write short notes on the following:
  - a) Historical Cost Model
  - b) Replacement Cost Model
  - c) Opportunity Cost Model
  - d) Standard Cost Model
- 2. Discuss the various methods of HRA with merits and demerits.
- 3. Explain the Lev and Schwartz Model and Flamholtz Model of Human Resource Accounting.

## LESSON 9

## ACCOUNTING FOR PRICE LEVEL CHANGES

## (INFLATION ACCOUNTING)

#### Introduction

Conventional or historical cost accounting assumes that money has stable value. But in reality, value of money varies from time to time as a result of changes in the general level of prices. Prices of goods and services change over the time. The change in price as a result of various economic and social forces brings about a change in the purchasing power of money. The historical cost accounting system does not consider the impact of price level change on financial statements. Therefore, Accounting for Price Level Changes has been emerged as a new accounting system. Accounting for price level changes is also called as Inflation Accounting as changes in prices are usually on upward side.

## **Limitations of Historical Accounting**

Historical cost accounts suffer from the following limitations:

## 1. Utility of accounting records seriously impaired

Financial statements prepared under historical cost accounting fail to reflect the effect of such changes in purchasing power on the financial position and profitability of the firm.

## 2. Unrealistic profits

Under historical cost accounting system, depreciation calculated on the basis of historical cost of old assets is usually lower than that of those calculated at current value or replacement value. This results in unrealistic and more profits.

## 3. Insufficient provision of depreciation

Under historical cost accounting system, depreciation is calculated on the original cost of fixed assets with the result that only an amount equivalent to the original cost of the fixed assets is available for its replacement when its life is over.

## 4. Values of fixed assets are unrealistic

In times of rising prices, historical cost accounting system does not give a true and fair view the business enterprise as is required under the Companies Act as fixed assets are shown at their historical cost and not at current values.

5. Different basis

Under historical cost accounting system, fixed assets are shown at the historical cost whereas operating expenses and incomes are taken at current prices. These different bases will affect the reliability of accounting information.

6. Violation of Matching Principle

Historical cost accounting shows closing stock at cost price or market price whichever is less. Sales are shown at current purchasing power of the rupee while stocks are shown at cost or ness. Sales whichever is less. Thus profit disclosed under historical cost accounting does not market price, whichever is less. Thus profit disclosed under historical cost accounting does not market price; market price; market price increase in wealth of the business in terms of current purchasing power because closing represent increase in wealth of the business in terms of current purchasing power because closing stocks are not shown at their current value.

7. Difficulty in comparison of profitability of two plants

In case of price level changes, comparison of profitability of two plants set up at different dates becomes difficult.

8. Misleading inter-period and inter-firm comparison

Accounting ratios are used for inter-period and inter-firm comparison. The accounting ratios calculated based on historical costs will not give correct view.

## Meaning and Definition of Accounting for Changing Prices

Accounting for price level changes is a system of accounting which regularly records all items in financial statements at their current values.

According to American Institute of Certified Public Accountants, "Inflation accounting is a system of accounting which purports to record, as a built in mechanism, all economic events in terms of current cost".

## Advantages of Accounting for Price Level Changes

1. Financial statements show real profit of the firm.

- 2. Sufficient funds are available for replacement of fixed assets as depreciation is charged on current cost of fixed assets.
- 3. Balance sheet shows a true and fair view of the financial position of a firm because assets are shown at their current values.
- 4. It is helpful for managerial decisions as the anticipated and actual profits are expressed in rupees of the same purchasing power.
- 5. It helps in making better comparison of the profitability of the two plants set up at different dates because current values are taken for comparison purposes.
- 6. Financial ratios calculated under inflation accounting would provide more meaningful information.
- 7. A rate of return on capital e employed adjusted to the current price index is more useful in the valuation of business by its owners, creditors and management.

## Disadvantages of Accounting for Price Level Changes

- 1. Charging depreciation on current values of fixed assets is not acceptable to income tax authorities.
- 2. Too many calculations are involved for adjusting accounting to changing prices and making financial statements complicated.
- 3. Charging depreciation is a process of depreciation of original cost of fixed asset over its effective life, so charging anything in excess over the effective life of an asset is against the concept of depreciation.
- 4. Adjusting accounts to changing prices is a never ending process because prices go on changing every day.
- 5. Inflation accounting is not free from prejudice.
- 6. Distribution of dividend on the basis of profit shown under this system is not desirable.
- 7. Lower depreciation will be charged in times of deflation. It will increase profit which will lead to payment of excessive dividend.

## Methods of Accounting for Price Level Changes

There are four different approaches to price level accounting. They are as follows:

1. Current Purchasing Power Accounting (CPPA).

2. Current Cost Accounting (CCA).

3. Specific and General Price Level Accounting (SGPLA).

4. Periodic Revaluation of fixed assets along with the adoption of LIFO method of inventory.

# **Current Purchasing Power Accounting (CPPA)**

This approach is also known as General Price Level Accounting. Under this approach, the historic cost accounting data are adjusted on the basis of any established and approved general price index at a given date. In India, Wholesale Price Index (WPI) of the Reserve Bank of India (RBI) can be taken which shows the change in the value of the rupee in the past years. This approach takes into account the changes in the value of items as a result of the general price level, but it does not account for changes in the value of individual items. The formula for the conversion of historic cost to the general price level is as under:

$$Conversion \ Factor = \frac{Index \ converting \ to}{Index \ converting \ from}$$

The effect of the loss or profit on monetary assets or owing liabilities is also ascertained. Monetary items are those whose amounts are fixed by contract or otherwise, regardless of changes in the general price level. Monetary items can be debtors, creditors, bank balance, cash, redeemable preference share capital and loans. The value of these items is fixed as we are not going to get more from debtors or pay more to the creditors regardless of general increase in the price level. Non-monetary items include inventory, machinery, building, furniture etc.

Holders of monetary assets lose if there is increase in the general price index because purchasing power of assets owned, is actually decreased. Debtors are not going to pay more because of increase in the price level. Similarly, balance of cash in hand is not going to increase because of inflation.

Thus, the amounts of monetary assets are fixed by contract or otherwise in terms of rupees, regardless of changes in general price level. On the other hand, decrease in the general price level is a gain because it increases the purchasing power of monetary assets owned.

Under this approach, firms prepare financial statements on historical cost basis in usual manner and also prepare supplementary statement showing the historical cost ite. s in terms of current value on the basis of index.

Illustration 1: A firm had Rs.200000 as cash at bank on 1st April 2014. The consumer price index on that date was 200. During the year ended 31st March 2014 the receipts and payments were as stated below:

VI -	Receipts	Amount	Index	Date	Payments	Amount	Index
Date		105000	210	Sep 15	Cost	215000	215
Jun 1	Sales	345000	230	Nov 20	Cost	150000	240
Jan 15	Sales	22002000		Dec 1	Cost	200000	225
Juli		- Et or loss (	on account o	of price cha	nges The ver	er end index	was 240.

Ascertain the profit or loss on account of price changes. The year end index was 240.

#### Solution:

Control of the Contro	Historical	Adjusted	Price level
	_ (A33)	Factor	Adjusted
(A.III (2))	tion about love la	1 Ceneral Page	Amount
Opening Balance	200000	240/200	240000
Receipts:			vrotrovin
Jun 1	105000	240/210	120000
Jan 15	345000	240/230	360000
Total (A)	650000	Control of the Array Later was a William	720000
Payments:	100 A	and the state of t	7 10 10 10 10 10 10 10 10 10 10 10 10 10
Sep 15 and reliably summons by	215000	240/215	240000
Nov 20	150000	240/240	150000
Dec 1	200000	240/225	213333
Total (B)	565000	he miken whi	603333
Balance (A-B)	85000	minorate orui it	116667

As the price level adjusted amount is Rs. 116667 and actual balance Rs. 85000, there is a purchasing power loss of Rs. 31667.

Illustration 2: A company had the following monetary items on January 1:

to assistant has brought our together yet become	there are those who purpopers are the	Rs.
Debtors and a second se	ament yellogodd, dwwl color han asg ath a	41000
Bills Receivables	to soul beautiful to annual soul of the of	10000
Cash	general from steblars or pay many so the	20000
and the state of t	Lighter to coury stome neighbours in concess	71000
Less: Bills Payables	10000	
Creditors	25000	35000
Net Monetary Assets	a cheer of assets owned is attailly a	36000

The transactions affecting monetary items during the year were:

- a. Sales of Rs. 140000 made evenly throughout the year.
- b. Purchases of goods of Rs. 105000 made evenly during the year.
- c. Operating expenses of Rs.35000 were incurred evenly throughout the year.
- d. One machine was sold for Rs.18000 on July 1.
- e. One machine was purchased for Rs.25000 on December 31.

### The general price index was as follows:

On January 1	300
Average for the year	350
On July 1	360
On December 31	400

Compute the general purchasing power gain or loss for the year stated in terms of the current year-end rupee.

Solution:

### Statement of General Purchasing Power Gain or Loss

	Historical	Adjusted	Price Level	Purchasing
Manual Property Principal	Amount	Factor	Adjusted	Power Gain
Policinative Transparent and	meegoo		Amount	or Loss
Monetary Assets on Jan 1:			100000000000000000000000000000000000000	CITY UNIONE P
Debtors	41000	400/300	54667	
Bills Receivables	10000	400/300	13333	HISTORNAL IN
Cash	20000	400/300	26666	houp to my
Increase in Monetary Assets:	File Control of the C		The state of the s	rand to the
Sales	140000	400/350	160000	and the stiller PN and
Sale of Machinery	18000	400/360	20000	ANTE PRINCIPALIS INT
Total (A)	229000		274666	to a medical and against
Decrease in Monetary Assets:		400/350	The state of the s	TACK EDIMENT LEA
Purchases	105000	400/350	120000	Inne 10 120 or in
Operating Expenses	35000	400/400	40000	TO ADOLD THE STATE OF
Purchase of Machinery	25000		25000	ATO SUPERIOR OF
Total (B)	165000		185000	maria na divi
Monetary Assets on Dec 31(A-B)	64000	400/300	89666	entired in mer-
Purchasing Power Loss		400/300		(-) 25666
Monetary Liabilities on Jan 1:	1 40 Ab 60 A	musch to Jeening	t populate on the	de minorgrands
Bills Payables	10000		13333	Software to the
Creditors	25000		33333	
Monetary Liabilities on Dec 31	35000		46666	
Purchasing Power Gain				11666
Net Monetary Assets on Dec 31	29000		43000	In Real
Net Purchasing Power Loss or	pantionet ] t			(-) 14000
Loss on Monetary Items	Violestat I-4	1640a		(-) 14000

Illustration 3: From the information given below, ascertain the cost of sales and closing inventory under Current Purchasing Power Accounting Method if the organisation follows (i) FIFO method, and (ii) LIFO method.

FID redmans I Light	Historical	General
	Cost	Price Index
Inventory on 31st March 2014	40000	200
Purchases during 2014-15 (Average)	310000	220
Inventory on 31st March 2015	50000	230
Inventory on 31 March		STATE OF THE STATE

Solution:

Cost of Sales:

Opening Inventory	40000
Add: Purchases	310000
	350000
Less: Closing Inventory	50000
Cost of Sales	300000

	totomi	Jugor	Historical Amount	Adjusted Factor	Price Level Adjusted
I. Under FIFO Method:			30	the second	Amount
a. Cost of Sales:		00011	1/1/2		t emordat
Out of opening inventory		100001	40000	220/200	Linux, ecceptal.
Out of purchases		1,00000		230/200	46000
indicate in the degree of the state of			260000	230/220	271818
b. Closing Inventory:		000001	300000		317818
Out of purchases		0008145	977	220/220	date of Mach
II. Under LIFO Method:		029900	50000	230/220	52273
a. Cost of Sales:		A STATE OF THE PARTY OF		nethin Asset	aM ni semen
Out of purchases		105050		220/220	Physhudenia
b. Closing Inventory:		135000	300000	230/220	313636
Out of opening inventory		25000		220/200	M. to business a
Out of purchases		165000	40000	230/200	46000
o ar or paronasos		Fromia	10000	230/220	10454
Illustration 1: The Polones O	Codescion		50000	230.1 70	56454

Illustration 4: The Balance Sheet of Arun & Co. as on 1<sup>st</sup> January 2014 and Profit and Loss Statement for the year ending 31<sup>st</sup> December 2014 are given below:

Balance Sheet

T :=1::1:::	as on 1	January 2014	A CONTRACT OF THE PARTY OF THE
Liabilities	Rs.	Assets	Rs.
Capital 13% Loan Current Liabilities	125000	Plant and Machinery Furniture	375000 50000
Current Bladimics	62500	Inventory Debtors	75000 62500
	40-	Cash	125000
ANKELL DEEL ETHER 10 JESS M	687500	nd movin million disk out for	687500

Profit and Loss Statement for the year ending 31st December 2014

Sales Less: Cost of goods sold:	START Estants	Rs. 1250000
Opening inventory	75000	
Add: Purchases	887500	
Loggi Clasina inventore	962500	
Less: Closing inventory Gross Profit	87500	875000
Less: Operating expenses	188750	375000

Interest on loan Depreciation on machinery	16250 56250	
Depreciation on furniture	5000	266250
Net Profit		108750

Debtors and current liabilities balances remained constant throughout the year. Interest on loan was paid on 31<sup>st</sup> December 2014. The general price index was as follows:

On 1st January 2014	300
Average for the year	320
On 31st December 2014	360

Prepare the financial statements for the year 2014 after adjusting for price level changes under Current Purchasing Power Method.

Solution:

## Statement of General Purchasing Power Gain or Loss

	Historical	Adjusted	Price Level	Purchasing
The second second second	Amount	Factor	Adjusted	Power Gain
	- waste proper like to the		Amount	or Loss
Monetary Assets on 1st January	A Creek Mineser			the state of the s
2014:	Downston 301	12 or 20 -		
Debtors	62500	360/300	75000	
Cash	125000	360/300	150000	CHARLET FERRED
Increase in Monetary Assets:	10/9/2011		20111	Pelatical Farm
Sales	1250000	360/320	1406250	month of Et.
Total (A)	1437500	Orien was a	1631250	mint to top 45 3.
Decrease in Monetary Assets:	mas etumpies in			
Purchases	887500	360/320	998438	
Operating Expenses	188750	360/320	212344	
Interest on Loan	16250	360/360	16250	
Total (B)	1092500		1227032	
Monetary Assets on 31 <sup>st</sup>	4990			
December 2014.(A-B)	345000		404218	
Purchasing Power Loss				(-) 59218
Monetary Liabilities on 1st				San San San San
January 2014:				
Loan	125000	360/300	150000	
Current Liabilities	62500	360/300	75000	
Monetary Liabilities on 31 <sup>st</sup>				
December 2014	187500		225000	a statistical than t
Purchasing Power Gain				37500
Net Monetary Assets on 31st	said seguide his	RANGE STATES		
December 2014	157500		179218	Date of Contract of
Net Purchasing Power Loss or				TO THE PARTY AND ADDRESS OF THE PARTY AND ADDR
Loss on Monetary Items				(-) 21718

Profit and Loss Statement as per CPPA Method for the year ending 31<sup>st</sup> December 2014

	Historical	Adjusted	Price Level
Particulars	Amount	Factor	Adjusted
the lateral masself final send familiary francis	igen is facultary appropria	(summers bear a	Amount
Sales	1250000	360/320	1406250
Opening Inventory	75000	360/300	90000
Purchases	887500	360/320	998438
	962500	Later makes	1088438
Less: Closing Inventory	87500	360/320	98438
Cost of Goods Sold	875000	The Contract of	990000
Gross Profit (Sales-CGS)	375000		416250
Operating Expenses	188750	360/320	212344
Depreciation on Machinery	56250	360/300	67500
Depreciation on Furniture	5000	360/300	
Interest on Loan	16250	360/360	6000
Total Expenses	266250		16250
Net Profit (G/P-Expenses)	108750		302094
Less: Loss on Monetary Items	100750	We will be a little be	114156
Retained Earnings	ACMINISTRATION ASSESSMENT		21718
3283 129 (300 minute)			92438

# Balance Sheet as on 31st December 2014

		Jecellioei 2014		
Liabilities	.Rs.	Assets	Un england	D.
Liabilities  Capital (500000x360/300)  Retained Earnings 13% Loan  Current Liabilities	Rs. 600000 92438 125000 62500	Assets Plant and Machinery (375000x360/300) Less: Depreciation Furniture (50000x360/300) Less: Depreciation Inventory (87500x360/320) Debtors	450000 67500 60000 6000	Rs. 382500 54000 98438
		Cash	1711,700	62500 282500
Note: FIFO Method has been followed	879938			879938

Note: FIFO Method has been followed for the cost of goods sold and closing inventory in the absence information.

## Calculation of Cash Balance in Balance Sheet:

Open	ing Cash	Balance
Add:	Sales	

125000 1250000

	and the same of th	1375000
Less: Purchases	887500	
Operating Expenses	188750	
Interest on Loan	16250	1092500
Closing Cash Balance	12 sense cod MOS	282500

Illustration 5: Adjust the following Statement of Profit and Loss and Balance Sheet under CPPA method to ascertain the changes in net profit and reserve.

for the year ending 31st December 2014	(Rs. in 000's	)
Sales		600
Less: Cost of goods sold:	96	
Opening inventory Add: Purchases	504	Gross Pintus
Add. Fulchases	600	
Less: Closing inventory	84	516
Gross Profit	And the second of the second o	84
Less: Administration expenses	30	
Depreciation on buildings	6	36
Net Profit		48

as on 3	Balance Sheet 1st December 2014		(Rs. in 000's)
Share Capital			240
Reserve			240
			480
Land		THE STREET STREET	168
Buildings		240	bond
Less: Depreciation	Hanna Phandares	54	186
Less. Bepression		A STATE OF THE PARTY OF THE PAR	104-07-23
Stock		84	NOOK NOOK
		48	S REGISTER
Debtors		36	
Cash		168	126
Less: Creditors		42	
Less: Cleurois		111	480

# Following further information are also given:

1. Closing stock was acquired during last quarter of 2014 and opening stock during the last quarter of 2013: 2. The land and buildings were acquired and the capital issued during 1998. The buildings

are depreciated straight line over 40 years.

Sales, purchases and administration expenses are assumed to occur evenly over the year and hence at average prices.

The relevant retail price indices are:

a.	2006 average	60
b.	2013 last quarter average	108
C.	2014 last quarter average	116
d.	2014 average	114
e.	2013 December 31	110
f.	2014 December 31	118
Solution:		

Adjusted Statement of Profit and Loss as per CPPA Method for the year ending 31<sup>st</sup> December 2014(Rs. in 000's)

A CONTRACTOR OF THE PARTY OF TH	Historical	Adjusted	Price Level
Particulars	Amount	Factor	Adjusted
Seath in the Care	Laggregated as a		Amount
Sales	600	118/114	621.05
Opening Stock	96	118/108	104.88
Purchases	504	118/114	521.68
	600		626.56
Less: Closing Stock	84	118/116	85.45
Cost of Goods Sold	516	- Formans	541.11
Gross Profit (Sales-CGS)	84		79.94
Administration expenses	30	118/114	31.05
Depreciation on Buildings	6	118/60	11.80
Total Expenses	36		42.85
Net Profit (G/P-Expenses)	48		37.09
	70		31.09

Balance Sheet as on 31st December 2014 (Rs. in 000's) Historical Adjusted Price Level Amount Factor Adjusted Amount Equity and Liabilities: Share Capital 240 118/60 472.00 Reserves (Bal. Fig) 240 351.65 Creditors 42 42.00 522 865.65 Assets: Land 168 118/60 330.40 Buildings for cumula. L. Imreciation (9 years) (240-54)186 118/60 365.80 Stock 84 118/116 85.45 Debtors 48 48.00 Cash 36 36.00 522 865.65

## Current Cost Accounting (CCA)

Under CPPA method, the changes in the value money are considered. Under CCA method historic values of items are not taken into account; rather current values of individual items are taken as basis for preparation of final statements. Here, the assets are valued at current cost. Current cost is the cost at which the assets can be replaced as on a date. This cost is referred as replacement cost.

#### Characteristics of CCA

- 1. Fixed assets are shown in Balance Sheet at their current values and not at their depreciated original costs.
- 2. Stocks are shown in Balance Sheet at their value to business, the value prevailing on the date of balance sheet.
- 3. Depreciation is calculated on current values of the relevant fixed assets to find out profit for the year.
- 4. The difference between the current values and the depreciated original costs of fixed assets is transferred to Revaluation Reserve Account which is shown on the liabilities side of Balance Sheet and which is not available for dividend distribution.
- 5. Cost of stock consumed during the year is taken at current value of the stock at the date of consumption and not at purchase price of the stock consumed.
- Monetary assets and liabilities are not adjusted because they are always recorded at their
  value to the business. The values of these items do not change with changes in price
  level.
- 7. Accounting profit under CCA is divided into three parts as follows:
  - a. Current Operating Profit = Sales proceeds of goods and services sold Replacement cost of goods or services sold.
  - b. Realised Holding Gain = Replacement cost of non-monetary asset sold on date of sale Historical Cost.
  - c. Unrealised Holding Gain = Replacement cost of non-monetary asset on closing date Historical Cost.

## Adjustments for calculation of Current Operating Profit

The following adjustments are to be made in calculation of the Current Operating Profit under CCA method:

- 1. Current Cost Adjustments
  - a. Depreciation Adjustment
  - b. Cost of Sales Adjustment (COSA)
  - c. Monetary Working Capital Adjustment (MWCA)
- 2. Gearing Adjustment

#### **Depreciation Adjustment**

Under this method, depreciation is debited to profit and loss account on the basis Current Value or Replacement Cost of the fixed assets. The current depreciation charge is obtained under this method by apportioning average net replacement cost over expected remaining useful life of fixed asset at the beginning of the period.

Backlog Depreciation- If fixed assets are revalued every year, there will be short fall of depreciation. Such depreciation is called backlog depreciation. The backlog depreciation is debited to the Current Cost Reserve or adjusted against the Revaluation Reserves on the fixed assets. The backlog depreciation can be calculated as follows:

 $Backlog\ Depreciation = Gross\ Replacement\ Cost - Net\ Replacement\ Cost - (Previous\ Accumulated\ Depreciation + Deprecation\ for\ the\ Current\ Year)\ ]$ 

Illustration 6: A firm is using machinery with historical gross value of Rs. 60000 and the accumulated depreciation of Rs. 24000 including Rs. 6000 depreciation for the current year. The gross replacement cost of the machine is Rs. 120000 and it is estimated that its remaining useful life will not change. Calculate the backlog depreciation.

#### Solution:

best spins do not change with changes in prive	Historical Cost Accounting(Rs.)	Current Cost Accounting(Rs.)
Value of machinery	60000	120000
Current depreciation	6000	12000
Previous accumulated depreciation	18000	36000
Total accumulated depreciation	24000	A THE PARTY AND ADDRESS OF THE PARTY AND ADDRE
Value as per balance sheet	36000	48000 72000

## **Backlog Depreciation**

- = Gross Replacement Cost Net Replacement Cost
  - (Previous Accumulated Depreciation
  - + Deprecaition for the Current Year)
  - = 120000-72000-(18000+12000)
- = Rs. 18000

Illustration 7: Calculate the amount of depreciation under CCA method for each of the four years as well as the backlog depreciation for a machine from the following information by assuming straight line method of depreciation:

Cost of Machine Rs. 60000

Estimated life 4 years

Residual value Nil

Inflation factor 10% per annum

Solution:

Calculation of Depreciation under CCA method

Voor	Year Historical Replacement		Depreciatio	Additional Depreciation	
1 ear	Cost	Cost	Historical Cost	Replacement Cost	(CCA Adjustment)
Tsud <mark>q.</mark> De.uo Adviņicitājas	60000	66000 (60000x110/100)	15000	16500	1500
2.	60000	72600 (66000x110/100)	15000	18150	3150
3.	60000	79860 (72600x110/100)	15000	19965	4965
4.	60000	87846 (79860x110/100)	15000	21962	6962
For the date	Mary and Maria		60000	76577	16577

#### Calculation of Backlog Depreciation

End of	НС	RC	Total Depreciation		Total Depr	Total Additional	Additional Annual	CCA Depreciatio	Backlog Depreciati
Year	Tic	KC .	НС	RC	Depreciation (RC-HC)	Depreciation	n Adjustment	on	
1.	60000	66000	15000	16500	1500	1500	1500	Nil	
2.	60000	72600	30000	36300	6300	4800	3150	1650	
17/10	ng siftleti	Play 30	real-life of	(2 yrs)	greet of the	(6300-1500)	a Barrio cuo		
3.	60000	79860	45000	59895	14895	8595	4965	3630	
644		STATE OF THE STATE		(3 yrs)		(14895-6300)			
4.	60000	87846	60000	87848	27848	12953	6962	5991	
				(4 yrs)		(27848-			
		chind at				14895)			
	277-77/20	Mark Cale Cale	170	WEST		27848	16577	11271	

## Cost of Sales Adjustment (COSA)

Cost of Sales Adjustment refers to the difference between value to the business and the historical cost of stock consumed in the period. COSA can be calculated as follows

$$COSA = (C - O) - I_a \left(\frac{C}{I_C} - \frac{O}{I_O}\right)$$

C = Historical cost of Closing Stock

O = Historical cost of Opening Stock

Ia = Average Index No. for the period

Ic = Index No. appropriate to closing stock

Io = Index No. appropriate to Opening stock

Illustration 8: Calculate the Cost of Sales Adjustment from the following information:

Opening stock on 1st January 2014

Rs. 30000

Closing stock on 31st December 2014

2014 Rs. 40000

Index on 1st January 2014

116

Index on 31st December 2014

125

Average Index for the year 2014

118

Solution:

$$COSA = (C - O) - I_a \left(\frac{C}{I_C} - \frac{O}{I_O}\right)$$

$$= (40000 - 30000) - 118 \left(\frac{40000}{125} - \frac{30000}{116}\right)$$

$$= Rs. 2802$$

## Monetary Working Capital Adjustment (MWCA)

Monetary Working Capital Adjustment (MWCA) is the difference between trade debtors and creditors. MWCA shows the effect of changes in prices arising from volume. MWCA can be calculated as follows:

$$MWCA = (C - O) - I_a(\frac{c}{I_C} - \frac{O}{I_O})$$

C = Closing Monetary Working Capital

O = Opening Monetary Working Capital

Ia = Average Index No. for the period

Ic = Index No. appropriate to closing Monetary Working Capital

o = Index No. appropriate to opening Monetary Working Capital

Illustration 9: The balance sheet of Malabar & Co. disclosed the following information:

Trade Debtors Trade Creditors Advance to Suppliers Index No.	1 <sup>st</sup> January 2014 Rs. 100000 Rs. 75000 Rs. 30000	31 <sup>st</sup> December 2014 Rs. 130000 Rs. 80000 Rs. 40000
--	--	--

Average Index

110

Calculate the Monetary Working Capital Adjustment.

#### Solution:

Loui Mucholdsty, funds	Opening MWC (Rs.)	Closing MWC (Rs.)
Trade Debtors Advance to Suppliers	100000 30000	130000 40000
0.300	130000	170000
Less: Trade Creditors	75000	80000
Net Monetary Working Capital	55000	90000

MWCA= 
$$(C - O) - I_a \left(\frac{c}{I_C} - \frac{O}{I_O}\right)$$
  
=  $(90000 - 55000) - 110 \left(\frac{90000}{120} - \frac{55000}{100}\right)$   
= Rs. 13000

#### Gearing Adjustment

Gearing is the ratio of borrowed capital and shareholders' funds. Fixed assets and working capital are partly financed by borrowed capital and partly by shareholders' funds. During inflationary period the replacement cost of assets exceeds the borrowings that has financed by them. In the period of rising prices the shareholders get more benefits because any increase in price will provide more benefit to shareholders. The position would be reverse during deflation. Total of current cost adjustments is abated by gearing adjustment.

After gearing adjustment current cost operating profit will be abated & this abated profit will be attributable to shareholders which will reflect result of adjustment to historical cost trading profit. Gearing adjustment and gearing adjustment ratio can be calculated as follows:

Gearing Adjustment = 
$$\frac{L}{L+S}x$$
 A

Gearing Adjustment Ratio =  $\frac{L}{L+S}$ x 100

L = Average Net Borrowing

S = Average Shareholders' Funds

A = Total of Current Cost Adjustments

It may be noted that in the calculation of net borrowing, cash or any monetary asset which is not considered in the calculation of monetary working capital adjustment must be deducted from the total borrowings.

Illustration 10: Calculate the gearing adjustment from the following data under CCA method:

Tobacco 2001 4 300 300	14/1/11/0	Opening (Rs.)	Closing (Rs.)
Convertible Debentures		2000	2400
Bank Overdraft	of the state	1200	1600
Cash		200	600

Share Capital	1 1 2 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	3000 4000
Reserves		1000 1600
Cost of Sales Adjustment	Rs. 400	rode(Teh)
Monetary Working Capital Adjustment		tradic to a policies of the
00008	Rs. 300	se Trade Crednorshoor male
Depreciation Adjustment	Rs. 100	Integral Variety Copied
Total Current Cost Adjustments	Rs. 800	
Solution:	(\$-\$3.7.0	S-3) =A DWAY

#### Calculation of Net Borrowings

그는 사람들은 내용하다 하는 경험이 되었다.	Opening (Rs.)	Closing (Rs.)
Convertible Debentures	2000	2400
Bank Overdraft	1200	1600
Total Borrowings	3200	4000
Less: Cash	200	
Net Borrowings	3000	600
Calculation of Shareholders' Funds	d Doowner I Voting wood b	3400

rices the chargeoffers get more biggerfus beatings any	Opening (Rs.)	Closing (Rs.)
Share Capital	3000	
Reserves	1000	4000
Shareholders' Funds	4000	1600
Total better and the	4000	5600

Average Net Borrowings (L) = 
$$\frac{3000+3400}{2}$$
 = 3200  
Average Shareholders' Funds (S) =  $\frac{4000+5600}{2}$  = 4800

Current Cost Adjustments (A) = 800

Gearing Adjustment = 
$$\frac{L}{L+S}$$
x A  
=  $\frac{3200}{3200+4800}$ x  $800 = \underline{Rs. 320}$ 

## Illustration 11: Roy Ltd. gives the following information:

(Rs. in 000's)

a. Net long term borrowings Hire purchase creditors Bank overdraft Taxation Cash Net Borrowings	01/01/2014 14000 4000 5000 1500 (5000)	31/12/2014 14000 2800 5600 1400 (8400) 15400
---	---	--

b. Share capital and reserves	37080	47056
Proposed dividend	500	600
Total Shareholders' funds	37580	47656

#### **Current Cost Adjustments:**

Depreciation Adjustment Rs. 3500

Cost of Sales Adjustment Rs. 1620

Monetary Working Capital Adjustment Rs. 1120

Rs. 6240

Calculate Gearing Adjustment Ratio and Current Cost Adjustments after abating Gearing Adjustment.

Solution:

Average Net Borrowings (L) = 
$$\frac{19500+15400}{2}$$
 = 17450

Average Shareholders' Funds (S) = 
$$\frac{37580+47656}{2}$$
 = 42618

Gearing Adjustment Ratio = 
$$\frac{L}{L+S}$$
 x 100

$$=\frac{17450}{17450+42618} \times 100 = \underline{29.05\%}$$

Current Cost Adjustments after abating Gearing Adjustment:

Current Cost Adjustments (given) Rs. 6240

Less: Gearing Adjustment (6240x29.05%)

Rs. 1813

CC Adjustments after abating Gearing Adjustment Rs. 4427

Illustration 12: The following were the liabilities and assets of Super Ltd. as on 31<sup>st</sup> December 2013 and 31<sup>st</sup> December 2014:

Liabilities	31/12/13	31/12/14	Assets	31/12/13	31/12/14
	(Rs.000's)	(Rs.000's)		(Rs.000's)	(Rs.000's)
Equity Shares	3000	3000	Land & Buildings		
Reserves	1200	1400	(Cost – Rs. 3200)	3040	2960
10% Debentures		400	Equipment		
Creditors	200	300	(Cost - 2000)	1000	800
Proposed Dividend	300	300	Stock	600	800
Troposou 27	A STATE OF THE STA		Debtors	260	560
		Land San Jack	Bank	(200)	280

Arona Tr	4700	5400	e de la companya de l	4700	5400
The second of th					

Statement of Profit and Loss for the year ended 31st December 2014 was as follows:

(Rs. in 000's)

Sales		LE TOUR DECEMBER	2000
Opening Stock	1001 Rs 3300	600	2000
Purchases	and its end to the	1220	
	and ingression in Actionment (MV-	1820	2 189 13 13
Less: Closing Stock	apital Adjustment Rs. 1120	800	1020
Gross Profit			980
Less: Expenses (Including interest	est on debenture)	200	980
Depreciation on building		80	arouth-
Depreciation on equipment		200	480
Net Profit		arada a vi	500
Less: Proposed Dividend			300
Balance carried forward	SAMON AS A SAMON CONTRACTOR	Self School	200

The relevant price indices are as follows:

a. b.	2012 (Average) – Date of building acquisition 2009 (Average) – Date of equipment acquisition and issue of equity shares	105
c.	2014 (1 <sup>st</sup> January) - Debentures issued	80
d.	2014 (Average)	116
e.	2014 (31st December)	118 125
		12.)

Closing stock of 2014 was acquired during whole of 2014 and opening stock during 2013. Show the current cost adjustments under CCA method for the year ended 31st December 2014, under the following heads: ost Adjustments (given)

- a. Cost of Sales
- b. Depreciation Adjustment
- c. Monetary Working Capital Adjustment
- d. Gearing Adjustment.

#### Solution:

a. Calculation of Cost of Sales (COSA):

$$COSA = (C - O) - I_a \left(\frac{C}{I_C} - \frac{O}{I_O}\right)$$
$$= (800-600)-118\left(\frac{800}{125} - \frac{600}{116}\right)$$
$$= Rs. 54.86$$

b. Calculation of Depreciation Adjustment:

Depreciation under CCA:	
	Maria Cara San Cara Cara Cara Cara Cara Cara Cara Ca

Building (80x125/105)	allow of Carolicana	95.24
Equipment (200x125/80)	ALL THE STATE OF T	312.50
		407.74
Less: Depreciation under Historical Costing:	Clara Baybas de	7670.27.5
Building	80.00	
Equipment	200.00	280.00
Depreciation Adjustment		127.74

c. Calculation of Monetary Working Capital Adjustment (MWCA):

7.74 destruction and secure very entire to the second of t	Opening Closing Balance Balance
.02	(31/12/13) (31/12/14)
Debtors	260 56
Less: Creditors	200 30
Monetary Working Capital	60 26

MWCA= 
$$(C - O) - l_a \left(\frac{c}{l_c} - \frac{o}{l_o}\right)$$
  
=  $(260 - 60) - 118\left(\frac{260}{125} - \frac{60}{116}\right)$   
=  $\frac{Rs. 15.92}{116}$ 

## d. Calculation of Gearing Adjustment:

## Net Borrowings:

Fundaments 1992   12000   12	Opening Balance (31/12/13	Balance
Debentures		0 400
Bank Overdraft	20	0
	20	
Less: Bank		
Net Borrowings	20	0 120

## Shareholders' Funds:

194000 Loss Deposition 24000 10000 1	Opening Balance (31/12/13)	Closing Balance (31/12/14)
Equity Shares	3000 1200	3000 1400
Reserves Proposed Dividend	300	300
Shareholders' Funds	4500	4700

Average Net Borrowings (L) = 
$$\frac{200+120}{2}$$
 = 160

Average Shareholders' Funds (S) = 
$$\frac{4500+4700}{2}$$
 = 4600

Gearing Adjustment Ratio = 
$$\frac{L}{L+S}$$
x 100

$$= \frac{160}{160 + 4600} \times 100 = \underline{3.36\%}$$

Current Cost Adjustments:

Cost of Sales Adjustment 54.86

Depreciation Adjustment 127.74

Monetary Working Capital Adjustment 15.92

Total Current Cost Adjustments 198.52

Gearing Adjustment = Total Current Cost Adjustments x Gearing Adjustment Ratio

Gearing Adjustment = 198.52 x 3.36%

= 6.67

Illustration 13: Following are the Balance Sheets and Profit and Loss Account of a firm, prepared on the basis of historical cost accounting.

Balance Sheet as on 1<sup>st</sup> April 2014

Capital Profit and Loss Account Sundry Liabilities	Rs. 480000 60000 180000	Plant and Machinery Furniture Stock	Rs. 240000 60000 120000
6 (074)	G STAN	Debtors Cash	96000 204000
* - 1 (	720000		720000

# Balance Sheet as on 31<sup>st</sup> March 2015

Capital Profit and Loss Account Sundry Liabilities	Rs. 480000 174000 78000	Plant and Machinery Less: Depreciation Furniture	240000 24000 60000	Rs. 216000
TECHNIA TO CONTRACT	STORES NO.	Less: Depreciation	6000	54000
2017-0008 C	The Market	Stock	13 TAIL A	96000
52000 (1000 E) (1000 E)		Debtors		144000
		Cash	La Calendar	222000
4 - 10) 8	732000		Sale of the sale o	732000

Profit and Loss Account for the year ended 31st March 2015

To Stock (on 01/04/2014) To Purchases To Depreciation To Other Operating Expenses	30000 120000	By Sales By Stock (on 31/03/2015)	Rs. 1200000 96000
To Net Profit	114000	and the property of the property of	I he amortooning
10110022	1296000	ost of Goods Sold	1296000

## Additional Information:

- a. The replacement cost of the goods sold on the date of sales amounted to Rs. 960000.
- a. The current replacement cost of the stock on 31<sup>st</sup> March 2015 is Rs. 102000.
- c. On 31<sup>st</sup> March 2015, the replacement costs of the plant and machinery and furniture were Rs. 264000 and Rs. 48000 respectively.

Prepare Profit and Loss Statement for the year ended 31<sup>st</sup> March 2015 and Balance Sheet as on 31<sup>st</sup> March 2015 on the basis of Current Cost Accounting.

#### Solution:

Profit and Loss Statement For the year ended 31<sup>st</sup> March 2015

013	MA STATE AND SERVICE
Rs.	Rs.
The fact that the second	1200000
and the souli	960000
U.S. THERE IS NOT THE PARTY OF THE	240000
26400	
4800	
120000	151200
BUTT HEL	88800
anaucanti asso sala	24000
to determination of	112800
	18000
	130800
	26400 4800

# Balance Sheet as on 31st March 2015

Liabilities	Rs.	Assets	ATTERNATION CONTRACTOR	Rs.
Capital Profit and Loss Account: Balance on 01/04/2014 60000 Realised Profit 112800 Revaluation Reserve (Unrealised holding gain) Sundry Liabilities	480000 172800 18000 78000 748800	Plant and Machinery Less: Depreciation Furniture Less: Depreciation Stock Debtors Cash	264000 26400 48000 4800	290400 52800 102000 144000 222000 748800

#### Working Notes:

a. Calculation of Realised Holding Gain:

Replacement Cost of Goods Sold Less: Historical Cost of Goods Sold	120000 1 114000 1225000	Rs.	Rs. 960000
Opening Stock Add: Purchases	46,104	120000 912000	1,411
Less: Closing Stock	it and films who no sult in a	1032000 96000	936000
Realised Holding Gain	er, does not to tare toru	me planet trees	24000

b. Calculation of Unrealised Holding Gain (Revaluation Reserve):

Coss Statement for the year ended 31st March 2015 and Balance Sheet	Rs.	Rs.
Replacement Cost on 31 <sup>st</sup> March 2015:	m 2 000 du	Sharel Land
Plant and Machinery	264000	THE REAL PROPERTY.
Furniture	48000	ministra
Stock	102000	414000
Less: Historical Cost:		.1.000
Plant and Machinery (on 1st April 2014)	240000	
Furniture (on 1 <sup>st</sup> April 2014)	60000	
Stock (on 31 <sup>st</sup> March 2015)	96000	396000
Unrealised Holding Gain	MOR BROOM	18000

### **Advantages of Current Cost Accounting**

- 1. Financial statements prepared under this method are more meaningful.
- 2. The statements reveal true operational efficiency and profit.
- 3. It prevents overstatement of profit.
- 4. It helps to determine the correct replacement cost of assets as depreciation is provided at current cost.

## **Limitations of Current Cost Accounting**

- 1. Due to technological changes it is difficult to determine the value of real assets of the business.
- There is an element of subjectivity in periodic valuation due to the non-availability of reliable indices.
- 3. The operating profits of the firm do not reflect the real earnings of the firm.
- 4. The income tax authorities have not recognised this method

### Specific and General Price Level Accounting (SGPLA)

This approach is the combination of the two approaches – Current Purchasing Power Accounting and Current Cost Accounting. This method is also referred as hybrid method. This approach takes into account both the changes in specific prices of individual items and the influences of general price level changes. Under this approach, values shown in the financial

statements are based on current costs and are measured in units of purchasing power. This method is not so popular.

# Periodic Revaluation of Fixed Assets along with the Adoption of LIFO Method of Inventory

The advocates of this method are of the view that periodic revaluation of fixed assets along with the adoption of LIFO method (for getting the cost of goods sold and value of closing stock) can considerably reduce the effect of increasing prices. The purpose of periodic revaluation of fixed assets is to charge depreciation on current cost of replacement and the aim of following LIFO method is to charge current cost of goods consumed to Profit and Loss Account.

## **REVIEW QUESTIONS**

#### A. Short Answer Type questions

- 25. Define Inflation Accounting.
- 26. List the methods of Inflation Accounting.
- 27. What do you mean by CPP Accounting?
- 28. What do you understand by Current Cost Accounting?
- 29. What do you mean by SGPLA?

## **B. Short Essay Type Questions**

- 21. Briefly explain the benefits of Inflation Accounting.
- 22. What are the limitations of Historical Accounting?
- 23. Write a note on CPP Accounting.
- 24. Explain the Current Cost Accounting with its merits and demerits.
- 25. What are the characteristics of CCA method?

## C. Essay Type Questions

- 1. Define Inflation Accounting. Briefly explain its merits and demerits.
- 2. Write an essay on Methods of Accounting for Price Level Changes.
- 3. Write short notes on:
  - a) Cost of Sales
  - b) Depreciation Adjustment
  - c) Monetary Working Capital Adjustment
  - d) Gearing Adjustment.

## D. Practical Problems

1. Adjust the following Statement of Profit and Loss and Balance Sheet under CPPA method to ascertain the changes in net profit and reserve.

Statement of Profit and Loss

for the year ending 31st December 2014	(Rs. in 000's)	SMIRCAR.
Sales	Doll column	500
Less: Cost of goods sold:	80	
Opening inventory Add: Purchases	420	

Less: Closing inventory	500 70	430
Gross Profit		70
Less: Administration expenses	25	eriodic Euro
Depreciation on buildings	5	30
Net Profit		40

Balance Sheet

or papers of periodic	as on 31st December 2014	alecnousqui Salecnousqui	(Rs. in 000's)
	s to charge depresainton on ourrent cost of rep	etaka ba	200
Reserve	o chapte current look of groots contrained to I	si bodisi	200
The second second second second		Line Indiana	400
Land	The state of the s	<b>BOTTER</b>	140
Buildings		200	ON VALUE S
Less: Depreciation	Printer	45	155
	April 1979	A northlik	Family es
Stock	The indicate Accountings of the	70	ens eine
Debtors	Syndrous Art 945) vid	40	Description of the second
Cash	kland by Current Cost & seconding?	30	SE WILL SC
	5 - Call 100 2 - Call	140	of heavy desi-
Less: Creditors	Sold of the state of the second secon	35	105
	2661	on(Xoppy)	400

### Following further information are also given:

- (a) Closing stock was acquired during last quarter of 2014 and opening stock during the last quarter of 2013.
- (b) The land and buildings were acquired and the capital issued during 1998. The buildings are depreciated straight line over 40 years.
- (c) Sales, purchases and administration expenses are assumed to occur evenly over the year and hence at average prices.
- (d) The relevant retail price indices are:

1	Total Piloc III	nees ar
	2006 average	60
	2013 last quarter average	108
	2014 last quarter average	116
	2014 average	114
	2013 December 31	110
	2014 December 31	118

(Answer: Net Profit - Rs. 30.89; Balance Sheet Total - Rs. 721.37).

# 2. Calculate the gearing adjustment from the following data under CCA method:

Convertible Debentures Bank Overdraft	100	Closing (Rs.)
Cash	60	80

Share Capital Reserves	100065	150 200 50 80
Reserves	Spore	Ase Lake
Cost of Sales Adjustment	Rs. 20	to the property of the second
Monetary Working Capital Adjustment	Rs. 15	nabematal tenerole
Depreciation Adjustment	Rs. 5	a. The replacement cost of a
Total Current Cost Adjustments	Rs. 40	h. The current replacement of a r. Chr. 31 Warch 2015, the r

(Answer: Average Net Borrowings – Rs. 160; Average Shareholders' Fund – Rs. 240; Gearing Adjustment – Rs. 16).

3. Following are the Balance Sheets and Profit and Loss Account of a firm, prepared on the basis of historical cost accounting.

Balance Sheet as on 1st April 2014

	WO 022 -		
	Rs.		Rs.
Capital	400000	Plant and Machinery	200000
Profit and Loss Account	50000	Furniture	50000
Sundry Liabilities	150000	Stock	100000
Sullary Liabilities		Debtors	80000
	Ale to 1	Cash	170000
	600000		600000

# Balance Sheet as on 31<sup>st</sup> March 2015

	Rs.			Rs.
Capital	400000	Plant and Machinery	200000	
Profit and Loss Account	145000	Less: Depreciation	20000	180000
Sundry Liabilities	65000	Furniture	50000	
Sullary Elabilities		Less: Depreciation	5000	45000
		Stock		80000
		Debtors		120000
		Cash		185000
	610000			610000

# Profit and Loss Account for the year ended 31st March 2015

	Rs.		Rs.
To Stock (on 01/04/2014)	100000	By Sales By Stock (on 31/03/2015)	1000000 80000
To Purchases	70000		

To Depreciation	25000	rundo x o
To Other Operating Expenses	100000	Fig. 8.3. White the training of the sales of
To Net Profit	95000	
	1080000	1080000

#### Additional Information:

- a. The replacement cost of the goods sold on the date of sales amounted to Rs. 800000.
- b. The current replacement cost of the stock on 31<sup>st</sup> March 2015 is Rs. 85000.
- c. On 31<sup>st</sup> March 2015, the replacement costs of the plant and machinery and furniture were Rs. 220000 and Rs. 40000 respectively.

Prepare Profit and Loss Statement for the year ended 31<sup>st</sup> March 2015 and Balance Sheet as on 31<sup>st</sup> March 2015 on the basis of Current Cost Accounting.

(Answer: Realised Holding Gain – Rs. 20000; Unrealised Holding Gain – Rs. 15000; Total Profit – Rs. 109000; Balance Sheet Total – Rs. 624000).