



SANKAT MOCHAN SERIES

**CA ARUN SETIA
PRESENTS**

Practical Questions

**CORPORATE
ACCOUNTS**

TOP 100 QUESTIONS

ISSUE AND FORFEITURE OF EQUITY SHARES

1. Authorised Capital = Issued Capital + Unissued Capital.
2. Subscribed Capital can be equal to or greater than or less than Issued Capital resulting in 3 situations respectively: Fully Subscribed; Over Subscribed and Under Subscribed.
3. Called up Capital = Paid up Capital + Calls in arrears if any – Calls in advance if any.

Question 1

A company had an authorised capital of ₹ 10,00,000 divided into 1,00,000 equity shares of ₹ 10 each. It decided to issue 60,000 shares for subscription and received applications for 70,000 shares. It allotted 60,000 shares and rejected remaining applications. Upto 31-3 -2022, it has demanded or called ₹ 9 per share. All shareholders have duly paid the amount called, except one shareholder, holding 5,000 shares who has paid only ₹ 7 per share.

Prepare a balance sheet assuming there are no other details.

Solution

Balance Sheet as at 31st March, 2022

Particulars	Notes No.	₹
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital	1	5,30,000
Total		5,30,000
ASSETS		
Current assets		
Cash and cash equivalents	2	5,30,000
Total		5,30,000

Notes to accounts

		₹	₹
1.	Share Capital		
	Equity share capital		
	Authorised share capital		
	1,00,000 Equity shares of ₹ 10 each	10,00,000	
	Issued share capital		
	60,000 Equity shares of ₹ 10 each	6,00,000	
	Subscribed share capital		
	60,000 Equity shares of ₹ 10 each	6,00,000	
	Called up and Paid up share capital		
	60,000 Equity shares of ₹ 10 each ₹ 9 called up	5,40,000	
	Less: Calls unpaid on 5,000 shares @ ₹ 2 per share	(10,000)	5,30,000
2.	Cash and cash equivalents		
	Balances with banks		5,30,000

Question 2

Pant Ltd. invited applications for 50,000 equity shares at ₹50 each, which are payable as on application ₹20, on allotment ₹10 and on first and final call ₹20. The company received applications for 60,000 shares. The directors accepted application for 50,000 shares and rejected the rest. Show Journal entries if company refunded the application money to rejected applicants and allotment money was received for 45,000 shares.

Solution

Journal

	₹	₹
Bank A/c Dr.	12,00,000	
To Equity Share Application A/c		12,00,000
(Being the application money received for 60,000 shares at ₹ 20 per share)		
Equity Share Application A/c Dr.	12,00,000	
To Equity Share Capital A/c		10,00,000
To Bank A/c		2,00,000
(Being share allotment made for 50,000 shares and excess refunded.)		

Equity Share Allotment A/c	Dr.	5,00,000	
To Equity Share Capital A/c			5,00,000
(Being allotment amount due on 50,000 equity shares at ₹ 10 per share as per Directors' resolution no... dated...)			
Bank A/c	Dr.	4,50,000	
Calls in Arrears A/c	Dr.	50,000	
To Equity Share Allotment A/c			5,00,000
(Being allotment money received for 45,000 shares at ₹ 10 per share.)			

Question 3

Interest on Calls in Arrears	Interest on Calls in Advance
It is payable by shareholders to company on the calls due but remaining unpaid.	It is payable by the Company to Shareholders on the call money received in advance but not yet due.
As per Table F maximum prescribed rate is 10%.	As per Table F maximum prescribed rate is 12%.
Period considered : From the date call money was due to the date money is finally received.	Period considered: From the date money was received to the day call was finally made due.
Directors have a right to waive off such interest in individual cases at their own discretion.	Shareholders are not entitled for any dividend on calls in advance.
It is a nominal account in nature and is credited to statement of profit and loss as an income.	It is a nominal account in nature with interest being an expense for the company.

Question 4

Rashmi Limited issued at par 1,00,000 Equity shares of ₹10 each payable ₹2.50 on application; ₹3 on allotment; ₹ 2 on first call and balance on the final call. All the shares were fully subscribed. Mr. Nair who held 10,000 shares paid full remaining amount on first call itself. The final call which was made after 3 months from first call was fully paid except a shareholder having 1000 shares who paid his due amount after 2 months along with interest on calls in arrears. Company also paid interest on calls in advance to Mr. Nair. Give journal entries to record these transactions.

Solution

Date	Particulars	L.F.	Debit Amount (₹)	Credit Amount (₹)
	Bank A/c Dr. To Equity Share Application A/c (Money received on applications for 1,00,000 shares @ ₹ 2.50 per share)		2,50,000	2,50,000
	Equity Share Application A/c Dr. To Equity Share Capital A/c (Transfer of application money on 1,00,000 shares to share capital)		2,50,000	2,50,000
	Equity Share Allotment A/c Dr. To Equity Share Capital A/c (Amount due on the allotment of 1,00,000 shares @ ₹ 3 per share)		3,00,000	3,00,000
	Bank A/c Dr. To Equity Share Allotment A/c (Allotment money received)		3,00,000	3,00,000

Equity Share First Call A/c	Dr.	2,00,000	
To Equity Share Capital A/c			2,00,000
(Being first call made due on 1,00,000 shares at ₹ 2 per share)			
Bank A/c	Dr.	2,25,000	
To Equity Share First Call A/c			2,00,000
To Calls in Advance A/c			25,000
(Being first call money received along with calls in advance on 10,000 shares at ₹ 2.50 per share)			
Equity Share Final Call A/c	Dr.	2,50,000	
To Equity Share Capital A/c			2,50,000
(Being final call made due on 1,00,000 shares at ₹ 2.50 each)			
Bank A/c	Dr.	2,22,500	
Calls in Advance A/c	Dr.	25,000	
Calls in Arrears A/c	Dr.	2,500	
To Equity Share Final Call A/c			2,50,000
(Being final call received for 89,000 shares and calls in advance for 10,000 shares adjusted)			
Interest on Calls in Advance A/c	Dr.	750	
To Shareholders A/c			750
(Being interest made due on calls in advance of ₹25,000 at the rate of 12% p.a.)			
Shareholders A/c	Dr.	750	
To Bank A/c			750
(Being payment of interest made to shareholder)			

Shareholders A/c	Dr.	41.67	
To Interest on Calls in Arrears A/c (Being interest on calls in arrears made due at the rate of 10%)			41.67
Bank A/c	Dr.	2,541.67	
To Calls in Arrears A/c			2,500
To Shareholders A/c (Being money received from shareholder for calls in arrears and interest thereupon)			41.67

Question 5

A Ltd forfeited 30,000 equity shares of ₹ 10 fully called-up, held by Mr. X for non-payment of final call @ ₹ 4 each. However, he paid application money @ ₹ 2 per share and allotment money @ ₹ 4 per share. These shares were originally issued at par. Give Journal Entry for the forfeiture.

SOLUTION

In the books of A Ltd.

Journal

Date	Particulars		₹	₹
	Equity Share Capital A/c (30,000 x ₹ 10)	Dr.	3,00,000	
	To Equity Share Final Call A/c (30,000 x ₹ 4)			1,20,000
	To Forfeited Shares A/c (30,000 x ₹ 6)			1,80,000
	(Being the forfeiture of 30,000 equity shares of ₹ 10 each fully called-up for non-payment of final call money @ ₹ 4 each as per Board's Resolution No... dated...)			

Question 6

X Ltd forfeited 20,000 equity shares of ₹ 10 each, ₹ 8 called-up, for non-payment of first call money @ ₹ 2 each. Application money @ ₹ 2 per share and allotment money @ ₹ 4 per share have already been received by the company. Give Journal Entry for the forfeiture (assume that all money due is transferred to Calls-in-Arrears Account).

SOLUTION

In the books of X Ltd

Journal

Date	Particulars	₹	₹
	Equity Share Capital A/c (20,000 x ₹ 8) Dr.	1,60,000	
	To Calls-in-Arrears A/c (20,000 x ₹ 2)		40,000
	To Forfeited Shares A/c (20,000 x ₹ 6)		1,20,000
	(Being the forfeiture of 20,000 equity shares of ₹ 10 each, ₹ 8 called-up for non-payment of first call money @ ₹ 2 each as per Board's Resolution No.....dated.....)		

Question 7

Mr. Long who was the holder of 2,000 preference shares of ₹ 100 each, on which ₹ 75 per share has been called up could not pay his dues on Allotment and First call each at ₹ 25 per share. The Directors forfeited the above shares and reissued 1500 of such shares to Mr. Short at ₹ 65 per share paid-up as ₹ 75 per share.

Give Journal Entries to record the above forfeiture and re-issue in the books of the company.

issued subsequently for ₹ 12 per share fully paid-up. Journalise the transactions relating to the forfeiture and re-issue.

Solution

Particulars	₹	₹
Preference Share Capital A/c (2,000 x ₹ 75) Dr.	1,50,000	
To Preference Share Allotment A/c		50,000
To Preference Share First Call A/c		50,000
To Forfeited Share A/c		50,000
(Being the forfeiture of 2,000 preference shares ₹ 75 each being called up for non-payment of allotment and first call money as per Board's Resolution No.... dated.....)		

Bank A/c (9,000 x ₹ 12)	Dr.	1,08,000	
To Share Capital A/c			90,000
To Securities Premium A/c			18,000
(Being the re-issue of 9,000 shares of ₹ 10 each @ ₹ 12 as per Board's Resolution No.....dated...)			
Forfeited Shares A/c	Dr.	48,000	
To Capital Reserve A/c			48,000
(Being profit on re-issue transferred to Capital Reserve).			

Question 8

X Co. Ltd. was incorporated with an authorized share capital of 90,000 equity shares of ₹ 10 each. The company purchased land and buildings from Y Co. Ltd for ₹ 4,00,000 payable in fully paid-up shares of the company. The balance of the shares were issued to the public, which were fully subscribed and paid for.

You are required to pass Journal Entries and to prepare the Balance Sheet.

SOLUTION

Journal

Date	Particulars		₹	₹
	Land and Buildings A/c	Dr.	4,00,000	
	To Y Co. Ltd A/c			4,00,000
	(Being the land and buildings purchased from Y Co. Ltd as per agreement dated...).			
	Y.Co. Ltd A/c	Dr.	4,00,000	
	To Equity Share Capital A/c			4,00,000
	(Being 40,000 shares of ₹ 10 each issued to Y Co. Ltd. on purchase of land and building)			
	Bank A/c	Dr.	5,00,000	
	To Equity Share Application and Allotment A/c			5,00,000
	(Being the issue of 50,000 shares of ₹ 10 each as per Board's Resolution No.....dated...)			
	Equity Share Application and Allotment A/c	Dr	5,00,000	
	To Equity Share Capital A/c			5,00,000
	(Being shares allotted for application money received.)			

Balance Sheet of X Company Limited as at....

	Particulars	Notes No.	₹
	EQUITY AND LIABILITIES		
	Shareholders' funds		
	Share capital	1	9,00,000
	Total		9,00,000
	ASSETS		
1.	Non-current assets		
	a Fixed assets		
	i. Plant Property and Equipment	2	4,00,000
2.	Current assets		
	Cash and cash equivalents	3	5,00,000
	Total		9,00,000

		₹
1.	Share Capital	
	Equity share capital	
	Authorised share capital	
	90,000 Equity shares of ₹ 10 each	9,00,000
	Issued share capital	
	90,000 Equity shares of ₹ 10 each	9,00,000
	Subscribed Share Capital	
	90,000 Equity Shares of ₹ 10 each	9,00,000
	Called up and Paid up Capital	
	90,000 Equity Shares of ₹ 10 each	9,00,000
	(Out of the above 40,000 shares have been allotted as fully paid up pursuant to contract(s) without payment being received in cash)	
2.	Plant Property and Equipment	
	Land and Building	4,00,000
3.	Cash and cash equivalents	
	Balances with banks	5,00,000

Question 9

A Ltd. forfeited 360 shares of ₹10 each, ₹8 called-up, issued at a premium of ₹2 per share to Sanjay for non-payment of allotment money of ₹5 per share (including premium). Out of these, 320 shares were re-issued to Amit ₹8 called up for ₹10 per share fully paid up. Pass necessary journal entries.

Solution

In the books of A Ltd. Journal Entries

Particulars		Amt.(Dr.)	Amt. (Cr.)
1	Share Capital A/c (360 x 8) Dr.	2,880	
	Securities Premium Reserve A/c (360 x 2) Dr.	720	
	To Share Allotment A/c (360 x 5)		1,800
	To Share Forfeited A/c (360 x 5)		1,800
(Being 360 shares forfeited on which Rs. 8 is called – up, for non-payment of allotment money including premium)			

Particulars		Amt.(Dr.)	Amt. (Cr.)
2	Bank A/c(320 x 8) Dr.	2,560	
	Share Forfeited A/c (320 x 2) Dr.	640	
	To Share Capital A/c (320 x 10)		3,200
(Being 320 forfeited shares re-issued for Rs. 10 per share, Rs. 8 being called up)			
3	Share Forfeited A/c Dr.	960	
	To Capital Reserves A/c		960
(Being forfeited amount on 320 shares transferred to Capital reserves account)			

Working Note:

Amount to be transferred to capital reserve account is 960 and calculated as

Forfeited amount of 320 share = $1800/360 \times 320 = 1600$

(-) Amount utilised in reissue = (640)

Question 10

A Ltd. forfeited 360 shares of ₹10 each, ₹8 called-up, issued at a premium of ₹2 per share to Sanjay for non-payment of allotment money of ₹5 per share (including premium). Out of these, 320 shares were re-issued to Amit ₹8 called up for ₹10 per share fully paid up. Pass necessary journal entries.

**In the books of A Ltd.
Journal Entries**

<i>Particulars</i>	<i>Amt.(Dr.)</i>	<i>Amt. (Cr.)</i>
1 Share Capital A/c (360 x 8) Dr.	2,880	
Securities Premium Reserve A/c (360 x 2) Dr.	720	
To Share Allotment A/c (360 x 5)		1,800
To Share Forfeited A/c (360 x 5)		1,800
(Being 360 shares forfeited on which Rs. 8 is called – up, for non-payment of allotment money including premium)		
<hr/>		
<i>Particulars</i>	<i>Amt.(Dr.)</i>	<i>Amt. (Cr.)</i>
2 Bank A/c(320 x 8) Dr.	2,560	
Share Forfeited A/c (320 x 2) Dr.	640	
To Share Capital A/c (320 x 10)		3,200
(Being 320 forfeited shares re-issued for Rs. 10 per share, Rs. 8 being called up)		
3 Share Forfeited A/c Dr.	960	
To Capital Reserves A/c		960
(Being forfeited amount on 320 shares transferred to Capital reserves account)		

Working Note:

Amount to be transferred to capital reserve account is 960 and calculated as

Forfeited amount of 320 share = $1800/360 \times 320 = 1600$

(-) Amount utilised in reissue = (640)

Question 11

Following is the extract of balance sheet of Sunrise Ltd. as on 31st March, 2015:

	₹
<i>Issued and subscribed capital :</i>	
40,000, 10% Preference shares of ₹10 each fully paid	4,00,000
1,80,000 Equity shares of ₹10 each, ₹7.50 paid-up	13,50,000
<i>Reserves and surplus :</i>	
Capital reserve	1,60,000
General reserve	2,00,000
Securities premium	40,000
Surplus	3,20,000

The company made the final call of ₹2.50 per share from equity shareholders and duly received it. Thereafter, it was decided to capitalise its reserves by issuing bonus shares at the rate of 1 share for every 3 shares held. Capital reserve includes ₹80,000 being profit on exchange of machinery.

Pass journal entries with necessary assumptions. (5 marks each)

Solution

In the Books of Sunrise Ltd.

Journal Entries

		Dr. (Rs.)	Cr. (Rs.)
Equity Share Final Call A/c	Dr.	4,50,000	
To Equity Share Capital A/c			4,50,000
(Being the final call of Rs. 2.50 each on 1,80,00 shares)			
Bank A/c	Dr.	4,50,000	
To Equity Share Final Call			4,50,000
(Being final call money received)			
Security Premium A/c	Dr.	40,000	
Capital Reserve A/c	Dr.	80,000	
General Reserve A/c	Dr.	2,00,000	
Profit & Loss A/c	Dr.	2,80,000	
To Bonus to Equity Shareholders			6,00,000
(Being utilization of reserves and profit & loss balance for issue of bonus share in the ratio of 1:3)			
Bonus to Equity Shareholders	Dr.	6,00,000	
To Equity Share Holders A/c			6,00,000
(Being issue of bonus shares)			

Assumption : It is assumed that Balance of capital reserve (1,60,000 - 80,000) and security premium has been realized in cash.

Question 13

Agrotech Ltd. issued 150 lakh 9% debentures of ₹ 100 each at a discount of 6%, redeemable at a premium of 5% after 3 years payable as: ₹ 50 on application and ₹ 44 on allotment. Record necessary journal entries for issue of debentures.

SOLUTION**Books of Agrotech Ltd.****Journal**

Date	Particulars	L.F.	Debit Amount (₹ Lakhs)	Credit Amount (₹ Lakhs)
	Bank A/c To Debenture Application A/c (Debentures application money received)	Dr.	7,500	7,500
	Debenture Application A/c To 9% Debentures A/c (Application money transferred to 9% debentures account)	Dr.	7,500	7,500
	Debenture Allotment A/c Loss on issue of debenture A/c To 9% Debentures A/c To Debenture redemption premium A/c (Call made consequent upon allotment of debentures issued at discount and redeemable at premium)	Dr. Dr.	6,600 1,650	7,500 7,50
	Bank A/c To Debenture Allotment A/c (Allotment amount received)	Dr.	6,600	6,600

Working Notes :

Loss on issue of debentures =

(Amount of discount on issue + Premium payable on redemption) x No. of Debentures

$$= (6\% \text{ of } ₹100 + 5\% \text{ of } ₹100) \times 150 \text{ lakh}$$

$$= (₹ 6 + ₹ 5) \times 150 \text{ lakh}$$

$$= ₹ 1,650 \text{ lakh}$$

Question 14

X Company Limited issued 10,000 14% Debentures of the nominal value of ₹50,00,000 as follows:

- (a) To sundry persons for cash at 90% of nominal value of ₹ 25,00,000.
 (b) To a vendor for purchase of fixed assets worth ₹10,00,000 – ₹ 12,50,000 nominal value.
 (c) To the banker as collateral security for a loan of ₹ 10,00,000 – ₹ 12,50,000 nominal value.

Pass necessary Journal Entries.

SOLUTION**In the books of X Company Ltd.****Journal Entries**

Date	Particulars		₹	₹
(a)	Bank A/c Dr. To Debentures Application A/c (Being the application money received on 5,000 debentures @ ₹ 450 each)		22,50,000	22,50,000
	Debentures Application A/c Dr. Discount on issue of Debentures A/c Dr. To 14% Debentures A/c (Being the issue of 5,000 14% Debentures @ 90% as per Board's Resolution No....dated....)		22,50,000 2,50,000	25,00,000
(b)	Fixed Assets A/c Dr. To Vendor A/c (Being the purchase of fixed assets from vendor)		10,00,000	10,00,000
	Vendor A/c Dr. Discount on Issue of Debentures A/c Dr. To 14% Debentures A/c (Being the issue of debentures of ₹ 12,50,000 to vendor to satisfy his claim)		10,00,000 2,50,000	12,50,000
(c)	Bank A/c Dr. To Bank Loan A/c (See Note) (Being a loan of ₹10,00,000 taken from bank by issuing debentures of ₹12,50,000 as collateral security)		10,00,000	10,00,000

Question 15

HDC Ltd issues 1,00,000, 12% Debentures of ₹100 each at ₹94 on 1st January, 2022. Under the terms of issue, the debentures are redeemable at the end of 5 years from the date of the issue. Calculate the amount of discount to be written-off in each of the 5 years.

SOLUTION

Total amount of discount comes to ₹ 6,00,000 (₹6 X 1,00,000). The amount of discount to be written-off in each year is calculated as under :

Year end	Debentures outstanding	Ratio in which discount to be written-off	Amount of discount to be written-off
1 st	₹ 1,00,00,000	1/5	1/5th of ₹ 6,00,000 = ₹ 1,20,000
2 nd	₹ 1,00,00,000	1/5	1/5th of ₹ 6,00,000 = ₹ 1,20,000
3 rd	₹ 1,00,00,000	1/5	1/5th of ₹ 6,00,000 = ₹ 1,20,000
4 th	₹ 1,00,00,000	1/5	1/5th of ₹ 6,00,000 = ₹ 1,20,000
5 th	₹ 1,00,00,000	1/5	1/5th of ₹ 6,00,000 = ₹ 1,20,000

Question 16

HDC Ltd. issues 2,00,000, 12% Debentures of ₹10 each at ₹9.40 on 1st January, 2022. Under the terms of issue, 1/5th of the debentures are annually redeemable by drawings, the first redemption occurring on 31st December, 2022. Calculate the amount of discount to be written-off from 2022 to 2026.

SOLUTION**Calculation of amount of discount to be written-off**

At the Year end	Debentures Outstanding before redemption	Ratio of benefit Derived	Amount of discount to be written-off
2022	₹ 20,00,000	5	5/15th of ₹ 1,20,000 = ₹ 40,000
2023	₹ 16,00,000	4	4/15th of ₹ 1,20,000 = ₹ 32,000
2024	₹ 12,00,000	3	3/15th of ₹ 1,20,000 = ₹ 24,000
2025	₹ 8,00,000	2	2/15th of ₹ 1,20,000 = ₹ 16,000
2026	₹ 4,00,000	1	1/15th of ₹ 1,20,000 = ₹ 8,000
	TOTAL	15	₹ 1,20,000

Question 17

A company issued 12% debentures of the face value of ₹10,00,000 at 10% discount on 1-1-2022. Debenture interest after deducting tax at source @ 10% was payable on 30th June and 31st of December every year. All the debentures were to be redeemed after the expiry of five year period at 5% premium.

Pass journal entries for the accounting year 2022.

SOLUTION**Journal Entries**

			(₹)	(₹)
1-1-2022	Bank A/c	Dr.	9,00,000	
	Discount/Loss on Issue of Debentures A/c	Dr.	1,50,000	
	To 12% Debentures A/c	Dr.		10,00,000
	To Premium on Redemption of Debentures A/c			50,000
	(For issue of debentures at discount redeemable at premium)			
30-6-2022	Debenture Interest A/c	Dr.	60,000	
	To Debenture holders A/c			54,000
	To Tax Deducted at Source A/c			6,000
	(For interest payable)			
31-12-2022	Debenture holders A/c	Dr.	54,000	
	Tax Deducted at Source A/c	Dr.	6,000	
	To Bank A/c			60,000
	(For payment of interest and TDS)			
31-12-2022	Debenture Interest A/c	Dr.	60,000	
	To Debenture holders A/c			54,000
	To Tax Deducted at Source A/c			6,000
	(For interest payable)			
31-12-2022	Debenture holders A/c	Dr.	54,000	
	Tax Deducted at Source A/c	Dr.	6,000	
	To Bank A/c			60,000
	(For payment of interest and tax)			

Question 18

Journalize the following transactions.

Issue of 12%, 1,00,000 debentures of Rs. 100 each

1. at par and redeemable at par.
2. at 10% discount and redeemable at par.
3. at 10% premium and redeemable at par.
4. at 10% premium and redeemable at a premium of 5%.
5. at par and redeemable at a premium of 5%.
6. at 10% discount and redeemable at a premium of 5%.

Question 19

B Ltd. secured an overdraft of Rs. 80,000 from the bank by issuing 900, 12% Debentures of Rs.100 each as collateral security. Prepare the Balance Sheet of the Company.

Solution

Journal Entries

Debentures Suspense A/c	Dr.	90,000	
			To Debentures A/c
			90,000

(Issue of 900, 12% Debentures of Rs.100 each as collateral security for a bank overdraft of Rs. 80,000 as per Board's resolution dated)

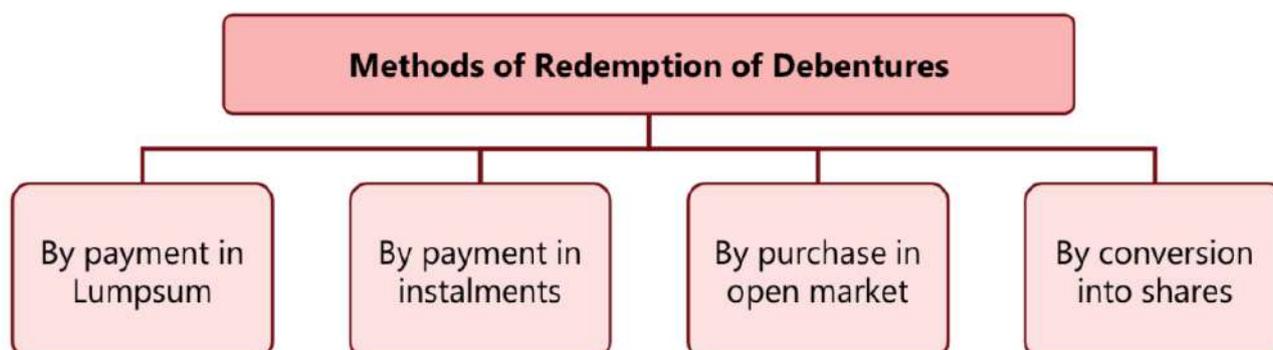
Balance Sheet of Z Ltd. as at.....

<i>Particulars</i>	<i>Note</i>	<i>Amount (Rs.)</i>
EQUITY AND LIABILITIES		
Non-current liabilities		
Long-term borrowings	1	90,000
Current liability		
Short-term borrowings	2	80,000
ASSETS		
Non-Current Assets		
Other non-current assets	3	90,000

Notes:

1. Long term borrowings	
6000, 12% Debentures of Rs.100 each	600,000
(Issued as collateral security as per contra)	
2. Short term borrowings	
Bank Overdraft	500,000
(Secured by the issue of 6000, 12% Debentures	
of Rs.100 each as collateral security)	
3. Other non-current assets	
Debentures Suspense Account	600,000
(Issued as collateral security as per contra)	

REDEMPTION OF DEBENTURES



Requirements for DRR

As per Rule 18 (7) of the Companies (Share Capital and Debentures) Amendment Rules, 2019, the company shall comply with the requirements with regard to Debenture Redemption Reserve (DRR) and investment or deposit of sum in respect of debentures maturing during the year ending on the 31st day of March of next year (*refer para 6.4 below*), in accordance with the conditions given below—

the Debenture Redemption Reserve shall be created out of the profits of the company available for payment of dividend; the limits with respect to adequacy of DRR and investment or deposits, as the case may be, shall be as under:

S. No	Debentures issued by	Adequacy of Debenture Redemption Reserve (DRR)
1	All India Financial Institutions (AIFIs) regulated by Reserve Bank of India and Banking	No DRR is required
2	Companies for both public as well as privately placed debentures Other Financial Institutions (FIs) within the meaning of clause (72) of section 2 of the Companies Act, 2013	DRR will be as applicable to NBFCs registered with RBI (as per (3) below)

3	<p>For listed companies (other than AIFs and Banking Companies as specified in Sr. No. 1 above):</p> <p>a. All listed NBFCs (registered with RBI under section 45-IA of the RBI Act,) and listed HFCs (Housing Finance Companies registered with National Housing Bank) for both public as well as privately placed debentures</p> <p>b. Other listed companies for both public as well as privately placed debentures</p>	<p>No DRR is required</p> <p>No DRR is required</p>
4	<p>For unlisted companies (other than AIFs and Banking Companies as specified in Sr. No. 1 above</p> <p>a. All unlisted NBFCs (registered with RBI under section 45-IA of the RBI (Amendment) Act, 1997) and unlisted HFCs (Housing Finance Companies registered with National Housing Bank) for privately placed debentures</p> <p>b. Other unlisted companies</p>	<p>No DRR is required</p> <p>DRR shall be 10% of the value of the outstanding debentures issued</p>

Requirements for investment

Further, as per Rule 18 (7) of the Companies (Share Capital and Debentures) Amendment Rules, 2019, following companies

- (a) All listed NBFCs
- (b) All listed HFCs
- (c) All other listed companies (other than AIFs, Banking Companies and Other FIs); and
- (d) All unlisted companies which are not NBFCs and HFCs

shall on or before the 30th day of April in each year, in respect of debentures issued, deposit

or invest, as the case may be, a sum which should not be less than 15% of the amount of its debentures maturing during the year ending on the 31st day of March of next year, in any one or more of the following methods, namely:

- (a) in deposits with any scheduled bank, free from charge or lien;
- (b) in unencumbered securities of the Central Government or of any State Government;
- (c) in unencumbered securities mentioned in clauses (a) to (d) and (ee) of Section 20 of the Indian Trusts Act, 1882;
- (d) in unencumbered bonds issued by any other company which is notified under clause (f) of Section 20 of the Indian Trusts Act, 1882.

The amount deposited or invested, as the case may be, above should not be utilised for any purpose other than for the redemption of debentures maturing during the year referred to above.

Provided that the amount remaining deposited or invested, as the case may be, shall not at any time fall below 15% of the amount of debentures maturing during the 31st day of March of that year.

In case of partly convertible debentures, DRR shall be created in respect of non-convertible portion of debenture issue.

The amount credited to DRR shall not be utilised by the company except for the purpose of redemption of debentures.

Question 21

Bima Ltd. had issued 11% 5,00,000 debentures of Rs. 100 each redeemable on 31st March 2019 at a premium of 5%. The company offered three options to debenture holders as under:

- (i) 13% Preference shares of Rs.10 each at Rs.10.50
- (ii) 14% debentures of Rs. 100 at par.
- (iii) Redemption in cash.

The options were accepted as under :

Option (i) by holders of 1,00,000 debentures. Option (ii) by holders of 1,00,000 debentures. Option (iii) by holders of 3,00,000 debentures.

The company carried out the redemption. Pass the necessary journal entries.

Question 22

(Purchase of debentures for immediate cancellation)

XYZ Ltd. has 5000, 10% debentures of Rs.100 each. The interest on these debentures is paid half yearly on June 30, December 31 every year. The company is not maintaining any sinking fund. On 01-04-2022, the company purchased 500 debentures at Rs. 95 each cum – interest for immediate cancellation. On 01-10-2022, the company purchased 600 debentures at Rs. 90 each ex-interest for immediate cancellation. Journalize.

Question 23

(Purchase of Own Debentures as investment)

Sugandha Ltd. issued 10,000 12% Debentures of Rs. 100 each on 1st April, 2021. Interest is payable on 30th September and 31st March every year. On 1st July, 2022, the company purchased 1,000 of its Own Debentures at Rs. 96 ex-interest as investments. On 1st January, 2023, the company purchased 2000 of its Own Debentures at Rs. 96 cum interest as investment. On 31st March 2023, the company cancelled all of its Own Debentures and books closes on 31st March every year. Journalize.

Question 24

On 30th June 2022 following balances stood in the books of a company :

	Rs.
8% First Mortgage Debentures Stock	2,00,000
Debenture Redemption Fund	2,13,080
Debenture Redemption Fund Investments:	
Rs 70,000 6% Punjab Electricity Board Bonds	71,260
Rs 80,000 5% UP Water Board Bonds	64,068
Rs 60,000 8% Government of India Loan	61,710
Rs 16,000 7% Cooperative Bank Loan	16,042

On the same day the investments were sold : Electricity bonds at par, 5% loan at Rs 91, 8% loan at Rs 109 and 7% loan at Rs 103. On 1st July the debentures were redeemed at a premium of 5%.

Write up the accounts concerned :

Question 25

On 1st April, 2018 A Ltd. made an issue of 10,00,000 14% debentures of Rs. 100 each at Rs. 98 per debenture. According to the terms of issue, the company should redeem 10000 debentures either by purchasing them from the open market or by drawing lots at par at the company's option. Profit, if any, on redemption is to be transferred to capital reserve.

The company's accounting year ends on 31st March. Interest is payable on 30th September and 31st March.

During 2018-19 the company wrote off 20% of Debenture Discount Account.

During 2021-22, the company purchased and cancelled the debentures as given below:

Rs. 200,00,000 at Rs. 95 per debenture on 30th September, and

Rs. 300,00,000 at Rs. 97 per debenture on 31st March.

Give the journal entries in the books of A Ltd. for both the years

Question 26

A company purchased 200, 12% debentures of ₹100 each at ₹97 on cum interest basis on 1st July, 2015 for immediate cancellation. Interest is payable on 30th September and 31st March each year. Pass journal entries in the books of the company.

Journal Entries

Date		Dr. (Rs.)	Cr. (Rs.)
1/7/15	12 % Debenture A/c	Dr. 20,000	
	Debenture Interest A/c	Dr. 600	
	To Bank A/c		19,400
	To Profit on Redemption of Debenture		1,200
	(Cancellation of 200 debentures of Rs. 100 each by purchase in the open market at Rs. 97 cum- interest)		
	Profit on redemption of debenture A/c	Dr. 1200	
	To capital Reserve A/c		1200
	(Transfer of profit on cancellation)		
	Profit & Loss A/c	Dr. 600	
	To Debenture Interest		600
	(Transfer of Interest)		

Question 27

Following balances appeared in the books of Bahubali Ltd. as on 1st April, 2014:

14% Debentures	₹15,00,000
Balance of sinking fund	₹12,00,000
Sinking fund investment	₹12,00,000

Following further information is provided :

- Sinking fund investment is represented by 10%, ₹13,00,000 secured government bonds.
- Annual contribution to sinking fund is ₹2,40,000 on 31st March each year.
- Balance at bank on 31st March, 2015 is ₹6,00,000 before receipt of interest.
- Investment was sold at 90% on 31st March, 2015.
- Debentures were redeemed at 10% premium on 31st March, 2015.

Prepare necessary ledger accounts for the year ended 31st March, 2015.
(5 marks)

14% debenture A/c

Date	Particulars	Amount (Rs.)	Date	Particulars	Amount (Rs.)
31/3/15	To Deb. Holders A/c	15,00,000	1/4/14	By Balance b/d	15,00,000
		15,00,000			15,00,000

Sinking Fund A/C

31/3/15	To 10% bond (loss)	30,000	1/4/14	By Balance b/d	12,00,000
31/3/15	To General Reserve (Balancing fig.)	15,40,000		By Profit & Loss	2,40,000
				By Bank (Interest on SF investment)	1,30,000
		15,70,000			15,70,000

10% Secured Bond of Government

1/4/14	To Balance b/d	12,00,000	31/3/15	By Bank	11,70,000
		12,00,000	31/3/15	By Sinking Fund A/c	30,000

Bank A/c

31/3/15	To Balance b/d	6,00,000	31/3/15	By 14% Debenture	16,50,000
	To sinking Fund (Int.)	1,30,000	31/3/15	By Balance c/d	2,50,000
	To SF investment	11,70,000			
		19,00,000			19,00,000

Debenture holders A/c

31/3/15	To Bank	16,50,000	31/3/15	By 14% Debentures	15,00,000
				By Premium on redemption	1,50,000
		16,50,000			16,50,000

Question 28

(i) Beta Ltd. has following balances as on 1st April, 2015 :

	₹
15% Debentures	8,00,000
Sinking fund (represented by 10% bonds, face value : ₹7,20,000)	6,00,000
Bank balance	3,28,000

Other information —

- Annual contribution to sinking fund ₹1,28,000 and interest on investments are credited on 31st March each year.
- On 31st March, 2016, the company paid-off the debentures by selling the investment at 80%.
- Debentures were redeemed at 10% premium.

Prepare necessary ledger accounts for the year 2015-16. Payment of interest on debentures shall be ignored. (5 marks)

Question 29

On 1st April, 2014 Kapil Ltd. had made an issue of 2,000, 6% debentures of ₹100 each. The Company during the year 2015-16 purchased for cancellation 500 of these debentures. The company paid ₹95 per debenture for 400 debentures and ₹98 per debenture for the rest. The expenses on purchase amounted to ₹200. Pass journal entries in the books of the company.

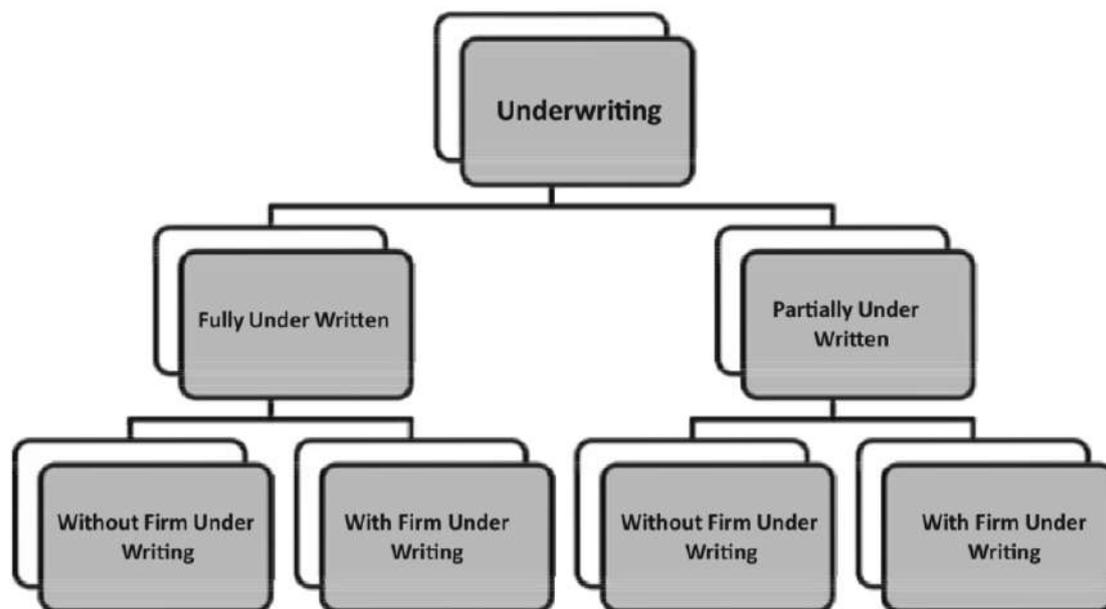
In the books of Kapil Ltd.**Journal Entries**

<i>Particulars</i>	<i>Amt. (Dr.)</i>	<i>Amt. (Cr.)</i>
1. Own Debentures A/c (400 x 95+100 x 98+200)	Dr. 48,000	
To Bank A/c		48,000
(Being own debenture purchased)		
2. 6 % Debentures A/c (500 x100)	Dr. 50,000	
To Own Debentures A/c		48,000
To Profit on cancellation of own Debentures A/c		2,000
(Being Cancellation of Own Debentures)		
3. Profit on Cancellation of Own Debentures A/c	Dr. 2,000	
To Capital Reserves A/c		2,000
(Being profit on cancellation transferred to Capital reserves account)		

Underwriting of shares and debentures

Distinction / Difference between brokers and underwriters

No	Brokers	Underwriters
(1)	A Broker is a person who buys and sells goods or assets for others.	An underwriter is a person or company that underwrites an insurance risk.
(2)	A broker is entitled to receive Commission only on those shares or debentures for which he procures subscription.	While an underwriter receives underwriting Commission on the entire issue which he underwritten.
(3)	Even where the shares or debentures are not offered to the public, the brokerage is payable on shares or debentures for which subscription is procured.	In case, of Underwriters, An underwriting commission is payable only on those shares or debentures which are offered to the public.
(4)	Broker's percentage of brokerage is determined as per prevailing rate	Underwriting commission is payable but it should not exceed 5% of the issue price of shares and 2.5 % of the issue price of debentures.
(5)	The brokers are entitled to brokerage even if the Article of Association of a company is silent on this point.	In case of Underwriters, only if the Article of an Association authorized underwriting Commission, the underwriters are entitled to get such Commission.
(6)	In case, of Broker, It is not required the name and address of each broker is to be disclosed in the prospectus.	While in case of underwriters the name of location and address of each one is to be shown in the prospectus.



Question 30

Sunflow Ltd. issued 50,000 equity shares. The whole of the issue was underwritten as follows: Red 40%; White 30%; Blue 30%

Applications for 40,000 shares were received in all, out of which applications for 10,000 shares had the stamp of Red; those for 5,000 shares that of White and those for 10,000 shares that of Blue. The remaining applications for 15,000 shares did not bear any stamp.

Determine the liability of the underwriters.

Solution:

Net Liability of Underwriters

<i>Particulars</i>	<i>Red (40%) Shares</i>	<i>White (30%) Shares</i>	<i>Blue (30%) Shares</i>
Gross liability in the agreed ratio of 40 : 30 : 30	20,000	15,000	15,000
Less: Marked applications	10,000	5,000	10,000
Balance left	10,000	10,000	5,000
Less: Unmarked applications in the ratio of gross liability, i.e., 40 : 30 : 30	6,000	4,500	4,500
Net liability	4,000	5,500	500

Question 31

Monlit Ltd., issued 50,000 equity, shares of which only 60% was underwritten by Green. Applications for 45,000 shares were received in all out of which application for 26,000 were marked.

Determine the liability of Green.

Solution:

Gross liability of Green being 60% of 50,000 shares,

i.e., $60/100 \times 50,000 = 30,000$ shares

Less: Marked applications = 26,000 shares

Net liability of Green = 4,000 shares

Question 32

Goods Earths Ltd., issued 30,000 6% Debentures of ₹ 100 each. 60% of the issue was underwritten by Black. Applications for 28,000 debentures were by the company.

Determine the liability of Black.

Solution:

Gross liability of Black being 60% of 30,000 debentures i.e., $60/100 \times 30,000 = 18,000$ debentures

Less: Marked applications assumed 60% of 28,000 i.e., $60/100 \times 28,000 = 16,800$ debentures
Net liability of Black = 1,200 debentures

Alternatively, Black's liability can be determined in the following way:

Number of debentures not subscribed for by the public = $(30,000 - 28,000)$
= 2,000 debentures

Black's liability = 60% of 2,000 debentures
= $60/100 \times 2,000 = 1,200$ debentures

Question 33

Satellite Ltd., issued 12% 10,000 Preference Shares of ₹ 10 each. The issue was underwritten as follows: Apple 30%, Mango 30%, Orange 20%.

Application for 8,000 shares were received by the company in all. Determine the liability of the respective underwriters.

Solution:

<i>Particulars</i>	<i>Apple (30%) Shares</i>	<i>Mango (30%) Shares</i>	<i>Orange (20%) Shares</i>
Gross liability in the agreed ratio 30 : 30 : 20	3,000	3,000	2,000
Less: Marked application, i.e., 8,000 application in the ratio of 3/8 : 3/8 : 2/8	2,400	2,400	1,600
Net liability	600	600	400

Alternatively, the liability of the respective underwriters can also be determined in the following manner:

Shares issued	10,000
Less: Applications received	<u>8,000</u>
Unsubscribed shares	<u>2,000</u>
Apple's liability	= 30% of 2,000 = 600 shares
Mango's liability	= 30% of 2,000 = 600 shares
Orange's liability	= 20% of 2,000 = 400 shares
Total liability of Apple, Mango and Orange	= 600 + 600 + 400 = 1,600 shares.

which represent 80% of the total issue underwritten. The balance (2,000 - 1,600) = 400 shares representing 20% of the issue not underwritten will remain as unissued.

Question 34

Emess Ltd. issued 40,000 shares which were underwritten as:

P: 24,000 shares Q: 10,000 shares and R: 6,000 shares. The underwriters made applications for firm underwriting as under:

P: 3,200 shares; Q: 1,200 shares; and R: 4,000 shares. The total subscriptions excluding firm underwriting (including marked applications) were 20,000 shares.

The marked applications were - P: 4,000 shares; Q: 8,000 shares; and R: 2,000 shares.

Prepare a statement showing the net liability of underwriters.

Solution:

Statement of Underwriters' Liability
(Firm underwriting shares are treated as unmarked applications)

	(Shares)			
<i>Particulars</i>	<i>P</i>	<i>Q</i>	<i>R</i>	<i>Total</i>
Gross Liability	24,000	10,000	6,000	40,000
Less: Marked applications	4,000	8,000	2,000	14,000
Balance	20,000	2,000	4,000	26,000
Less: Unmarked applications in the ratio of gross liability (12:5:3)	8,640	3,600	2,160	14,400
Balance	11,360	(-1,600)	1,840	11,600
Credit of Q's over subscription to P & R in the ratio of 12:3	(1,280)	<u>+1,600</u>	(320)	—
Net Liability	10,080	—	1,520	11,600
Add: Firm underwriting	<u>3,200</u>	<u>1,200</u>	4,000	8,400
Total Liability	<u>13,280</u>	<u>1,200</u>	5,520	20,000

Question 35

Sam Limited invited applications from public for 1,00,000 equity shares of 10 each at a premium of Rs. 5 per share. The entire issue was underwritten by the underwriters A, B, C and D to the extent of 30%, 30%, 20% and 20% respectively with the provision of firm underwriting of 3,000, 2,000, 1,000 and 1,000 shares respectively. The underwriters were entitled to the maximum commission permitted by law.

The company received applications for 70,000 shares from public out of which applications for 19,000, 10,000, 21,000 and 8,000 shares were marked in favour of A, B, C and D respectively.

Calculate the liability of each one of the underwriters. Also ascertain the underwriting commission @ 2.5% payable to the different underwriters.

Solution:**Liability of Underwriters (No. of shares)**

	<i>Total</i>	A	B	C	D
Less: Unmarked Applications	12,000	3,600	3,600	2,400	2,400
Balance	88,000	26,400	26,400	17,600	17,600
Less: Marked Applications	58,000	19,000	10,000	21,000	8,000
Balance	30,000	7,400	16,400	- 3,400	9,600
Less: Firm Underwriting	7,000	3,000	2,000	1,000	1,000
Balance	23,000	4,400	14,400	- 4,400	8,600
Adjustment	–	- 1,650	- 1,650	+4,400	- 1,100
Net Liability	23,000	2,750	12,750	-	7,500
Total Liability including firm underwriting	30,000	5,750	14,750	1,000	8,500

BONUS ISSUE AND RIGHT ISSUE

Section 63 of companies act

Section 63 of the Companies Act, 2013 deals with the issue of bonus shares. According to Sub-section (1) of Section 63, a company may issue fully paid-up bonus shares to its members, in any manner whatsoever, out of—

- (i) its free reserves*;
- (ii) the securities premium account; or
- (iii) the capital redemption reserve account:

Provided that no issue of bonus shares shall be made by capitalising reserves created by the revaluation of assets.

Sub-section (2) of Section 63 provides that no company shall capitalise its profits or reserves for the purpose of issuing fully paid-up bonus shares under sub-section (1), unless—

- (a) it is authorised by its articles;
- (b) it has, on the recommendation of the Board, been authorised in the general meeting of the company;
- (c) it has not defaulted in payment of interest or principal in respect of fixed deposits or debt securities issued by it;
- (d) it has not defaulted in respect of the payment of statutory dues of the employees, such as, contribution to provident fund, gratuity and bonus;
- (e) the partly paid-up shares, if any outstanding on the date of allotment, are made fully paid-up.
- (f) it complies with such conditions as may be prescribed.

The company which has once announced the decision of its Board recommending a bonus issue, shall not subsequently withdraw the same.

Sub-section (3) of the Section also provides that the bonus shares shall not be issued in lieu of dividend.

A securities premium account and a capital redemption reserve account may only be applied in the paying up of unissued shares to be issued to members of the company as fully paid bonus shares. In other words, securities premium account and capital redemption reserve **cannot** be applied towards payment of unpaid amount on any shares held by existing shareholders.

(A) (1) Upon the sanction of an issue of bonus shares

Capital Redemption Reserve Account	Dr.
Securities Premium Account ¹	Dr.
General Reserve Account	Dr.
Profit & Loss Account	Dr.
To Bonus to Shareholders Account.	

(2) Upon issue of bonus shares

Bonus to Shareholders Account	Dr.
To Share Capital Account.	

(B) (1) Upon the sanction of bonus by converting partly paid shares into fully paid shares

General Reserve Account	Dr.
Profit & Loss Account	Dr.
To Bonus to Shareholders Account	

(2) On making the final call due

Share Final Call Account	Dr.
To Share Capital Account.	

(3) On adjustment of final call

Bonus to Shareholders Account	Dr.
To Share Final Call Account	

Question 36

Following items appear in the trial balance of Bharat Ltd. (a listed company) as on 31st March, 2022:

	₹
40,000 Equity shares of ₹ 10 each	4,00,000
Capital Redemption Reserve	55,000
Securities Premium (collected in cash)	30,000
General Reserve	1,05,000
Surplus i.e. credit balance of Profit and Loss Account	50,000

The company decided to issue to equity shareholders bonus shares at the rate of 1 share for every 4 shares held and for this purpose, it decided that there should be the minimum reduction in free reserves. Pass necessary journal entries.

SOLUTION**Journal Entries in the books of Bharat Ltd.**

		Dr.	Cr.
		₹	₹
Capital Redemption Reserve A/c	Dr.	55,000	
Securities Premium A/c	Dr.	30,000	
General Reserve A/c (b.f.)	Dr.	15,000	
To Bonus to Shareholders A/c			1,00,000
(Bonus issue of one share for every four shares held, by utilising various reserves as per Board's resolution dated.....)			
Bonus to Shareholders A/c	Dr.	1,00,000	
To Equity Share Capital A/c			1,00,000
(Capitalisation of profit)			

Working Note-

Number of Bonus shares to be issued- $(40,000 \text{ shares} / 4) \times 1 = 10,000 \text{ shares}$

Value of Bonus shares- $10,000 \text{ shares of ₹ 10 each} = ₹ 1,00,000$

Question 37

Pass Journal Entries in the following circumstances:

- (i) A Limited company with subscribed capital of ₹ 5,00,000 consisting of 50,000 Equity shares of ₹ 10 each; called up capital ₹ 7.50 per share. A bonus of ₹ 1,25,000 declared out of General Reserve to be applied in making the existing shares fully paid up.
- (ii) A Limited company having fully paid up capital of ₹ 50,00,000 consisting of Equity shares of ₹ 10 each, had General Reserve of ₹ 9,00,000. It was resolved to capitalize ₹ 5,00,000 out of General Reserve by issuing 50,000 fully paid bonus shares of ₹ 10 each, each shareholder to get one such share for every ten shares held by him in the company.

SOLUTION**Journal Entries**

			₹	₹
(i)	General Reserve A/c	Dr.	1,25,000	
	To Bonus to shareholders A/c			1,25,000
	(For making provision of bonus issue)			
	Share Final Call A/c		1,25,000	
	To Equity share capital A/c			1,25,000
	(For final calls of ₹ 2.5 per share on 50,000 equity shares due as per Board's Resolution dated....)			
	Bonus to shareholders A/c	Dr.	1,25,000	
	To Share Final Call A/c			1,25,000
	(For bonus money applied for call)			
(ii)	General Reserve A/c	Dr.	5,00,000	
	To Bonus to shareholders A/c			5,00,000
	(For making provision of bonus issue)			
	Bonus to shareholders A/c	Dr.	5,00,000	
	To Equity share capital A/c			5,00,000
	(For issue of 50,000 bonus shares at ₹ 10)			

Question 38

A company offers new shares of ₹100 each at 25% premium to existing shareholders on one for four bases. The cum-right market price of a share is ₹150. Calculate the value of a right. What should be the ex-right market price of a share?

SOLUTION

Ex-right value of the shares = (Cum-right value of the existing shares + Rights shares Issue Price) / (Existing Number of shares + No. of right shares)

$$= (\text{₹ } 150 \times 4 \text{ Shares} + \text{₹ } 125 \times 1 \text{ Share}) / (4 + 1) \text{ Shares}$$

$$= \text{₹ } 725 / 5 \text{ shares} = \text{₹ } 145 \text{ per share.}$$

Value of right = Cum-right value of the share – Ex-right value of the share

$$= \text{₹ } 150 - \text{₹ } 145 = \text{₹ } 5 \text{ per share.}$$

Hence, any one desirous of having a confirmed allotment of one share from the company at ₹ 125 will have to pay ₹ 20 (4 shares X ₹ 5) to an existing shareholder holding 4 shares and willing to renounce his right of buying one share in favour of that person.

Question 39

A Company having 70,000 shares of ₹10 each as its issued share capital and having market value of ₹21 issues rights shares in the ratio of 1:10 at an issue price of ₹ 10. Pass journal entry for issue of right shares.

The entry at the time of subscription of right shares by the existing shareholders will be:

Bank A/c	Dr.	70,000	
	To Equity Share Capital A/c		70,000

(Being issue of 7,000 right shares at price of ₹ 10)

Working Note- Number of rights shares to be issued- $70,000/10 \times 1 = 7000$ shares.

Question 40

A company having 1,00,000 shares of ₹10 each as its issued share capital, and having a market value of ₹46, issues rights shares in the ratio of 1:10 at an issue price of ₹31. Pass journal entry for issue of right shares.

The entry at the time of subscription of right shares by the existing shareholders will be:

Bank A/c	Dr.	3,10,000	
	To Equity Share Capital A/c		1,00,000
	To Securities Premium A/c		2,10,000

(Being issue of 10,000 right shares @ ₹ 31 offered)

BUY-BACK OF SHARES

When a company has substantial cash resources, it may like to buy its own shares from the market particularly when the prevailing rate of its shares in the market is much lower than the book value or what the company perceives to be its true value. Buy back of shares enables the company to go back to its shareholders and offers to purchase from them the shares they hold. Buy Back of Securities is a very important tool for Companies who wants to reduce their Share Capital.

Advantages of Buy Back:

- It is an alternative mode of reduction in capital without requiring approval of the Court/CLB (NCLT),
- to improve the earnings per share;
- to improve return on capital, return on net worth and to enhance the long-term shareholders value;
- to provide an additional exit route to shareholders when shares are undervalued or thinly traded;
- to enhance consolidation of stake in the company;
- to prevent unwelcome takeover bids;
- to return surplus cash to shareholders;
- to achieve optimum capital structure;
- to support share price during periods of sluggish market condition;
- to serve the equity more efficiently.

Sections 68, 69 and 70 of Companies Act, 2013 provides for buy back of shares.

According to section 68(1) of the Companies Act 2013, a company may purchase its own shares or other specified securities (referred to as buy-back) out of—

- a) its free reserves;
- b) the securities premium account; or
- c) the proceeds of the issue of any shares or other specified securities:

However, no buy-back of any kind of shares or other specified securities shall be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities.

Additional Question:

Ques.: What is Free Reserve?

Free Reserve includes following items:

- Profit and loss accounts
- General Reserve
- Reserve funds
- Contingency reserve
- Dividend equalization reserve
- Workmen compensation fund
- workmen accident fund

It does not include following:

- Security premium
- Capital reserve
- Profit prior to incorporation
- Pre-acquisition profit
- Forfeited share accounts
- Provident fund
- Investment fluctuation accounts
- Development rebate reserve

Explanation:

Section 68 ⇒ free reserves includes security premium account

Conditions for buy back:

According to section 68(2), following conditions must be satisfied in order to buy-back the shares:

- a) must be authorized by its articles;
- b) a special resolution has been passed at a general meeting of the company authorizing the buy-back, but the same is not required when:
 - (i) the buy-back is 10% or less of the total paid-up equity capital and free reserves of the company; and
 - (ii) such buy-back has been authorized by the Board by means of a resolution passed at its meeting;
- c) the buy-back is twenty-five per cent or less of the aggregate of paid-up capital and free reserves of the company. But in case of Equity Shares, the same shall be taken as 25% of paid up equity capital only.

d) Debt equity ratio should be 2:1*, where: Debt is aggregate of secured and unsecured debts owed by the company after buy-back and Equity: is aggregate of the paid-up capital and its free reserves:

**** it is 6:1 for government companies which carry on NBFC activities and housing finance activities***

- e) all the shares or other specified securities for buy-back are fully paid-up;
- f) If shares or securities are listed, buy back will be in accordance with the regulations made by the Securities and Exchange Board in this behalf; and
- g) the buy-back in respect of unlisted shares or other specified securities is in accordance with Share Capital and Debentures Rules, 2014.
- h) No offer of buy-back shall be made within a period of one year from the date of the closure of the preceding offer of buy-back, if any.

A declaration of solvency shall be filled by at least 2 directors of the company one of whom shall be managing director with ROC and SEBI.

Declaration of solvency in relation to buy back has to be filed in form SH-9.

Company shall extinguish and physically destroy shares or securities so brought back within 7 days of the last date of completion of Buy Back.

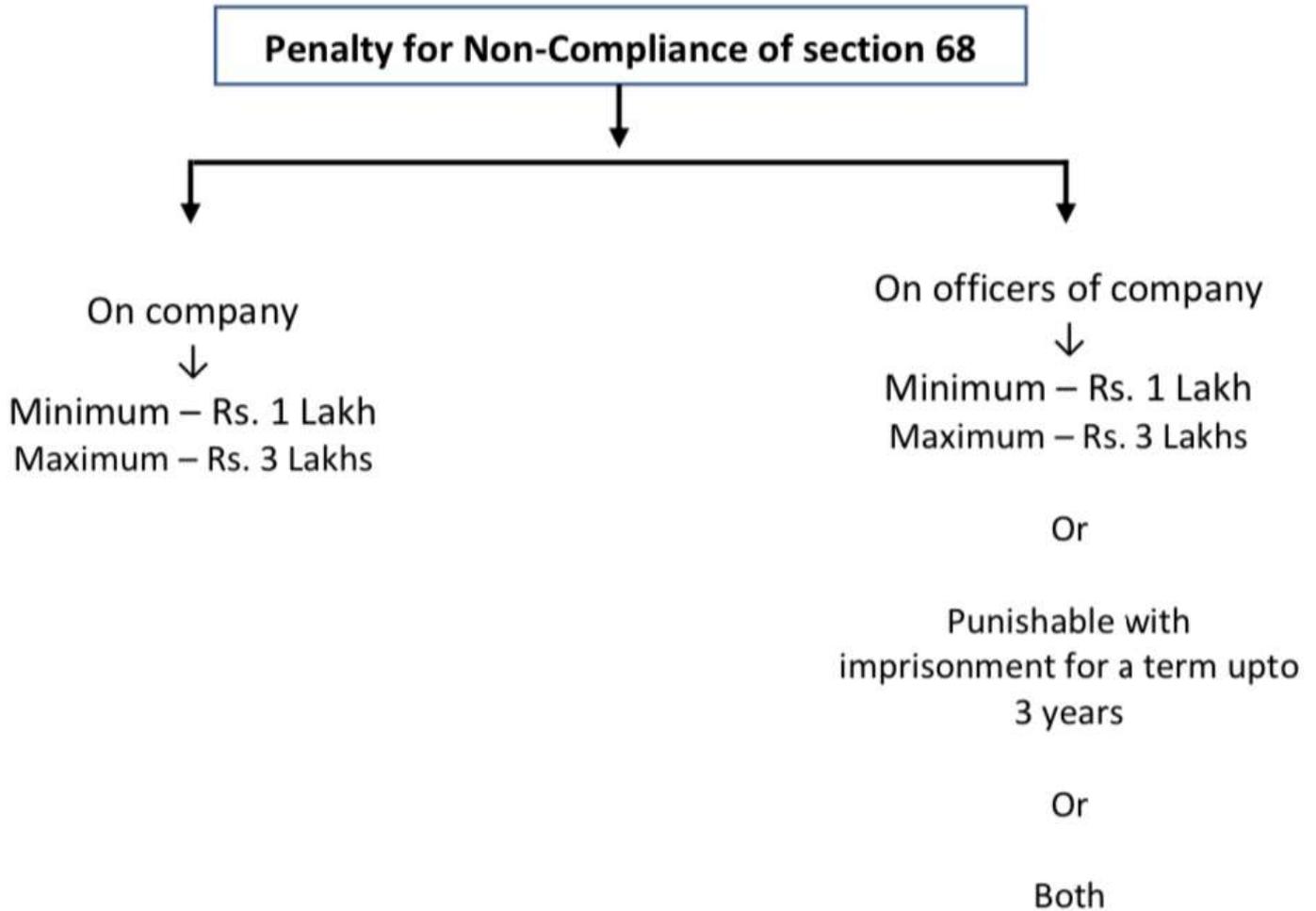
Where company completes a buy back of its shares or other specified securities it shall not make a further issue of same kind of shares or specified securities within period of 6 months.

Buy back of shares should not be through negotiated deals or private spot transaction.

Where a company buy back its shares or other specified securities it shall maintain register of shares or securities so brought in for SH-10.

A company shall after the completion of buy back file with ROC & SEBI a return relating to buy back in form SH-11, within 30 days of completion of buy back.

Penalty for Non-Compliance of section 68



Buy back is not prohibited if the various defaults mentioned in that section is remedied and a period of 3 years has lapsed after such default ceased to subsist.

Question 41

41. Paid-up equity shares capital of ABC Ltd. is Rs. 50,00,000 having face value of Rs. 10 each fully paid-up. Other details:

General Reserve	= Rs. 15,00,000
Capital Redemption Reserve	= Rs. 4,00,000
Profit & Loss Account	= Rs. 1,00,000
Statutory reserve	= Rs. 6,40,000
Securities Premium	= Rs. 1,00,000

The board of directors passed resolution in board meeting to buy back maximum number of shares as allowed by law. Maximum No. of shares that can be brought back = ?

- (a) 55,000 shares
- (b) 67,000 shares
- (c) 1,25,000 shares
- (d) 78,000 shares

Question 42

47. Following are the extract of balance sheet of Light Co. Ltd.

	Rs.
Equity Shares of Rs. 10 each	10,00,000
Securities Premium	2,40,000
Reserves	7,50,000
Profit & Loss Account	2,80,000
Bank	9,10,000
Non-Trading Investments	4,20,000

Company brought back 15,000 shares at Rs. 40 each. The transaction in respect of buyback was financed by sale of 2/3rd of non-trade investment for Rs. 5,90,000.

Amount to be transferred to capital redemption reserve = ?

- (a) Rs. 6,00,000
- (b) Rs. 1,00,000
- (c) Rs. 4,50,000
- (d) Rs. 1,50,000

Question 43

49. Following information is available from the audited balance sheet of X Ltd.:

	Rs. in lakhs
Equity Shares Capital (3,000 lakh Shares of Rs. 10 each)	30,000
Securities Premium Account	3,000
General Reserve	10,000
Secured Loans	40,000
Unsecured Loans	22,000

Compute the maximum limit up to which buy back is permitted in the financial year 2018-2019.

- (a) 800 lakh shares
- (b) 600 lakh shares
- (c) 500 lakh shares
- (d) 400 lakh shares

Question 44

51. Board of directors of X Ltd. decided to buy back Rs. 4,50,000 equity share capital at a premium of 10%. Balance of General Reserve & Securities Premium are Rs. 1,00,000 & Rs. 5,000. It was decided to issue 12% redeemable preference shares of Rs. 10 each for the purpose of buy back of equity shares as minimum as possible. How much preference share are to be issued by the company to give effect to above transactions?

- (a) 39,000 preference shares
- (b) 40,000 preference shares
- (c) 26,000 preference shares
- (d) 53,000 preference shares

Question 45

52. The balance appearing in the books of a company at the end of year were:

CRR A/c = Rs. 50,000

Securities Premium = Rs. 5,000

Revaluation reserve = Rs. 20,000

Profit & Loss A/c (Dr.) = Rs. 10,000

Maximum amount available for bonus shares will be

- (a) Rs. 50,000
- (b) Rs. 55,000
- (c) Rs. 45,000
- (d) Rs. 57,000

Question 46

54. X Ltd. has equity share capital of Rs. 6,60,000 (Rs. 10 each fully paid-up). Details of its reserves & loan funds are given below:

	Rs.
General Reserve	4,80,000
Securities Premium Account	2,00,000
Profit & Loss Account	1,60,000
Loan Funds	30,00,000

Market price is Rs. 25 per share. The company wants to buy back maximum number of shares that are allowed under the Companies Act, 2013 at price 20% higher than its market price.

No. of shares to be brought back= ?

- (a) 1,650 Equity shares
- (b) 37,500 Equity shares
- (c) Nil
- (d) 625 Equity shares

Question 47

55. X Ltd. has equity share capital of Rs. 13,20,000 (Rs. 10 each fully paid-up). Details of its reserves & loan funds are given below:

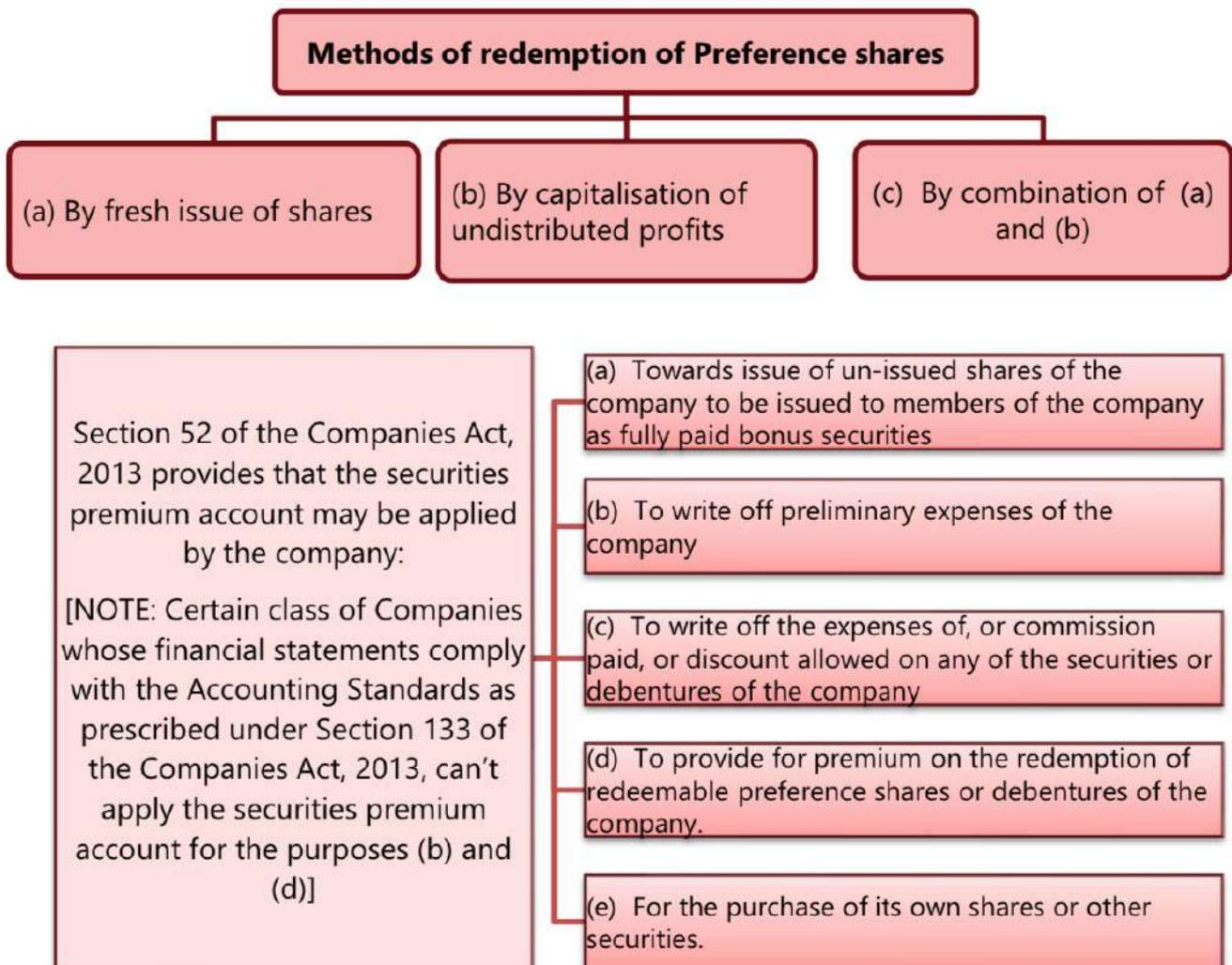
	Rs.
General Reserve	9,60,000
Securities Premium Account	4,00,000
Profit & Loss Account	3,20,000
Loan Funds	12,00,000

The company wants to buy back maximum number of shares that are allowed under the Companies Act, 2013 at price of Rs. 25.

No. of shares to be brought back = ?

- (a) 68,571 equity shares
- (b) 75,000 equity shares
- (c) 33,000 equity shares
- (d) 47,000 equity shares

Redemption of Preference share capital



Question 48

Hinduja Company Ltd. had 5,000, 8% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company decided to redeem these preference shares at par by the issue of sufficient number of equity shares of ₹ 10 each fully paid up at par. You are required to pass necessary Journal Entries including cash transactions in the books of the company.

SOLUTION

In the books of Hinduja Company Ltd.

Journal Entries

Date	Particulars	Dr. (₹)	Cr. (₹)
	Bank A/c	Dr.	
	To Equity Share Capital A/c	5,00,000	5,00,000
	(Being the issue of 50,000 Equity Shares of ₹10 each at par for the purpose of redemption of preference shares, as per Board Resolution No.dated.....)		

8% Redeemable Preference Share Capital A/c	Dr.	5,00,000	
To Preference Shareholders A/c			5,00,000
(Being the amount payable on redemption of preference shares transferred to Preference Shareholders Account)			
Preference Shareholders A/c	Dr.	5,00,000	
To Bank A/c			5,00,000
(Being the amount paid on redemption of preference shares)			

Question 49

C Ltd. had 10,000, 10% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company decided to redeem these preference shares at par, by issue of sufficient number of equity shares of ₹ 10 each at a premium of ₹ 2 per share as fully paid up. You are required to pass necessary Journal Entries including cash transactions in the books of the company.

SOLUTION

In the books of C Ltd.

Journal Entries

Date	Particulars	Dr. (₹)	Cr. (₹)
	Bank A/c	Dr.	
	To Equity Share Capital A/c	12,00,000	10,00,000
	To Securities Premium A/c		2,00,000
	(Being the issue of 1,00,000 Equity Shares of ₹10 each at a premium of ₹2 per share as per Board's Resolution No..... dated.....)		
	10% Redeemable Preference Share Capital A/c	Dr.	
	To Preference Shareholders A/c	10,00,000	10,00,000
	(Being the amount payable on redemption of preference shares transferred to Preference Shareholders A/c)		
	Preference Shareholders A/c	Dr.	
	To Bank A/c	10,00,000	10,00,000
	(Being the amount paid on redemption of preference shares)		

Question 50

G India Ltd. had 9,000 10% redeemable Preference Shares of ₹ 10 each, fully paid up. The company decided to redeem these preference shares at par by the issue of sufficient number of equity shares of ₹9 each fully paid up.

You are required to pass necessary Journal Entries including cash transactions in the books of the company.

SOLUTION

In the books of G India Limited
Journal

Date	Particulars	Dr. (₹)	Cr. (₹)
	Bank A/c To Equity Share Capital A/c (Being the issue of 10,000 Equity Shares of ₹9 each at par, as per Board's Resolution No.....Dated.....)	Dr. 90,000	90,000
	10% Redeemable Preference Shares Capital A/c To Preference Shareholders A/c (Being the amount payable on redemption of preference shares transferred to Preference Shareholders A/c)	Dr. 90,000	90,000
	Preference Shareholders A/c To Bank A/c (Being the amount paid on redemption of preference shares)	Dr. 90,000	90,000

Question 51

The Board of Directors of a Company decided to issue minimum number of equity shares of ₹9 to redeem ₹5,00,000 preference shares. The maximum amount of divisible profits available for redemption is ₹3,00,000. Calculate the number of shares to be issued by the company to ensure that the provisions of Section 55 are not violated. Also determine the number of shares if the company decides to issue shares in multiples of ₹50 only.

SOLUTION

Nominal value of preference shares	₹ 5,00,000
Maximum possible redemption out of profits	₹ 3,00,000
Minimum proceeds of fresh issue	₹ 5,00,000 – 3,00,000 = ₹ 2,00,000
Proceed of one share	= ₹ 9
Minimum number of shares	= $\frac{2,00,000}{9} = 22,222.22$ shares

As fractional shares are not permitted, the minimum number of shares to be issued is 22,223 shares.

If shares are to be issued in multiples of 50, then the next higher figure which is a multiple of 50 is 22,250. Hence, minimum number of shares to be issued in such a case is 22,250 shares.

Question 52

X Ltd. gives you the following information as at 31st March, 2023:

	Particulars	₹
	EQUITY AND LIABILITIES	
1.	Shareholders' funds	
	a Share capital	2,90,000
	b Reserves and Surplus	48,000
2.	Current liabilities	
	Trade Payables	56,500
	ASSETS	
1.	Property, Plant and Equipment	3,45,000
2.	Non-current investments	18,500
3.	Current Assets	
	Cash and cash equivalents (bank)	31,000

The share capital of the company consists of ₹ 50 each equity shares of ₹ 2,25,000 and ₹ 100 each Preference shares of ₹ 65,000(issued on 1.4.2021). Reserves and Surplus comprises Profit and Loss Account only.

In order to facilitate the redemption of preference shares at a premium of 10%, the Company decided:

- to sell all the investments for ₹ 15,000.
- to finance part of redemption from company funds, subject to, leaving a bank balance of ₹ 12,000.
- to issue minimum equity share of ₹ 50 each share to raise the balance of funds required.

You are required to pass the necessary Journal Entries to record the above transactions.

SOLUTION**Journal**

Date	Particulars	Dr. (₹)	Cr. (₹)
	Bank A/c To Share Application A/c (For application money received on 750 shares @ ₹ 50 per share)	Dr. 37,500	37,500
	Share Application A/c To Equity Share Capital A/c (For disposition of application money received)	Dr. 37,500	37,500
	Preference Share Capital A/c Premium on Redemption of Preference Shares A/c To Preference Shareholders A/c (For amount payable on redemption of preference shares)	Dr. 65,000 Dr. 6,500	71,500
	Bank A/c Profit and Loss A/c (loss on sale) A/c To Investment A/c (For sale of investments at a loss of ₹ 3,500)	Dr. 15,000 Dr. 3,500	18,500
	Profit and Loss A/c To Capital Redemption Reserve A/c (For transfer to CRR out of divisible profits an amount equivalent to excess of nominal value of preference shares over proceeds (face value of equity shares) i.e., ₹ 65,000 - ₹ 37,500)	Dr. 27,500	27,500
	Preference Shareholders A/c To Bank A/c (For payment of preference shareholders)	Dr. 71,500	71,500
	Profit and Loss A/c To Premium on Redemption of Preference Shares A/c (For writing off premium on redemption out of profits)	Dr. 6,500	6,500

Working Note:

Calculation of Number of Shares:	₹
Amount payable on redemption (₹ 65,000 + 10% of ₹ 65,000)	71,500
Less: Sale price of investment	<u>(15,000)</u>
	56,500
Less: Available bank balance (31,000 - 12,000)	<u>(19,000)</u>
Funds from fresh issue	<u>37,500</u>

∴ No. of shares = 37,500/50=750 shares

Question 53

The following are the extracts from the Balance Sheet of ABC Ltd. as on 31st December, 2022.

Share capital: 40,000 Equity shares of ₹ 10 each fully paid – ₹ 4,00,000; 1,000 10% Redeemable preference shares of ₹ 100 each fully paid – ₹ 1,00,000.

Reserve & Surplus: Capital reserve – ₹ 50,000; Securities premium – ₹ 50,000; General reserve – ₹ 75,000; Profit and Loss Account – ₹ 35,000

On 1st January 2023, the Board of Directors decided to redeem the preference shares at par by utilisation of reserve.

You are required to pass necessary Journal Entries including cash transactions in the books of the company.

SOLUTION

In the books of ABC Limited
Journal Entries

Date	Particulars		Dr. (₹)	Cr. (₹)
2023 Jan 1	10% Redeemable Preference Share Capital A/c To Preference Shareholders A/c (Being the amount payable on redemption transferred to Preference Shareholders Account)	Dr.	1,00,000	1,00,000
	Preference Shareholders A/c To Bank A/c (Being the amount paid on redemption of preference shares)	Dr.	1,00,000	1,00,000
	General Reserve A/c Profit & Loss A/c To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)	Dr. Dr.	75,000 25,000	1,00,000

Note: Securities premium and capital reserve (not being distributable profits) cannot be utilised for transfer to Capital Redemption Reserve.

Question 54

C Limited had 3,000, 12% Redeemable Preference Shares of ₹ 100 each, fully paid up. The company had to redeem these shares at a premium of 10%.

It was decided by the company to issue the following:

- (i) 25,000 Equity Shares of ₹ 10 each at par,
- (ii) 1,000 14% Debentures of ₹ 100 each.

The issue was fully subscribed and all amounts were received in full. The payment was duly made. The company had sufficient profits. Show Journal Entries in the books of the company.

**In the books of C Limited
Journal Entries**

Date	Particulars	Dr. (₹)	Cr. (₹)
	Bank A/c To Equity Share Capital A/c (Being the issue of 25,000 equity shares of ₹ 10 each at par as per Board's resolution No.....dated.....)	Dr. 2,50,000	2,50,000
	Bank A/c To 14% Debenture A/c (Being the issue of 1,000 Debentures of ₹ 100 each as per Board's Resolution No.....dated.....)	Dr. 1,00,000	1,00,000
	Profit & Loss A/c To Capital Redemption Reserve A/c (Being the amount transferred to Capital Redemption Reserve Account as per the requirement of the Act)	Dr. 50,000	50,000

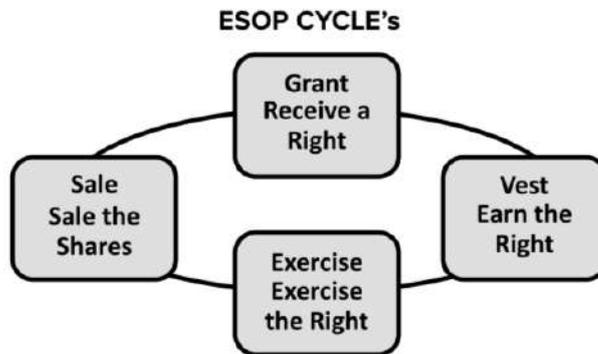
12% Redeemable Preference Share Capital A/c	Dr.	3,00,000	
Premium on Redemption of Preference Shares A/c	Dr.	30,000	
To Preference Shareholders A/c			3,30,000
(Being the amount payable on redemption transferred to Preference Shareholders Account)			
Preference Shareholders A/c	Dr.	3,30,000	
To Bank A/c			3,30,000
(Being the amount paid on redemption of preference shares)			
Profit & Loss A/c	Dr.	30,000	
To Premium on Redemption of Preference Shares A/c			30,000
(Being the adjustment of premium on redemption against Profits & Loss Account)			

Working Note:

Amount to be transferred to Capital Redemption Reserve Account

Face value of shares to be redeemed	3,00,000
Less: Proceeds from new issue	<u>(2,50,000)</u>
Total Balance	<u>50,000</u>

ESOP



Important Terms of ESOP

Grant: Grant means giving an option to the Employees to subscribe to the shares of the company at the pre-determined price.

Grant Date: It is the date of agreement between the enterprise and its employees to the terms of Employees Stock Option Plan (ESOP).

Vesting: A process to give right to employees to apply for shares of the company. **Vesting Date:** It is the date on which the employee becomes entitled to apply for the shares once he has satisfied the vesting conditions.

Vesting Period: The period between the grant date and the date on which all the specified vesting conditions of an Employees Stock Option Plan (ESOP) need to be satisfied.

Exercise: It means applying by the employee for issue of shares against the option vested in him.

Exercise Period: Period after vesting within which the employee must exercise the right to apply for shares against the option vested in him in pursuance of the Employees Stock Option Plan.

Exercise Price: The price payable by the employee for exercising the option granted in pursuance of the Employees Stock Option Plan.

Value of Option: Difference between the market price and the issue price of the security.

Question 55

A Company has its share capital divided into shares of Rs. 10 each. On 1st April, 20X1 it granted 10,000 employees' stock options at Rs. 40, when the market price was Rs. 130. The options were to be exercised between 15th March, 20X2 and 31st March, 20X2. The employees exercised their options for 9,500 shares only; the remaining options lapsed. The company closes its books on 31st March every year. Show Journal Entries.

Solution:

Journal Entries

<i>Date</i>	<i>Particulars</i>	<i>Dr.</i> ₹	<i>Cr.</i> ₹
15th March 20X2 to 31st March 20X2	Bank A/c (9,500 x 40) Dr. Employee compensation expense A/c [9,500 x (130-40)] Dr. To Equity share capital A/c (9,500 x 10) To Securities premium A/c [9,500 x (130-10)] (Being allotment to employees of 9,500 equity shares of ₹10 each at a premium of ₹ 120 per share in exercise of stock options by employees)	3,80,000 8,55,000	 95,000 11,40,000
31st March 20X2	Profit and Loss A/c Dr. To Employee compensation expense A/c (Being transfer of employee compensation expense to profit and loss account)	8,55,000	8,55,000

Question 56

ABC Ltd. grants 1,000 employees stock options on 1.4.20X0 at Rs. 40, when the market price is Rs. 160. The vesting period is 2½ years and the maximum exercise period is one year. 300 unvested options lapse on 1.5.20X2. 600 options are exercised on 30.6.20X3. 100 vested options lapse at the end of the exercise period. Pass Journal Entries giving suitable narrations.

Solution:**In the books of ABC Ltd.****Journal Entries**

Date	Particulars	Dr. (₹)	Cr. (₹)
31.3.20X1	<p>Employees compensation expense account Dr.</p> <p style="padding-left: 40px;">To Employee stock option outstanding account</p> <p>(Being compensation expenses recognized in respect of the employee stock option i.e. 1,000 options granted to employees at a discount of ₹ 120 each, amortized on straight line basis over 2½ years)</p> <p>(1,000 stock options x ₹ 120 / 2.5 years)</p>	48,000	48,000
	<p>Profit and loss account Dr.</p> <p style="padding-left: 40px;">To Employees compensation expenses account</p> <p>(Being expenses transferred to profit and loss account at year end)</p>	48,000	48,000
31.3.20X2	<p>Employees compensation expenses account Dr.</p> <p style="padding-left: 40px;">To Employee stock option outstanding account</p> <p>(Being compensation expense recognized in respect of the employee stock option i.e. 1,000 options granted to employees at a discount of ₹ 120 each, amortized on straight line basis over 2½ years)</p> <p>(1,000 stock options x ₹ 120 / 2.5 years)</p>	48,000	48,000
	<p>Profit and loss account Dr.</p> <p style="padding-left: 40px;">To Employees compensation expenses account</p> <p>(Being expenses transferred to profit and loss account at year end)</p>	48,000	48,000
31.3.20X3	<p>Employee stock option outstanding account (W.N.1) Dr.</p> <p style="padding-left: 40px;">To General Reserve account (W.N.1)</p> <p>(Being excess of employees compensation expenses transferred to general reserve account)</p>	12,000	12,000
30.6.20X3	<p>Bank A/c (600 × ₹ 40) Dr.</p> <p>Employee stock option outstanding account (600 × ₹ 120) Dr.</p> <p style="padding-left: 40px;">To Equity share capital account (600 × ₹ 10)</p> <p style="padding-left: 40px;">To Securities premium account (600 × ₹ 150)</p> <p>(Being 600 employee stock option exercised at an exercise price of ₹ 40 each)</p>	24,000 72,000	6,000 90,000

01.10.20X3	Employee stock option outstanding account (W.N.2) Dr.	12,000	
	To General reserve account (W.N.2)		12,000
	(Being ESOS outstanding A/c on lapse of 100 options at the end of exercise of option period transferred to General Reserve A/c)		

Working Notes:

- On 31.3.20X3, ABC Ltd. will examine its actual forfeitures and make necessary adjustments, if any, to reflect expenses for the number of options that actually vested. Considering that 700 stock options have completed 2.5 years vesting period, the expense to be recognized during the year is in negative i.e.

No. of options actually vested (700 x 120)	₹ 84,000
Less: Expenses recognized ₹ (48,000 + 48,000)	(₹ 96,000)
Excess expense transferred to general reserve	₹ 12,000

- Similarly, on 1.10.20X3, Employee Stock Option Outstanding Account will be

No. of options actually vested (600 x 120)	₹ 72,000
Less: Expenses recognized	(₹ 84,000)
Excess expense transferred to general reserve	₹ 12,000

Employee Stock Options Outstanding will appear in the Balance Sheet under a separate heading, between 'Share Capital' and 'Reserves and Surplus'.

Question 57

P Ltd. granted option for 8,000 equity shares of nominal value of Rs. 10 on 1st October, 20X0 at Rs. 80 when the market price was Rs. 170. The vesting period is 4½ years, 4,000 unvested options lapsed on 1st December, 20X2, 3,000 options were exercised on 30th September, 20X5 and 1,000 vested options lapsed at the end of the exercise period. Pass Journal Entries for above transactions.

Solution:

In the books of P Ltd.

Journal Entries

Date	Particulars	(₹)	(₹)
31.3.20X1	Employees compensation expense account Dr. To Employee stock option outstanding account (Being compensation expenses for 6 months recognized in respect of the employee stock options i.e. 8,000 options granted to employees at a discount of ₹ 90 (170-80) each, amortized on straight line basis over 4½ years [(8,000 stock options x ₹ 90) / 4.5 years] x 0.5) (W.N.1)	80,000	80,000

Date	Particulars		(₹)	(₹)
	Profit and loss account To Employees compensation expenses account (Being expenses transferred to profit and loss account at the year end)	Dr.	80,000	80,000
31.3.20X2	Employees compensation expense account To Employee stock option outstanding account (Being compensation expense recognized in respect of the employee stock option i.e. 8,000 options granted to employees at a discount of ₹ 90 each, amortized on straight line basis over 4½ years 2 (8,000 stock options x ₹ 90) / 4.5 years) x 1 year)	Dr.	1,60,000	1,60,000
	Profit and loss account To Employees compensation expense account (Being expenses transferred to profit and loss account at year end)	Dr.	1,60,000	1,60,000
31.3.20X2	Employees compensation expense account To Employee stock option outstanding account (Being compensation expense recognized in respect of the employee stock option i.e. 4,000 options at a discount of ₹ 90 each, amortized on straight line basis over 4½ years) (4,000 stock options x ₹ 90) / 4.5 years)	Dr.	80,000	80,000
	Employee stock option outstanding account (W.N.2) To General Reserve account (W.N.2) (Being excess of employees compensation expenses transferred to general reserve account)	Dr.	1,20,000	1,20,000
	Profit and loss account To Employees compensation expenses account (Being expenses transferred to profit and loss account at year end)	Dr.	80,000	80,000
31.3.20X4	Employees compensation expense account To Employee stock option outstanding account	Dr.	80,000	80,000

Date	Particulars	(₹)	(₹)
	(Being compensation expenses recognized in respect of the employee stock option i.e. 4,000 options at a discount of ₹ 90 each, amortized on straight line basis over 4½ years) (4,000 stock options x ₹ 90) / 4.5 years)		
	Profit and loss account Dr. To Employees compensation expenses account (Being expenses transferred to profit and loss account at year end)	80,000	80,000
31.3.20X5	Employees compensation expense account Dr. To Employee stock option outstanding account (Being compensation expenses recognized in respect of the employee stock option i.e. 4,000 options at a discount of ₹ 90 each, amortised on straight line basis over 4½ years) [(4,000 stock options x ₹ 90) / 4.5 years]	80,000	80,000
	Profit and loss account Dr. To Employees compensation expense account (Being expenses transferred to profit and loss account at year end)	80,000	80,000
30.9.20X5	Bank A/c (3,000 x ₹ 80) Dr. Employee stock option outstanding Dr. To Equity share capital account (3,000 x ₹ 10) To Securities premium (170 – ₹ 10) x 3,000 (Being 3,000 employee stock option exercised at an exercise price of ₹ 80 each)	2,40,000 2,70,000	30,000 4,80,000
	Employee stock option outstanding account (W.N.3) Dr. To General reserve account (W.N.3) (Being ESOS outstanding A/c transferred to General Reserve A/c on lapse of 1000 vested options at the end of the exercise period)	90,000	90,000

Working Notes:

- Fair value = ₹ 170 – ₹ 80 = ₹ 90
- At 1.12.X2, 4,000 unvested option lapsed on which till date expenses recognized to be transferred to general reserve = ₹ (80,000 +1,60,000) x 4,000 / 8,000 = ₹1,20,000
- Expenses charged on lapsed vested options transferred to general reserve = 1,000 x ₹ 90 = ₹ 90,000

RATIO ANALYSIS

Illustration 1

Calculate Current Ratio from the following information:

<i>Particulars</i>	<i>(Rs.)</i>
Inventories	50,000
Trade receivables	50,000
Advance tax	4,000
Cash and cash equivalents	30,000
Trade payables	1,00,000
Short-term borrowings (bank overdraft)	4,000

Solution:

Current Ratio = Current Assets / Current Liabilities

Current Assets = Inventories + Trade receivables + Advance tax + Cash and cash equivalents

= Rs. 50,000 + Rs. 50,000 + Rs. 4,000 + Rs. 30,000 = Rs. 1,34,000

Current Liabilities = Trade payables + Short-term borrowings

= Rs. 1,00,000 + Rs. 4,000 = Rs. 1,04,000

Current Ratio = Rs.1,34,000 / Rs.1,04,000

= 1.29 :1

Illustration 2

X Ltd., has a current ratio of 3.5:1 and quick ratio of 2:1. If excess of current assets over quick assets represented by inventories is Rs. 24,000, calculate current assets and current liabilities.

Solution:

Current Ratio = 3.5:1

Quick Ratio = 2:1

Let Current liabilities = x

Current assets = 3.5x

and Quick assets = 2x

Inventories = Current assets – Quick assets

24,000 = 3.5x – 2x

24,000 = 1.5x

x = Rs.16,000

Current Liabilities = Rs.16,000

Current Assets = 3.5x = 3.5 × Rs. 16,000 = Rs. 56,000.

Illustration 3

Company A lists Rs. 40,00,000 in short-term liabilities and Rs. 70,00,000 in long-term liabilities on their balance sheet. They've also issued Rs. 20,00,000 in preferred stock, Rs. 5,00,000 in minority interest, and have around Rs. 8,00,000 outstanding shares trading at Rs. 10 per share. Using all that information, calculate the debt-to-capital ratio.

Solution:

Debt-to-Capital Ratio = $(Rs. 40 \text{ lakhs} + Rs. 70 \text{ lakhs}) / (Rs. 40 \text{ lakhs} + Rs. 70 \text{ lakhs}) + (Rs. 20 \text{ lakhs} + Rs. 5 \text{ lakhs}) + (Rs. 8 \text{ lakhs} \times Rs. 10)$

= 110 lakhs / 215 lakhs

= 0.512

In other words, 51.2% of Company A's operations are funded with debt, rather than capital. This makes it a relatively risky proposition, as the business is aggressively financing growth activities with debt.

Illustration 4

From the following details, calculate interest coverage ratio: Net Profit after tax Rs. 60,000; 15% Long-term debt 10,00,000; and Tax rate 40%.

Solution:

Net Profit after Tax = Rs. 60,000

Tax Rate = 40%

Net Profit before tax = $\text{Net profit after tax} \times 100 / (100 - \text{Tax rate})$

= $Rs. 60,000 \times 100 / (100 - 40) = Rs. 1,00,000$

Interest on Long-term Debt = 15% of Rs. 10,00,000 = Rs. 1,50,000

Net profit before interest and tax = Net profit before tax + Interest

= $Rs. 1,00,000 + Rs. 1,50,000 = Rs. 2,50,000$

Interest Coverage Ratio = $\text{Net Profit before Interest and Tax} / \text{Interest on long-term debt}$

= $Rs. 2,50,000 / Rs. 1,50,000$

= 1.67 times

Illustration 5

Calculate the Trade receivables turnover ratio from the following information:

	Rs.
Total Revenue from operations	4,00,000
Cash Revenue from operations	20% of Total Revenue from operations
Trade receivables as at 1.4.2021	40,000
Trade receivables as at 31.3.2022	1,20,000

Solution:

Trade Receivables Turnover Ratio = Net Credit Revenue from Operations / Average Trade Receivables

Credit Revenue from operations = Total revenue from operations – Cash revenue from operations

Cash Revenue from operations = 20% of Rs. 4,00,000 = Rs. 80,000

Credit Revenue from operations = Rs. 4,00,000 – Rs. 80,000 = Rs. 3,20,000

Average Trade Receivables = (Opening Trade Receivables + Closing Trade Receivables) / 2 = (Rs. 40,000 + Rs. 1,20,000) / 2 = Rs. 80,000

Trade Receivables Turnover Ratios = Net Credit Revenue From Operations / Average Inventory

Trade Receivables Turnover Ratio = Rs. 3,20,000 / Rs. 80,000 = 4 times.

Illustration 6

Given the following information:

Revenue from Operations	3,40,000
Cost of Revenue from Operations	1,20,000
Selling expenses	80,000
Administrative Expenses	40,000

Calculate Gross profit ratio and EBITDA margin

Solution:

Gross Profit = Revenue from Operations – Cost of Revenue from Operations

= Rs. 3,40,000 – Rs. 1,20,000 = Rs. 2,20,000

Gross Profit Ratio = (Gross Profit / Revenue from operation) x 100

= (Rs. 2,20,000 / Rs. 3,40,000) x 100

= 64.71%

EBITDA Margin = {(Gross Profit - Selling Expenses - Administrative Expenses) / Revenue from operation} x 100

= {(Rs. 2,20,000 - 80,000 - 40,000) / 340000} x 100

= 29.41%

Illustration 7

Gross profit ratio of a company was 25%. Its credit revenue from operations was Rs. 20,00,000 and cash revenue from operations was 10% of the total revenue from operations. If the indirect expenses the company were Rs. 50,000, calculate its net profit ratio.

Solution:

Cash Revenue from Operations = Rs.20,00,000 × 10/90 = Rs. 2,22,222

Hence, total Revenue from Operations are = Rs.22,22,222

Gross profit = 0.25 × 22,22,222 = Rs. 5,55,555

Net profit = Rs.5,55,555 – 50,000 = Rs.5,05,555

Net profit ratio = Net profit/Revenue from Operations × 100

= Rs.5,05,555/Rs.22,22,222 × 100 = 22.75%

Illustration 8

X Co. has made plans for the next year. It is estimated that the company will employ total assets of ₹ 8,00,000; 50 per cent of the assets being financed by borrowed capital at an interest cost of 8 per cent per year. The direct costs for the year are estimated at ₹ 4,80,000 and all other operating expenses are estimated at ₹ 80,000. The goods will be sold to customers at 150 per cent of the direct costs. Tax rate is assumed to be 50 per cent.

You are required to CALCULATE: (i) Operating profit margin (before tax); (ii) net profit margin (after tax); (iii) return on assets (on operating profit after tax); (iv) asset turnover and (v) return on owners' equity.

SOLUTION

The net profit is calculated as follows:

Particulars	₹
Sales (150% of ₹ 4,80,000)	7,20,000
Direct costs	(4,80,000)
Gross profit	2,40,000
Operating expenses	(80,000)
Profit before Interest and Tax (EBIT)	1,60,000
Interest charges (8% of ₹ 4,00,000)	(32,000)
Profit before taxes	1,28,000
Taxes (@ 50%)	(64,000)
Net profit after taxes	64,000

- (i) Operating profit margin = $\frac{\text{EBIT}}{\text{Sales}} = \frac{\text{₹ } 1,60,000}{\text{₹ } 7,20,000} = 0.2222$ or 22.22%
- (ii) Net profit margin = $\frac{\text{Net Profit after taxes}}{\text{Sales}} = \frac{\text{₹ } 64,000}{\text{₹ } 7,20,000} = 0.89$ or 8.9%
- (iii) Return on assets = $\frac{\text{EBIT} (1 - T)}{\text{Assets}} = \frac{\text{₹ } 1,60,000(1-0.5)}{8,00,000} = 0.10$ or 10%
- (iv) Asset turnover = $\frac{\text{Sales}}{\text{Assets}} = \frac{\text{₹ } 7,20,000}{\text{₹ } 8,00,000} = 0.9$ times
- (v) Return on equity = $\frac{\text{Net Profit after taxes}}{\text{Owners' equity}} = \frac{\text{₹ } 64,000}{50\% \text{ of } \text{₹ } 8,00,000}$
 $= \frac{\text{₹ } 64,000}{\text{₹ } 4,00,000} = 0.16$ or 16%

Illustration 9

From the following ratios and information given below, PREPARE Trading Account, Profit and Loss Account and Balance Sheet of Aebece Company:

Fixed Assets	₹ 40,00,000
Closing Stock	₹ 4,00,000
Stock turnover ratio	10
Gross profit ratio	25 percent
Net profit ratio	20 percent
Net profit to capital	1/5
Capital to total liabilities	1/2
Fixed assets to capital	5/4
Fixed assets/Total current assets	5/7

SOLUTION

Workings:

- (i) $\frac{\text{Fixed Assets}}{\text{Total Current Assets}} = \frac{5}{7}$
 Or, Total Current Assets = $\frac{\text{₹ } 40,00,000 \times 7}{5} = \text{₹ } 56,00,000$
- (ii) $\frac{\text{Fixed Assets}}{\text{Capital}} = \frac{5}{4}$
 Or, Capital = $\frac{\text{₹ } 40,00,000 \times 4}{5} = \text{₹ } 32,00,000$

$$(iii) \frac{\text{Capital}}{\text{Total Liabilities}^*} = \frac{1}{2}$$

$$\text{Or, Total liabilities} = ₹ 32,00,000 \times 2 = ₹ 64,00,000$$

*It is assumed that total liabilities do not include capital.

$$(iv) \frac{\text{Net Profit}}{\text{Capital}} = \frac{1}{5}$$

$$\text{Or, Net Profit} = ₹ 32,00,000 \times 1/5 = ₹ 6,40,000$$

$$(v) \frac{\text{Net Profit}}{\text{Sales}} = \frac{1}{5}$$

$$\text{Or, Sales} = ₹ 6,40,000 \times 5 = ₹ 32,00,000$$

$$(vi) \text{Gross Profit} = 25\% \text{ of } ₹ 32,00,000 = ₹ 8,00,000$$

$$(vii) \text{Stock Turnover} = \frac{\text{Cost of Goods Sold (i.e. Sales - Gross profit)}}{\text{Average Stock}} = 10$$

$$= \frac{₹ 32,00,000 - ₹ 8,00,000}{\text{Average Stock}} = 10$$

$$\text{Or, Average Stock} = ₹ 2,40,000$$

$$\text{Or, } \frac{\text{Opening Stock} + ₹ 4,00,000}{2} = ₹ 2,40,000$$

$$\text{Or, Opening Stock} = ₹ 80,000$$

Trading Account

Particulars	(₹)	Particulars	(₹)
To Opening Stock	80,000	By Sales	32,00,000
To Manufacturing exp./ Purchase	27,20,000		
(Balancing figure)			
To Gross Profit b/d	8,00,000	By Closing Stock	4,00,000
	36,00,000		36,00,000

Profit and Loss Account

Particulars	(₹)	Particulars	(₹)
To Operating Expenses (Balancing figure)	1,60,000	By Gross Profit c/d	8,00,000
To Net Profit	6,40,000		
	8,00,000		8,00,000

Balance Sheet

Capital and Liabilities	(₹)	Assets	(₹)
Capital	32,00,000	Fixed Assets	40,00,000
Liabilities	64,00,000	Current Assets:	
		Closing Stock	4,00,000
		Other Current Assets (Bal. figure)	52,00,000
	96,00,000		96,00,000

Illustration 10

Following information has been provided from the books of Laxmi Pvt. Ltd. for the year ending on 31st March, 2023:

Net Working Capital	₹ 4,80,000
Bank overdraft	₹ 80,000
Fixed Assets to Proprietary ratio	0.75
Reserves and Surplus	₹ 3,20,000
Current ratio	2.5
Liquid ratio (Quick Ratio)	1.5

You are required to PREPARE a summarised Balance Sheet as at 31st March, 2023 assuming that there is no long term debt.

Working notes:

(i) Computation of Current Assets and Current Liabilities

$$\frac{\text{Current assets}}{\text{Current liabilities}} = 2.5$$

$$\text{Current assets} = 2.5 \text{ Current liabilities}$$

$$\text{Now, Working capital} = \text{Current assets} - \text{Current liabilities}$$

$$₹ 4,80,000 = 2.5 \text{ Current liability} - \text{Current liability}$$

$$\text{Or, } 1.5 \text{ Current liability} = ₹ 4,80,000$$

$$\therefore \text{Current Liabilities} = ₹ 3,20,000$$

$$\text{So, Current Assets} = ₹ 3,20,000 \times 2.5 = ₹ 8,00,000$$

(ii) Computation of Inventories

$$\text{Liquid ratio} = \frac{\text{Liquid assets}}{\text{Current liabilities}}$$

$$1.5 = \frac{\text{Current assets} - \text{Inventories}}{₹ 3,20,000}$$

$$= \frac{₹ 16,00,000}{\text{Bills Receivable} + \text{Sundry Debtors}} = 4$$

$$\text{Or, Sundry Debtors} + \text{Bills receivable} = ₹ 4,00,000$$

$$\text{Sundry Debtors} = ₹ 4,00,000 - ₹ 25,000 = ₹ 3,75,000$$

(iii) Determination of Sundry Creditors:

Creditors' velocity of 2 months or credit payment period is 2 months.

$$\text{So, Creditors' turnover ratio} = \frac{12 \text{ months}}{2 \text{ months}} = 6$$

$$\text{Creditors turnover ratio} = \frac{\text{Credit Purchases}^*}{\text{Average Accounts Payables}}$$

$$= \frac{₹ 12,10,000}{\text{Sundry Creditors} + \text{Bills Payables}} = 6$$

$$\text{So, Sundry Creditors} + \text{Bills Payable} = ₹ 2,01,667$$

$$\text{Or, Sundry Creditors} + ₹ 10,000 = ₹ 2,01,667$$

$$\text{Or, Sundry Creditors} = ₹ 2,01,667 - ₹ 10,000 = ₹ 1,91,667$$

(iv) Determination of Closing Stock

$$\text{Stock Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Average Stock}} = \frac{\text{₹12,00,000}}{\text{Average Stock}} = 1.5$$

So, Average Stock = ₹ 8,00,000

$$\text{Now Average Stock} = \frac{\text{Opening Stock} + \text{Closing Stock}}{2}$$

$$\text{Or } \frac{\text{Opening Stock} + (\text{Opening Stock} + \text{₹10,000})}{2} = \text{₹ 8,00,000}$$

Or, Opening Stock = ₹ 7,95,000

So, Closing Stock = ₹ 7,95,000 + ₹ 10,000 = ₹ 8,05,000

(v) Determination of Fixed Assets

$$\text{Fixed Assets Turnover Ratio} = \frac{\text{Cost of Goods Sold}}{\text{Fixed Assets}} = 4$$

$$\text{Or, } \frac{\text{₹12,00,000}}{\text{Fixed Assets}} = 4$$

Or, Fixed Asset = ₹ 3,00,000

Workings:

***Calculation of Credit purchases:**

Cost of goods sold = Opening stock + Purchases – Closing stock

$$\text{₹ 12,00,000} = \text{₹ 7,95,000} + \text{Purchases} - \text{₹ 8,05,000}$$

$$\text{₹ 12,00,000} + \text{₹ 10,000} = \text{Purchases}$$

$$\text{₹ 12,10,000} = \text{Purchases (credit)}$$

Assumption:

- (i) All sales are credit sales
- (ii) All purchases are credit purchase
- (iii) Stock Turnover Ratio and Fixed Asset Turnover Ratio may be calculated either on Sales or on Cost of Goods Sold.

CASH FLOW STATEMENT

Illustration-1

The following are Balance Sheet and Income Statement of **Om** Ltd.

Liabilities	1.1.06	31.12.06	Assets	1.1.06	31.12.06
Share capital	1,80,000	2,22,000	Fixed Assets:		
Profit & loss A/c	75,900	81,900	Land	24,000	48,000
Creditors	1,20,000	1,17,000	Building	1,80,000	2,88,000
Outstanding Expenses	12,000	24,000	Current Assets:		
Provision for tax	6,000	6,600	Cash	30,000	36,000
Prov. for Dep. on building	60,000	66,000	Debtors	84,000	93,000
			Stock	1,32,000	48,000
			Advances	3,900	4,500
	4,53,900	5,17,500		4,53,900	5,17,500

Information: Company sold building during the year, cost price of which was Rs. 36,000.

Profit And Loss A/C

For year ended 31.3.06

Particular	RS	Particular	RS
To Cost of sales	9,90,000	By Net sales	12,60,000
To Wages & salaries	1,20,000		
To Gross profit c/d	1,50,000		
	12,60,000		12,60,000
To Operating Exp.	40,000	By Gross profit	1,50,000
To Depreciation	30,000	By Profit on sale of Building	6,000
To Provision for tax	44,000		
To Net profit	42,000		
	1,56,000		1,56,000
To proposed Dividend	36,000	By Balance b/d	75,900
To balance Carried to balance sheet	81,900	By Net Profit (transf.)	42,000
	1,17,900		1,17,900

You are required to prepare a cash flow statement

Solution:

Provision for tax A/c

Particulars	Rs	Particulars	Rs
To Bank (tax paid)	43,400	By Balance b/d	6,000
To Balance c/d	6,600	By P & L A/c. (provision)	44,000
	50,000		50,000

Building A/c

Particulars	Rs	Particulars	Rs
To Balance b/d	1,80,000	By Dep. Provision a/c	24,000
To P & L A/c. (profit on sale)	6,000	By Bank(sale)	18,000
To Bank (purchase)	1,44,000	By Balance c/d	2,88,000
	3,30,000		3,30,000

Depreciation provision on building A/c

Particulars	Rs	Particulars	Rs
To Building a/c(dep.)	24,000	By Balance b/d	60,000
To Balance c/d	66,000	By P & L A/c. (current year's dep.)	30,000
	90,000		90,000

Adjusted Profit and Loss Account

Particulars	Rs	Particulars	Rs
To Provision for tax	44,000	By Balance b/d	75,900
To Prov. for dep. on building	30,000	By Profit on sale of building	6,000
To Dividend paid	36,000	By Adj. Profit	1,10,000
To Balance c/d	81,900		1,91,900
	1,91,900		1,91,900

**Cash flow statement of Om Ltd for the year ending on
31.3.06 (As per A. S. - 3)**

Particulars	Amount Rs.	Amount Rs.
(1) Cash Flow from Operating Activities:		
Profit before tax (after non-cash items)	1,10,000	
Add/Less: Changes in Working Capital		
- Inc. in debtors	(9,000)	
- Dec. in stocks	84,000	
- Inc. in advances	(600)	
- Dec. in creditors	(3,000)	

- Inc. in Outstanding expenses	12,000	
Cash flows from operating activities		1,93,400
Less: Tax Paid		43,400
NET CASH FLOW FROM OPERATING ACTIVITIES (A)		1,50,000
(2) Cash Flow from Investing Activities:		
- Purchase of Land (refer question assets side)	(24,000)	
- Purchase of Building (refer building A/c.)	(1,44,000)	
- Sale of building (refer building A/c.)	18,000	
NET CASH FLOW FROM INVESTING ACTIVITIES (B)		(1,50,000)
(3) Cash Flow from Financing Activities:		
- Issued Equity Shares	42,000	
- Dividend paid	(36,000)	
NET CASH FLOW FROM FINANCING ACTIVITIES (C)		6,000
NET CASH FLOW FROM ALL ACTIVITIES (A+B+C)		6,000
Add: Opening Cash and Bank Balance		30,000
Closing Cash and Bank Balance		36,000

Illustration: 2

Following are the balance sheets of a Vijay & son:

Liabilities	1-1-05	31-12-05	Assets	1-1-05	31-12-05
Creditors	36,000	41,000	Cash	4,000	3,600
Loan from Partner	-	20,000	Debtor	35,000	38,400
Loan from Bank	30,000	25,000	Stock	25,000	22,000
Capital	1,48,000	1,49,000	Land	20,000	30,000
			Building	50,000	55,000
			Machinery	80,000	86,000
	2,14,000	2,35,000		2,14,000	2,35,000

During the year Rs. 26,000 paid as dividend. The provision made for depreciation against machinery as on 1.1.05 was Rs. 27,000 and on 31.12.05 Rs 36,000.

Prepare a cash flow statement.

Solution:

Machinery Account

Particulars	Rs	Particulars	Rs
To Balance b/d	80,000	By Prov. for depreciation	36,000
To Prov. for depreciation	27,000	By Balance c/d	86,000
To Bank (purchase) ?	15,000		
	1,22,000		1,22,000

Cash flow statement for the year ended 31.12.2005

Particular	Rs.	Rs.
1. Cash flows from operating activities:		
Net profit before tax	27,000	
Adjustment for dep.	9,000	
Inc. in current liabilities	36,000	
Inc. in debtor	5,000	
Decrease in stock	(3,400)	
	3,000	
Net cash from operating activities		40,600
2. Cash flows from investing activities		
Purchase of land	(10,000)	
Purchase of building.	(5,000)	
Purchase of machinery	(15,000)	
Net cash from investing activities		(30,000)
3. Cash flows from financing activities:		
Loan	20,000	
Repayment of bank loan	(5,000)	
Payment of Dividends	(26,000)	
Net cash from financing activities		(11,000)
Net Cash Flow from all activities (A +B + C)		(400)
Add: opening cash balance		4,000
Closing cash balance		3,600

W. N.	
Net profit before tax.	
Capital (1.1.05)	1,48,000
Capital (31.12.05)	1,49,000
Diff.	1,000
Add. Dividends	26,000
	27,000

Illustration: 3

The summarized balance sheet of Bhadresh Ltd. as on 31.12.05 and 31.12.2006 are as follows:

Liabilities	2005	2006	Assets	2005	2006
Share capital	4,50,000	4,50,000	Fixed asset	4,00,000	3,20,000
General Reserve	3,00,000	3,10,000	Investment	50,000	60,000
P & I a/c	56,000	68,000	Stock	2,40,000	2,10,000
Creditors	1,68,000	1,34,000	Debtor	2,10,000	4,55,000
Tax provision	75,000	10,000	Bank	1,49,000	1,97,000
Mortgage loan	-	2,70,000			
	10,49,000	12,42,000		10,49,000	12,42,000

Additional Details:

1. Investment costing Rs. 8,000 were sold for Rs. 8,500
2. Tax provision made during the year was Rs. 9,000
3. During the year part of fixed assets costing Rs 10,000 was sold for Rs 12,000 and the profit was included in P & L A/c. You are required to prepare cash flow statement for 2006.

Solution:

Cash flow statement for the year ended 31.12.2006

Particular	Rs.	Rs.
1.Cash flows from operating activities:		
Net profit before tax (Rs. 28,500 in case Profit on sale on Investment & Fixed Asset not considered)	31,000	
Adjustment for:		
Dep.	70,000	
Profit on sale of investment	(500)	
Profit on sale of Fixed assets	(2,000)	
Dec. in stock	30,000	
Dec. in creditor	(34,000)	
Inc. in debtor	(2,45,000)	
Income tax paid	(74,000)	
Net cash from operating activities		(2,24,500)

2. Cash flows from investing activities:		
Investment purchased	(18,000)	
Sale of investment	8,500	
Sale of Fixed assets	12,000	
Net cash from investing activities		2,500
3. Cash flows from financing activities:		
Mortgage loan taken		2,70,000
Net Cash Flow from all activities (A + B + C)		48,000
Add: opening cash balance		1,49,000
Closing cash balance		1,97,000

Fixed Assets A/c

Particulars	Rs	Particulars	Rs
To Balance b/d	4,00,000	By Bank a/c	12,000
To Profit and Loss a/c	2,000	By Dep.	70,000
		By Balance c/d	3,20,000
	4,02,000		4,02,000

Provision for tax A/c

Particulars	Rs	Particulars	Rs
To Bank (tax paid)	74,000	By Balance b/d	75,000
To Balance c/d	10,000	By P & L A/c (provision)	9,000
	84,000		84,000

Investment A/c

Particulars	Rs	Particulars	Rs
To Balance b/d	50,000	By Bank(sale)	8,500
To P & L A/c	500	By Balance c/d	60,000
To Bank (purchase)	18,000		
	68,500		68,500

Adjusted P & L A/c

Particulars	Rs	Particulars	Rs
To Provision for tax	9,000	By Balance b/d	56,000
To Provision for G.R.	10,000	By Profit on sale of Inv.	500
To Balance c/d	68,000	By Profit on sale of F.A.	2,000
		By Adjusted Profit	28,500
	87,000		87,000

Illustration: 4

Prepare cash flow statement of Satyam ltd. From the following:

Liabilities	1.1.06	31.12.06	Assets	1.1.06	31.12.06
Share capital	1,00,000	4,00,000	Goodwill	-	20,000
8% debenture	-	2,00,000	Machinery	1,25,000	4,75,000
Retained earning	60,000	90,000	Stock	20,000	80,000
Creditors	40,000	1,00,000	Debtor	30,000	1,00,000
Bills payable	20,000	40,000	Bank	50,000	1,50,000
Tax provision	30,000	40,000	Cash	25,000	45,000
	2,50,000	8,70,000		2,50,000	8,70,000

Additional Details:

1. During 2006 the business of a sole trader was purchased by issuing share for Rs. 2,00,000. The assets acquired from him were:
Goodwill Rs. 20,000, machinery Rs. 1,00,000 , stock Rs. 50,000 and Debtors Rs. 30,000
2. Provision for tax charged in 2006 was Rs. 35,000
3. The debenture was issued at a premium of 5% which is included in the retained earnings.
4. Depreciation charged on machinery was Rs.30,000.

Solution:**Cash flow statement for the year ended 31.12.2006**

Particular	Rs	Rs
1. Cash flows from operating activities:		
Net profit before tax	55,000	
Adjustment for:		
Dep. On machinery	30,000	
Inc.. in creditor	60,000	
Inc.. in bills payable	20,000	
Inc.in stock	(10,000)	
Inc.. in debtor	(40,000)	
Income tax paid	(25,000)	
Net cash from operating activities		90,000
2. Cash flows from investing activities:		
Machinery purchased	(2,80,000)	
Net cash from investing activities		(2,80,000)

3.Cash flows from financing activities			
Issue of shares		1,00,000	
Issue of debenture		2,10,000	
Cash flows from financing activities			3,10,000
Net inc. in cash equivalents			1,20,000
Add: opening cash balance			75,000
Closing cash balance			1,95,000

Provision for tax A/c

Particulars	Rs	Particulars	Rs
To Bank (tax paid)	25,000	By Balance b/d	30,000
To Balance c/d	40,000	By P & L A/c (provision)	35,000
	65,000		84,000

Machinery A/c

Particulars	Rs	Particulars	Rs
To Balance b/d	1,25,000	By Depreciation	30,000
To Bank (purchase)	2,80,000	By Balance c/d	4,75,000
To Vendor	1,00,000		
	5,05,000		5,05,000

Share Capital A/c

Particulars	Rs	Particulars	Rs
		By Balance b/d	1,00,000
		By Vendor	2,00,000
To Balance c/d	4,00,000	By Bank	1,00,000
	4,00,000		4,00,000

Illustration: 5

The summarized balance sheet of Jay Ltd as on 31.12.06 and 31.12.2007 are as follows:

Liabilities	2006	2007	Assets	2006	2007
Share capital	1,00,000	1,00,000	Building	46,800	45,000
General Reserve	38,400	42,000	Plant and Machinery	38,280	42,030
Creditors	9,750	6,380	Goodwill	13,000	13,000
Tax provision	19,000	21,000	Investment	10,000	11,250
Prov. for doubtful debt	1,000	1,200	Stock	30,000	28,000
			Debtor	22,070	22,300
			Cash	8,000	9,000
	1,68,150	1,70,580		1,68,150	1,70,580

After taking the following information in to account, prepare a cash flow statement for the year ending 31.12.2007

1. The profit for 2006-2007 was Rs.8,600 against this had been charged Dep. Rs. 3,050 and increase in provision for doubtful debt Rs.200
2. Income tax Rs.18,000 was paid during the year charged against the provision and in addition Rs.20,000 was charged against profit and carried to the provision.
3. An interim dividend Of Rs.5,000 was paid in January 2007
4. Additional plan was purchased in September 2006 for Rs.5,000
5. Investments (cost Rs.5,000) were sold 2007 for Rs. 4800 and on 1st march 2007 another investment was made for Rs. 6,250.

Solution:

Cash flow statement for the year ended 31.12.2007

Particular	Rs.	Rs.
1. Cash flows from operating activities:		
Net profit before tax	28,800	
Adjustment for:		
Depreciation	3,050	
Inc. in provision for d/d	200	
Dec. in stock	2,000	
Dec. in creditor	(3,370)	
Inc. in debtor	(230)	
Income tax paid	(18,000)	
Net cash from operating activities		12,450
2. Cash flows from investing activities:		
Investment purchased	(6,250)	
Sale of investment	4,800	
Plant purchased	(5,000)	
Net cash from investing activities		(6,450)
3. Cash flows from financing activities		
Payment of interim dividend		(5,000)
Net inc. in cash equivalents		1,000
Add: opening cash balance		8,000
Closing cash balance		9,000

Adjusted profit and loss A/c

Particulars	Rs	Particulars	Rs
To Provision for tax	20,000	By profit	28,800
To General reserve	3,600		
To Loss on sale of Invest.	200		
To interim dividend	5,000		
	28,800		28,800

Provision for tax A/c

Particulars	Rs	Particulars	Rs
To Bank (tax paid)	18,000	By Balance b/d	19,000
To Balance c/d	21,000	By P & L A/c. (provision)	20,000
	39,000		39,000

Illustration - 6

The Balance Sheets of a firm as on 31st December 2008 and 2009 are given below:

Liabilities	2008	2009	Assets	2008	2009
Share Capital	1,00,000	1,60,000	Fixed Assets - Cost	1,52,000	2,00,000
Retained Earnings	70,250	85,300	Inventory	93,400	89,200
Accumulated Depreciation	60,000	40,000	Debtors	30,800	21,100
12% Debenture	50,000	-	Prepaid expenses	3,950	3,000
Creditors	28,000	48,000	Bank	28,100	20,000
	3,08,250	3,33,300		3,08,250	3,33,300

Additional Information:

- Net profit is Rs. 27,050.
- Depreciation charged Rs. 10,000.
- Cash dividend declared during the period Rs. 12,000.
- An addition to the building was made during the year at a cost of Rs. 78,000 and fully depreciated equipment costing Rs. 30,000 was discarded as no salvage being realized.

Prepare a Cash Flow Statement.

Solution:

Adjusted Profit & Loss Account

Particular	Amount	Particular	Amount
To Prov. for depreciation	10,000	By Balance b/d	70,250
To Dividend	12,000		
To Balance c/d	85,300	By Adj. Profit	37,050
	1,07,300		1,07,300

Fixed Assets Account

Particular	Amount	Particular	Amount
To Balance b/d	1,52,000	By Accumulated Dep.	30,000
To Bank	78,000	By Balance c/d	2,00,000
	2,30,000		2,30,000

Accumulated Depreciation Account

Particular	Amount	Particular	Amount
To Fixed Assets	30,000	By Balance b/d	60,000
To Balance c/f	40,000	By Profit & Loss A/c.	10,000
	70,000		70,000

Cash flow statement for the year ending on 31.12.09 (As per A. S. - 3)

Particulars	Amount Rs.	Amount Rs.
(1) Cash Flow from Operating Activities:		
Profit before tax (after non-cash & extraordinary items)		37,050
Add/Less: Changes in Working Capital		
- Dec. in Inventory	4,200	
- Decrease in Debtors	9,700	
- Increase in Creditors	20,000	
- Decrease in pre-paid expenses	950	34,850
Cash flows from operating activities		71,900
Less: Tax Paid		Nil
NET CASH FLOW FROM OPERATING ACTIVITIES (A)		71,900
(2) Cash Flow from Investing Activities:		
- Purchase of Building	(78,000)	
NET CASH FLOW FROM INVESTING ACTIVITIES (B)		(78,000)
(3) Cash Flow from Financing Activities:		
- Issued Equity Shares	60,000	
- Dividend paid	(12,000)	
- Redemption of debenture	(50,000)	
NET CASH FLOW FROM FINANCING ACTIVITIES (C)		(2,000)
NET CASH FLOW FROM ALL ACTIVITIES (A+B+C)		(8,100)
Add: Opening Cash and Bank Balance		28,100
Closing Cash and Bank Balance		20,000

Illustration - 7

From the following information, prepare cash flow statement:
Balance-Sheet

Liabilities	1-1-2012	31-12-2012	Assets	1-1-2012	31-12-2012
Share Capital	2,00,000	2,00,000	Cash	8,000	10,000
Profit & Loss	50,000	90,000	Bank	22,000	20,000
Bank Loan	10,000	-	Debtors	10,000	20,000
Outstanding Expenses	5,000	1,000	Stock	25,000	15,000
Creditors	15,000	20,000	Non- current asset	2,35,000	2,75,000
Provision for tax	20,000	25,000			
Unclaimed Dividend	-	4,000			
	3,00,000	3,40,000		3,00,000	3,40,000

Net profit for the year 2012 after providing Rs.20,000 as depreciation was Rs. 60,000.
During 2012, company declared equity dividend @ 10% and paid Rs. 15,000 as Income-tax.

Solution:**Cash flow statement for the year ended on December 2012**

Particulars	Amount Rs.	Amount Rs.
(1) Cash Flow from Operating Activities:		
Increase in Profit & Loss account	40,000	-
Add: Proposed dividend (10% of 2,00,000)	20,000	
Net Profit	60,000	
Add: Depreciation	20,000	
Provision of Income tax	20,000	
Funds from operations	1,00,000	
Add: Increase in creditors	5,000	-
Decrease in stock	10,000	-
Less: Increase in debtors	(10,000)	-

Decrease in outstanding expenses	(4,000)	-
Cash generated from operations	1,01,000	
Less: Tax paid	(15,000)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES (A)	126000- 40000- 26000	86,000
(2)Cash Flow From Investing Activities:		
Purchase of Non -current Asset (2,95,000 – 2,35,000)	(60,000)	
NET CASH PROVIDED BY INVESTING ACTIVITIES (B)		(60,000)
(3)Cash Flow From Financing Activities :		
Repayment of loan	(10,000)	
Repayment of dividend (20,000 – 4,000)	(16,000)	
NET CASH PROVIDED BY FINANCING ACTIVITIES (C)		(26,000)
NET CASH FLOW FROM ALL ACTIVITES (A+B+C)		Nil
Add:- Opening balance of cash & bank		30,000
Closing balance of cash & bank		30,000

Illustration - 8

From the following Balance-Sheet prepare cash flow statement for the year 2012.

Liabilities	1-1-2012	31-12-2012	Assets	1-1-2012	31-12-2012
Share Capital	1,25,000	1,53,000	Cash	10,000	7,000
Creditors	40,000	44,000	Debtors	30,000	50,000
Loan from X	25,000	-	Stock	40,000	25,000
Loan from bank	40,000	50,000	Machinery	80,000	55,000
			Land	35,000	50,000
			Building	35,000	60,000
	2,30,000	2,47,000		2,30,000	2,47,000

During the year a machine costing Rs. 10,000 with accumulated depreciation Rs. 3,000 was sold for Rs. 5,000.

Solution:

Cash flow statement for the year ended on December 2012

Particulars	Amount Rs.	Amount Rs.
(1) Cash Flow from Operating Activities:		
Capital at the end of the year	1,53,000	-
Less: Capital at the beginning of the year	(1,25,000)	
Profit for the year	28,000	
Add: Loss on sale of machinery	2,000	
Depreciation	18,000	
Profit before changes in working capital	48,000	
Add: Increase in creditors	4,000	
Decrease in stock	15,000	
Less: Increase in debtors	(20,000)	
NET CASH PROVIDED BY OPERATING ACTIVITIES (A)		47,000
(2)Cash Flow From Investing Activities:		
Sale of Machinery	5,000	
Purchase of land	(15,000)	
Purchase of Building	(25,000)	
NET CASH PROVIDED BY INVESTING ACTIVITIES (B)		(35,000)
(3)Cash Flow From Financing Activities:		
Loan from bank	10,000	
Repayment of loan from X	(25,000)	
NET CASH PROVIDED BY FINANCING ACTIVITIES (C)		(15,000)
NET CASH FLOW FROM ALL ACTIVITES (A+B+C)		(3,000)
Add:- Opening balance of cash & bank		10,000
Closing balance of cash & bank		7,000

Working Note:**Machinery Account**

Particular	Amount	Particular	Amount
To Balance b/d	80,000	By Bank a/c	5,000
		By Loss on sale	2,000
		By Depreciation	18,000
		By Balance c/f	55,000
	80,000		80,000

Illustration - 9

The following are the summarized financial statements of Ambuja Co. Ltd. for 2012 and 2013:

Statement of Financial Position

Particulars	2013	2012
Assets:		
Cash	9,000	15,000
Debtors	25,000	31,000
Stock	60,000	45,000
Fixed asset at cost	1,20,000	1,05,000
	2,14,000	1,96,000
Liabilities:		
Share Capital	32,500	31,500
6% Debentures due on 31-12-2015	50,000	70,000
Retained Earnings	38,500	27,500
Creditors	20,000	12,500
Income-tax Payable	36,000	27,500
Accumulated Depreciation	37,000	27,000
	2,14,000	1,96,000

Income Statement
(For The Year Ending 31st December)

Particulars	Amount	Amount
Sales	4,25,000	4,50,000
Operating Expenses(including depreciation Rs. 10,000)	3,40,000	3,80,800
Interest on Debentures	3,000	4,200
Net Profit Before Tax	82,000	65,000
Income Statement	36,000	27,500
	46,000	37,500

Statement of Retained Earnings

Particulars	Amount	Amount
Retained Earnings – Beginning	27,500	25,000
Net Profit for the year	46,000	37,500
	73,500	62,500
Dividends	35,000	35,000
Retained Earnings – End	38,500	27,500

Solution:

Cash Flow Statement

Particulars	Amount	Amount
(1) Cash Flow from Operating Activities:		
Net Profit		82,000
(Changes in working capital)		
Decrease in Debtors	6,000	
Increase in Creditors	7,500	
Depreciation	10,000	
	23,500	
Increase in Stock	(15,000)	8,500

CASH PROVIDED BY OPERATING ACTIVITIES		90,500
Less: Tax Paid		(27,500)
NETCASH PROVIDED BY OPERATING ACTIVITIES(A)		63,000
(2)Cash Flow From Investing Activities:		
Purchase of fixed assets	(15,000)	
NET CASH PROVIDED BY INVESTING ACTIVITIES (B)		(15,000)
(3)Cash Flow From Financing Activities:		
Issue of shares	1,000	
Redemption of Debentures	(20,000)	
Dividend Paid	(35,000)	
NET CASH PROVIDED BY FINANCING ACTIVITIES (C)		(54,000)
NET CASH FLOW FROM ALL ACTIVITES (A+B+C)		(6,000)
Add:- Opening balance of cash		15,000
Closing balance of bank		9,000

CONSOLIDATION OF ACCOUNTS

PRACTICE PROBLEMS

Illustration 1 (Wholly-Owned Subsidiary Company)

From the following extracts of the H Ltd. and S Ltd., prepare a consolidated balance sheet of H Ltd. and its subsidiary S Ltd.:

Balance Sheet as on (an extract)					
Liabilities	H Ltd.	S Ltd.	Assets	H Ltd.	S Ltd.
	Rs.	Rs.		Rs.	Rs.
Share Capital in shares of Rs 10 each	10,00,000	5,00,000	Sundry Assets	7,00,000	5,40,000
Other Liabilities	<u>2,00,000</u>	<u>40,000</u>	Investment in 50,000 shares of S Ltd. At par	<u>5,00,000</u>	
	<u>12,00,000</u>	<u>5,40,000</u>		<u>12,00,000</u>	<u>5,40,000</u>

Solution

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

Particulars	Note	Rs.
I EQUITY AND LIABILITIES		
1. Shareholder' Funds		
(a) Share capital	1	10,00,000
2. Other Liabilities	2	<u>2,40,000</u>
Total Equity and Liabilities		<u>12,40,000</u>
II ASSETS		
Sundry Assets	3	<u>12,40,000</u>
Total Assets		<u>12,40,000</u>

Notes to Account

Particulars	Rs
1 Share capital	
Issued, subscribed and Fully Paid up	
1,00,000 Equity shares of Rs. 10 each (H Ltd.)	<u>10,00,000</u>
2 Other Liabilities	
H Ltd.	2,00,000
S Ltd.	<u>40,000</u>
	<u>2,40,000</u>
3 Other Assets	
H Ltd.	7,00,000
S Ltd.	<u>5,40,000</u>
	<u>12,40,000</u>

Illustration 2 (Minority Interest)

From the following information prepare a consolidated balance sheet of H Ltd. and its subsidiary S Ltd.

Credit Balances	H Ltd. Rs.	S Ltd. Rs.	Debit balances	H Ltd. Rs.	S Ltd. Rs.
Share Capital in shares of Rs. 10 each	10,00,000	5,00,000	Sundry Assets	8,00,000	5,40,000
Other Liabilities	2,00,000	40,000	Investments in the shares of S Ltd.: 40,000 shares of Rs. 10 each	4,00,000	
	<u>12,00,000</u>	<u>5,40,000</u>		<u>12,00,000</u>	<u>5,40,000</u>

Solution

Consolidated Balance Sheet of H Ltd. and Its Subsidiary S Ltd. As on

	Particulars	Note	Rs.
I	EQUITY AND LIABILITIES		
	1. Shareholder's Funds		
	Share Capital (H Ltd.)	1	10,00,000
	2. Minority Interest	2	<u>1,00,000</u>
	3. Other Liabilities	3	<u>2,40,000</u>
	Total Equity and Liabilities		<u>13,40,000</u>
II	ASSETS		
	Sundry Assets	4	<u>13,40,000</u>
	Total Assets		<u>13,40,000</u>

Notes to Accounts

	Particulars	Rs.
1	Share capital	
	Issued, subscribed and Fully Paid	
	1,00,000 Equity shares of Rs. 10 each (H Ltd.)	10,00,000
2	Minority Interest	
	1/5 share in the share capital of S Ltd.	1,00,000
3	Other Liabilities	
	H Ltd.	2,00,000
	S Ltd.	<u>40,000</u>
		<u>2,40,000</u>
4	Other Assets	

H Ltd.	8,00,000
S Ltd.	5,40,000
	<u>13,40,000</u>

Illustration 3 (Cost of Control)

From the following Balance Sheets of H Ltd. and its subsidiary of S Ltd., as on 31 March 2017, prepare a consolidated balance sheet:

	Particulars	Note No.	H Ltd.	S Ltd.
I	EQUITY AND LIABILITIES			
	1. Shareholder's Funds			
	(a) Share Capital (in shares of Rs. 100 each)		10,00,000	5,00,000
	(b) Reserve and Surplus			
	Reserves			20,000
	Surplus Account		1,00,000	50,000
	2. Current Liabilities			
	(a) Trade Payables (Creditors)		2,00,000	50,000
	Total		<u>13,00,000</u>	<u>6,20,000</u>
II	ASSETS			
	1. Non-Current Assets			
	(a) Fixed Assets (Tangible)		7,00,000	6,20,000
	(b) Non-Current Investments		6,00,000	
	(Investment in the shares of S Ltd.)			
	5,000 shares at cost			
	Total		<u>13,00,000</u>	<u>6,20,000</u>

H Ltd. purchases shares in S Ltd. on the balance sheet date i.e., 31-03-2017.

Solution

Calculation of Cost of Control or Goodwill

	Rs.
Cost (or Acquisition) price of the investment in the shares of S Ltd.	6,00,000
Less: the nominal value of the shares acquired	<u>5,00,000</u>
	1,00,000
Less: Shares in pre-acquisition reserves	20,000
Shares in pre-acquisition surplus	<u>50,000</u>
Cost of Control or Goodwill	<u>30,000</u>
Alternatively	
Share Capital	5,00,000
Reserves	20,000
Profits	<u>50,000</u>
	5,70,000
Cost of control or Goodwill (6,00,000 - 5,70,000)	<u>30,000</u>
Price paid for investment in shares of S Ltd.	<u>6,00,000</u>

The consolidated balance sheet is compiled in the same manner as before, but with the addition of **goodwill** to show the cost of acquiring control in S Ltd. as below:

**Consolidated Balance Sheet of H Ltd. And
Its Subsidiary S Ltd. As on 31 March 2017**

	Particulars	Note	Rs.
I	EQUITY AND LIABILITIES		
	1. Shareholders' Funds		
	(a) Share Capital	1	10,00,000
	(b) Reserves and Surplus	2	1,00,000
	Sub Total: Shareholders' Funds		11,00,000
	2. Minority Interest		
	3. Current Liabilities		
	Trade Payable	3	2,50,000
	Total Equity and Liabilities		13,50,000
II	ASSETS		
	1. Non-Current Assets		
	(a) Fixed Assets		
	(i) Tangible (Assumed)	4	13,20,000
	(ii) Intangible	5	30,000
	Total Assets		13,50,000

Notes to Account

	Particulars	Rs.
1	Share capital	
	Issued, subscribed and Fully Paid	
	10,000 Equity shares of Rs. 100 each (H Ltd.)	10,00,000
2	Reserves and Surplus	
	Surplus (H Ltd.)	1,00,000
3	Trade Payable	
	Sundry Creditors	
	H Ltd.	2,00,000
	S Ltd.	50,000
		2,50,000
4	Tangible Fixed Assets (Assumed)	
	H Ltd.	7,00,000
	S Ltd.	6,20,000
		13,20,000
5	Intangible Fixed Assets	
	Goodwill	30,000

Illustration 4 (Capital Reserve)

From the following Balance Sheets of H Ltd. and its subsidiary S Ltd. as on 31-03-2017, prepare a consolidated balance sheet :

	Particulars	Note No.	H Ltd. (Rs.)	S Ltd. (Rs.)
I	EQUITY AND LIABILITIES			
	1. Shareholder's Funds			
	(a) Share Capital (in shares of Rs. 100 each)		10,00,000	5,00,000
	(b) Reserve and Surplus			
	Reserve		50,000	40,000
	Surplus Account		1,00,000	20,000
	2. Current Liabilities			
	(a) Trade Payables (Creditors)		2,50,000	60,000
	Total		<u>14,00,000</u>	<u>6,20,000</u>
II	ASSETS			
	1. Non-Current Assets			
	(a) Fixed Assets (Tangible)		8,80,000	6,20,000
	(b) Non-Current Investments		5,20,000	
	(Investment in 5,000 shares of S Ltd., bought on 31-3-2017)			
	Total		<u>14,00,000</u>	<u>6,20,000</u>

Solution :

Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as on 31 March 2017

	Particulars	Note	Rs.
I	EQUITY AND LIABILITIES		
	1. Shareholders' Funds		
	(a) Share Capital	1	10,00,000
	(b) Reserves and Surplus	2	<u>1,90,000</u>
	Sub Total		<u>11,90,000</u>
	2. Minority Interest		
	3. Current Liabilities		
	Trade Payable	3	<u>3,10,000</u>
	Total Equity and Liabilities		<u>15,00,000</u>
II	ASSETS		
	1. Non-Current Assets		
	(a) Fixed Assets		
	(i) Tangible (Assumed)	4	15,00,000

Total Assets	15,00,000
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Notes to Accounts

	Particulars	Rs.
1	Share capital	
	Issued, subscribed and Fully Paid	
	10,000 Equity shares of	
	Rs. 100 each	10,00,000
2	Reserves and Surplus	
	(i) Capital Reserve (on consolidation)	40,000
	(ii) General Reserves (H Ltd.)	50,000
	(iii) Surplus (H Ltd.)	1,00,000
		1,90,000
3	Trade Payables	
	Sundry Creditors :	
	H Ltd.	2,50,000
	S Ltd.	60,000
		3,10,000
4	Tangible Assets	
	Sundry Assets (Assumed to be fixed):	
	H Ltd.	8,80,000
	S Ltd.	6,20,000
		15,00,000

Illustration 5: (Pre-Acquisition Surplus or Profit and Reserves)

From the following information prepare a consolidated balance sheet as on 31 March 2017 :

Credit Balances	H Ltd.	S Ltd.	Debit balances	H Ltd.	S Ltd.
	Rs.	Rs.		Rs.	Rs.
Share Capital in			Sundry Assets	2,20,000	1,50,000
shares of Rs. 20 each	2,00,000	1,00,000	Investments in		
Reserves	60,000	20,000	3,000 shares of		
Surplus	20,000	10,000	S Ltd.	90,000	
Creditors	30,000	20,000			
	3,10,000	1,50,000		3,10,000	1,50,000

H Ltd. acquired its shares in S Ltd. on 1 April 2017 when S Ltd.'s reserves stood at Rs. 5,000 and its surplus at Rs. 6,000

Solution

**Consolidated Balance Sheet of H Ltd. And
Its Subsidiary S Ltd. As on 1 April 2017**

Particulars	Note	Rs.
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I	EQUITY AND LIABILITIES		
	1. Shareholders' Funds		
	(a) Share Capital	1	2,00,000
	(b) Reserves and Surplus	2	91,400
	Sub Total		<u>2,91,400</u>
	2. Minority Interest		52,000
	3. Current Liabilities		
	Trade Payable	3	<u>50,000</u>
	Total Equity and Liabilities		<u>3,93,400</u>
II	ASSETS		
	1. Non-Current Assets		
	(a) Fixed Assets		
	(i) Tangible (Assumed)	4	3,70,000
	(ii) Intangible	5	23,400
	Total		<u>3,93,400</u>

Notes to Accounts

	Particulars	Rs.	Rs.
1	Share Capital (H Ltd.)		
	Issued, subscribed and Fully Paid up		
	10,000 Equity shares of Rs. 20 each		<u>2,00,000</u>
2	Reserves and Surplus		
	(i) Reserves (General)		
	H Ltd.	60,000	
	S Ltd.	<u>9,000</u>	69,000
	(ii) Surplus: H Ltd.	20,000	
	Share in S Ltd.	<u>2,400</u>	22,400
			<u>91,400</u>
3	Trade Payables		
	Sundry Creditors H Ltd.		30,000
	S Ltd.		<u>20,000</u>
			<u>50,000</u>
4	Tangible Assets		
	H Ltd.		2,20,000
	S Ltd.		<u>50,000</u>
			<u>2,70,000</u>
5	Intangible Assets		
	Goodwill		30,000
	Less: Capital Reserve		<u>6,600</u>
			<u>23,400</u>

Illustration 6 (Pre-Acquisition Profit and Reserves)

From the Balance Sheets given below, prepare a consolidated balance sheet of Moti Ltd. and its subsidiary Choti Ltd. :

	Particulars	Note No.	Moti (Rs.)	Choti (Rs.)
I	EQUITY AND LIABILITIES			
	1. Shareholder's Funds			
	(a) Share Capital (shares of Rs. 10 each)		1,20,000	30,000
	(b) Reserve and Surplus			
	General Reserve		25,000	6,000
	Surplus		12,000	9,000
	2. Current Liabilities			
	(a) Trade Payables (Creditors)		15,000	5,000
	Total		<u>1,72,000</u>	<u>50,000</u>
II	ASSETS			
	1. Non-Current Assets			
	(a) Fixed Assets (Tangible)			
	Freehold Buildings		72,000	
	Leasehold Property			25,000
	Plant and Machinery		30,000	10,000
	(b) Non-Current Investments (2,000 shares in Choti Ltd.)		25,000	
	2. Current Assets			
	(a) Inventories (Stock-in-trade)		18,000	3,000
	(b) Trade Receivables (Debtors)		22,000	7,000
	(c) Cash and Cash Equivalents (Bank)		5,000	5,000
	Total		<u>1,72,000</u>	<u>50,000</u>

At the time of acquisition by Moti Ltd., of 2,000 Shares in Choti Ltd., the latter company had undistributed surplus and reserves of Rs. 5,000, none of which have been distributed since acquisition.

Solution

**Consolidated Balance Sheet of Moti Ltd.
And Its Subsidiary Choti Ltd. as on**

	Particulars	Note	Rs.
I	EQUITY AND LIABILITIES		
	1. Shareholders' Funds		

	(a) Share Capital (Moti Ltd.)	1	1,20,000
	(b) Reserves and Surplus	2	43,667
	Sub Total		<u>1,63,667</u>
	2. Minority Interest		15,000
	3. Current Liabilities		
	Trade Payables	3	<u>20,000</u>
	Total Equity and Liabilities		<u>1,98,667</u>
II	ASSETS		
	1. Non-Current Assets		
	(a) Fixed Assets		
	(i) Tangible	4	1,37,000
	(ii) Intangible (Net of Capital Reserves)	5	<u>1,667</u>
	Sub Total		<u>1,38,667</u>
	2. Current Assets		
	(i) Inventories	6	21,000
	(ii) Trade Receivable	7	29,000
	(iii) Cash and Cash Equivalents	8	<u>10,000</u>
	Sub Total		<u>60,000</u>
	Total Assets		<u>1,98,667</u>

Notes to Accounts

	Particulars	Rs.	Rs.
1	Share capital (M Ltd.)		
	Issued, subscribed and Fully Paid		
	12,000 Equity shares of Rs. 10 each		<u>1,20,000</u>
2	Reserves and Surplus		
	(i) Capital Reserves on consolidation	3,333	
	Less: Goodwill on consolidation	<u>3,333</u>	Nil
	(ii) General Reserves (M Ltd.)	25,000	
	2/3 share in Choti Ltd. (On consolidation)	<u>2,667</u>	27,667
	Surplus: M Ltd.	12,000	
	Share in C Ltd.	<u>4,000</u>	16,000
			<u>43,667</u>
3	Trade Payables		
	Sundry Creditors M Ltd.		15,000
	C Ltd.		<u>5,000</u>
			<u>20,000</u>
4	Tangible Assets		
	Freehold Building M Ltd.		72,000
	Leasehold Property C Ltd.		25,000
	Plant and Machinery M Ltd.	30,000	
	C Ltd.	<u>10,000</u>	40,000
			<u>1,37,000</u>

5	Intangible Assets Goodwill	
	Investments in shares of S Ltd.	25,000
	Less: Face value of shares held in C Ltd.	20,000
	Goodwill on consolidation	5,000
	Less: Capital Reserves	3,333
		1,667
6	Inventories	
	Stock of Goods (M)	18,000
	(C Ltd.)	3,000
		21,000
7	Trade Receivables	
	Debtors for Goods (M)	22,000
	(C Ltd.)	7,000
		29,000
8	Cash and Cash Equivalents	
	Cash at Bank (M)	5,000
	(C Ltd.)	5,000
		10,000

Illustration 7 (Pre-acquisition loss)

The balance sheets of H Ltd. and its subsidiary S Ltd., as on 31 March 2017, were as follows:

	Particulars	Note No.	H Ltd. (Rs.)	S Ltd. (Rs.)
I	EQUITY AND LIABILITIES			
	1. Shareholder's Funds			
	(a) Share Capital (shares of Rs. 1 each)		10,000	6,000
	(b) Reserve and Surplus			
	General Reserve		4,000	
	Surplus		4,000	1,800
	2. Current Liabilities			
	(a) Trade Payables (Creditors)		2,000	2,200
	Total		20,000	10,000
II	ASSETS			
	1. Non-Current Assets			
	(a) Fixed Assets (Tangible)		16,000	10,000
	(b) Non-Current Investments (4,000 shares in S Ltd.)		4,000	
	Total		20,000	10,000

The shares were purchased by H Ltd. in S Ltd. on 30 September 2016.

On 1 April 2016 the profit and loss statement of S Ltd. showed a loss of Rs. 3,000 which was written off from out of the profits earned during the year. Profits are earned uniformly over the year 2016-

17. Prepare a consolidated balance sheet of H Ltd. and S Ltd. as on 31 March 2017 giving all workings.

Solution

**Consolidated Balance Sheet of H Ltd.
And Its Subsidiary S Ltd. As On 1 April 2017**

	Particulars	Note	Rs.
I	EQUITY AND LIABILITIES		
	1. Shareholders' funds		
	(a) Share Capital (H Ltd.)	1	10,000
	(b) Reserves and Surplus	2	9,600
	Sub Total		19,600
	2. Minority Interest	3	2,600
	3. Current Liabilities		
	Trade Payables	4	4,200
	Total Equity and Liabilities		26,400
II	ASSETS		
	1. Non-Current Assets		
	(a) Fixed Assets		
	(i) Tangible	5	26,000
	(ii) Intangible	6	400
	Total Assets		26,400

Notes to Account

	Particulars	Rs.	Rs.
1	Share capital (H Ltd.)		
	Issued, subscribed and Fully Paid up		
	10,000 Equity shares of Rs. 1 each		10,000
2	Reserves and Surplus		
	(i) General Reserve (H Ltd.)		4,000
	(ii) Surplus (H Ltd.)	4,000	
	Share in S Ltd.	1,600	5,600
			9,600
3	Minority Interest		
	Equity share capital		2,000
	Add: share in Profit 1/3 of Rs. 1,800		600

		2,600
4	Trade Payables	
	Sundry Creditors for Goods:	
	H Ltd.	2,000
	S Ltd.	2,200
		4,200
5	Tangible Fixed Assets	
	Sundry Fixed Assets : H Ltd.	16,000
	S Ltd.	10,000
		26,000
6	Intangible Fixed Assets	
	Goodwill on consolidation	2,000
	<i>Less:</i> Capital Reserve	1,600
		400

Illustration 8: (Common Transactions)

H Ltd. acquired 8,000 equity shares of S Ltd. on 31 March 2016. The following are the balance sheets of the two companies as at 31 March 2017:

	Particulars	Note No.	H Ltd. (Rs.)	S Ltd. (Rs.)
I	EQUITY AND LIABILITIES			
	1. Shareholder's Funds			
	(a) Share Capital			
	Equity Shares of Rs. 100 each		20,00,000	10,00,000
	(b) Reserve and Surplus			
	General Reserve (31-3-2016)		4,00,000	2,00,000
	Surplus Account (31-3-2016)		1,00,000	60,000
	Profit for the year 2016-17		2,00,000	80,000
	2. Current Liabilities			
	(a) Trade Payables - Creditors		1,00,000	1,00,000
	Bills Payable		30,000	10,000
	Total		28,30,000	14,50,000
II	ASSETS			
	1. Non-Current Assets			
	(a) Fixed Assets (Tangible)			
	Land and Building		5,00,000	3,00,000
	Plant and Machinery		5,00,000	6,00,000
	(b) Non-Current Investments		10,00,000	
	(investment in shares of S Ltd. At cost)			
	(8,000 shares in S Ltd.)			
	2. Current Liabilities			
	(a) Inventories (stock in trade)		1,50,000	1,00,000
	(b) Trade Receivables - Debtors		1,00,000	1,20,000
	Bills Receivable		80,000	10,000
	(c) Cash and Cash Equivalents (Bank)		5,00,000	3,20,000

	28,30,000	14,50,000
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- (i) Bills receivable of H Ltd. include Rs. 10,000 accepted by S Ltd.
- (ii) Sundry debtors of H Ltd. include Rs. 50,000 due from S Ltd.

Prepare a consolidated balance sheet of H Ltd. and its subsidiary S Ltd.

Solution

**Consolidated Balance Sheet of H Ltd.
and Its Subsidiary S Ltd. As On 31 March 2017**

	Particulars	Note	Rs.
I	EQUITY AND LIABILITIES		
	1. Shareholders' Funds		
	(a) Share Capital (S Ltd.)	1	20,00,000
	(b) Reserves and Surplus	2	7,72,000
	Sub Total		27,72,000
	2. Minority Interest		2,68,000
	3. Current Liabilities		
	(i) Trade Payable	3	1,50,000
	(ii) Other Current Liabilities	4	30,000
	Bills Payable (Presumed to be payable within 12 months)		
	Sub Total		1,80,000
	Total Equity and Liabilities		32,20,000
II	ASSETS		
	1. Non-Current Assets		
	(a) Fixed Assets		
	(i) Tangible Assets	5	19,00,000
	2. Current Assets		
	(i) Inventories	6	2,50,000
	(ii) Trade Receivables	7	1,70,000
	(iii) Cash and Cash Equivalents	8	8,20,000
	(iv) Short Loans and Advances	9	80,000
	Total Assets		32,20,000

Notes to Account

	Particulars	Rs.	Rs.
1	Share capital (S Ltd.)		
	Issued, subscribed and Fully Paid up		
	20,000 Equity shares of Rs. 100 each		20,00,000

2	Reserves and Surplus		
	(a) Capital Reserves on consolidation		8,000
	(b) General Reserves (H Ltd.)		4,00,000
	(c) Surplus (3,00,000 + 64,000)		3,64,000
			<u>7,72,000</u>
3	Trade Payables		
	Sundry Creditors for Goods: H Ltd.		1,00,000
	S Ltd.		1,00,000
			<u>2,00,000</u>
	<i>Less:</i> Inter-company debts		50,000
			<u>1,50,000</u>
4	Bills Payables: H Ltd.		30,000
	S Ltd.		10,000
			<u>40,000</u>
	<i>Less:</i> Inter-Company Bills		10,000
			<u>30,000</u>
5	Tangible Fixed Assets		
	Land and Building: H Ltd.		5,00,000
	S Ltd.		3,00,000
			<u>8,00,000</u>
	Plant and Machinery: H Ltd.	5,00,000	
	S Ltd.	6,00,000	11,00,000
			<u>19,00,000</u>
6	Inventories		
	Stock of Goods: H Ltd.		1,50,000
	S Ltd.		1,00,000
			<u>2,50,000</u>
7	Trade Receivables: H Ltd.		1,00,000
	S Ltd.		1,20,000
			<u>2,20,000</u>
	<i>Less:</i> Inter-Company Debts		50,000
			<u>1,70,000</u>
8	Cash and Cash Equivalents		
	Cash at Bank H Ltd.		5,00,000
	S Ltd.		3,20,000
			<u>8,20,000</u>
9	Short-term Loans and Advances		
	Bill Receivables H Ltd.		80,000
	S Ltd.		10,000
			<u>90,000</u>
	<i>Less:</i> Inter-Company Bills		10,000
			<u>80,000</u>

Illustration 9: (Unrealised Profit on Stock)

A Ltd., acquires all the shares in B Ltd., at cost of Rs. 1,05,000 on 1 April 2016. The extracts of balance sheets of two companies on 31 March 2017 were as follows:

Liabilities	A Ltd. (Rs.)	B Ltd. (Rs.)	Assets	A Ltd. (Rs.)	B Ltd. (Rs.)
Share Capital : Shares of Rs. 10 each	3,00,000	45,000	Fixed Assets:		
Reserves & Surplus: General Reserve (1-4-2016)	1,00,000	2,000	Freehold Premises	1,65,000	28,000
Surplus	90,000	36,000	Machinery	70,000	26,000
Current Liabilities: Creditors	10,000	14,000	Investments: Shares in Subsidiary Co.	1,05,000	
			Current Assets:		
			Stock	62,000	18,000
			Debtors	35,000	14,000
			Cash	63,000	11,000
	5,00,000	97,000		5,00,000	97,000

- (i) The creditors of A Ltd., include Rs. 5,000 due to B Ltd., for purchases on which the latter company made a profit of Rs. 1,000.
- (ii) The stock of A Ltd. includes Rs. 3,000 of the above purchases from B Ltd. Make necessary adjustments and show a consolidated balance sheet as on 31.03.2017.

Solution

**Consolidated Balance Sheet of A Ltd.
And Its Subsidiary B Ltd. As On 31 March 2017**

Particulars	Note	Rs.
I EQUITY AND LIABILITIES		
1. Shareholders' Funds		
(a) Share Capital	1	3,00,000
(b) Reserves and Surplus	2	2,25,400
Sub Total		<u>5,25,400</u>
2. Current Liabilities		
Trade Payables	3	19,000
Total Equity and Liabilities		<u>5,44,400</u>
II ASSETS		
1. Non-Current Assets		
(a) Fixed Assets		
(i) Tangible	4	2,89,000
(ii) Intangible	5	58,000
Sub Total		<u>3,47,000</u>
2. Current Assets		
(i) Inventories	6	79,400
(ii) Trade Receivables	7	44,000
(iii) Cash and Cash Equivalents	8	74,000
Sub Total		<u>1,97,400</u>

Total Assets

5,44,400

Notes to Account

	Particulars	Rs.	Rs.
1	Share capital (A Ltd.)		
	Issued, subscribed and Fully Paid up		
	30,000 Equity shares of Rs. 10 each		3,00,000
2	Reserves and Surplus		
	(i) General Reserves (A Ltd.)		1,00,000
	(ii) Surplus	90,000	
	Add: Share in B Ltd.	36,000	
		1,26,000	
	Less: unrealised profit on stock	600	1,25,400
			2,25,400
3	Trade Payables		
	(a) Sundry Creditors A Ltd.		10,000
	B Ltd.		14,000
			24,000
	Less: Mutual Debts		5,000
			19,000
4	Tangible Fixed Assets		
	(a) Freehold Premises A Ltd.		1,65,000
	B Ltd.		28,000
			1,93,000
	(b) Machinery A Ltd.	70,000	
	B Ltd.	26,000	96,000
			2,89,000
6	Inventories		
	Stock of Goods A Ltd.		62,000
	B Ltd.		18,000
			80,000
	Less: Unrealised Profit		-600
			79,400
7	Trade Receivables		
	Sundry Debtors A Ltd.		35,000
	B Ltd.		14,000
			49,000
	Less: Mutual Debts		5,000
			44,000
8	Cash and Cash Equivalents		
	Cash at Bank A Ltd.		63,000
	B Ltd.		11,000
			74,000

There is no minority interest since it is a case of wholly owned subsidiary company.

Illustration 10: (Loss of Stock By Fire and Unrealised Profit On Stock)

The following balance sheets as on 31-3-2017 are presented to you:

	Particulars	Note No.	H Ltd. (Rs.)	S Ltd. (Rs.)
I	EQUITY AND LIABILITIES			
	1. Shareholder's Funds			
	(a) Share Capital (shares of Rs. 100 each)		5,00,000	2,00,000
	(b) Reserve and Surplus			
	General Reserve		1,00,000	
	Surplus Account		80,000	1,00,000
	2. Non-Current Liabilities			
	(a) Long term borrowings			
	6% Debentures			1,00,000
	3. Current Liabilities			
	(a) Trade Payables (Creditors)		75,000	45,000
	Total		7,55,555	2,45,000
II	ASSETS			
	1. Non-Current Assets			
	(a) Fixed Assets (Tangible)		3,50,000	1,50,000
	(b) Non-Current Investments			
	6% Debentures in S Ltd. Acquired at cost		60,000	
	1,500 Shares in S Ltd. At Rs. 80 each		1,20,000	
	2. Current Assets			
	(a) Inventories (stock in trade)		90,000	40,000
	(b) Trade Receivables (Debtors)		60,000	30,000
	(c) Cash and Cash Equivalents (Bank)		75,000	25,000
	Total		7,55,000	2,45,000

H Ltd. acquired the shares on 1 August 2016. The profit and loss statement of S Ltd. showed a loss of Rs. 1,50,000 on 1 April 2016. During June 2016, goods costing Rs. 6,000 were destroyed by fire against which insurer paid only Rs. 2,000. Trade creditors of S Ltd. include Rs. 20,000 for goods supplied by H Ltd. on which H Ltd. made a profit of Rs. 2,000. Half of the goods were still in stock on 31 March 2017. Prepare a consolidated balance sheet and show the complete working.

Solution

**Consolidated Balance Sheet of H Ltd.
And Its Subsidiary S Ltd. As On 31 March 2017**

	Particulars	Note	Rs.
I	EQUITY AND LIABILITIES		
	1. Shareholders' Funds		
	(a) Share Capital	1	5,00,000
	(b) Reserves and Surplus	2	2,06,000

	Sub Total		7,06,000
	2. Minority Interest	3	25,000
	3. Non-Current Liabilities		
	Long term loans (secured)	4	40,000
	4. Current Liabilities		
	Trade payables	5	1,00,000
	Total Equity and Liabilities		8,71,000
II	ASSETS		
	1. Non-Current Assets		
	(a) Fixed Assets		
	(i) Tangible	6	5,00,000
	(ii) Intangible	7	72,000
	Sub Total		5,72,000
	2. Current Assets		
	(i) Inventories	8	1,29,000
	(ii) Trade Receivables	9	70,000
	(iii) Cash and Cash Equivalents	10	1,00,000
	Sub Total		2,99,000
	Total Assets		8,71,000

Notes to Account

	Particulars	Rs.	Rs.
1	Share capital		
	Issued, subscribed and Fully Paid		
	5,000 Equity shares of Rs.100 each		5,00,000
2	Reserves and Surplus		
	(i) General Reserves (H Ltd.)		1,00,000
	(ii) Surplus H Ltd.	80,000	
	S Ltd.	27,000	
		1,07,000	
	Less: Unrealised Profit on stock	1,000	1,06,000
			2,06,000
3	Minority Interest		
	Paid up capital held : 1/4 of Rs. 2,00,000		50,000
	Less: 1/4 of accumulated loss of Rs. 1,00,000		25,000
			25,000
4	Long-term Liabilities		
	6% Debentures (secured)		1,00,000
	Less: Held by H Ltd.		60,000
			40,000
5	Trade Payables		
	Sundry Creditors for goods:		
	H Ltd.		75,000
	S Ltd.		45,000

		1,20,000
	<i>Less:</i> Inter-Company Owings	<u>20,000</u>
		<u>1,00,000</u>
6	Tangible Assets	
	Sundry Fixed H Ltd.	3,50,000
	S Ltd.	<u>1,50,000</u>
		<u>5,00,000</u>
7	Intangible Assets	
	Goodwill on consolidation	<u>72,000</u>
8	Inventories	
	Stock of Goods H Ltd.	90,000
	S Ltd.	<u>40,000</u>
		<u>1,30,000</u>
	<i>Less:</i> Unrealised Profit on Stock	<u>1,000</u>
		<u>1,29,000</u>
9	Trade Receivables	
	Debtors for Goods H Ltd.	60,000
	S Ltd.	<u>30,000</u>
		90,000
	<i>Less:</i> Inter-Company Owings	<u>20,000</u>
		<u>70,000</u>
10	Cash and Cash Equivalents	
	Cash in hand H Ltd.	75,000
	S Ltd.	<u>25,000</u>
		<u>1,00,000</u>

There is no need to split accumulated losses and profits into pre-and-post-acquisition period while calculating share of minority interest in them. The same could be and in fact has been directly calculated as $\frac{1}{4}$ of Rs. 1,00,000 i.e. Rs. 25,000.

Illustration 11: (Preference Share Capital in Subsidiary Company)

The following are balance sheets of R Ltd. and S Ltd. as at 31 March 2017:

	Note No.	R Ltd. (Rs.)	S Ltd. (Rs.)
I EQUITY AND LIABILITIES			
1. Shareholder's Funds			
(a) Share Capital			
Equity Shares of Rs. 10 each, fully paid		4,00,000	1,50,000
13% Preference shares of Rs. 100 each, fully paid			1,00,000
(b) Reserve and Surplus			
General Reserve		50,000	40,000
Surplus Account (before appropriation)		30,000	25,000
2. Non-Current Liabilities			
(a) Long term borrowings			

	12% Debentures	2,00,000	
	3. Current Liabilities		
	(a) Trade Payables (Creditors)	3,20,000	1,85,000
	Total	10,00,000	5,00,000
II	ASSETS		
	1. Non-Current Assets		
	(a) Fixed Assets (Tangible)	5,00,000	2,40,000
	(b) Non-Current Investments (15,000 Equity Shares in S Ltd. On 1-4-2016)	2,00,000	
	2. Current Assets	3,00,000	2,60,000
	(including Rs. 10,000 stock-in-trade purchased from R Ltd.)		
	Total	10,00,000	5,00,000

Prepare the consolidate balance sheet as at 31 March 2017 assuming that (a) S Ltd.'s general reserve and profit and loss account (after appropriation for dividends) stood at Rs. 25,000 and Rs. 10,000 respectively on 31 March 2016 and 31 March 2017. (b) R Ltd. Sells goods at a profit of 25% on cost.

Solution

**Consolidated Balance Sheet of R Ltd.
And Its Subsidiary S Ltd. As At 31 March 2017**

	Particulars	Note	Rs.
I	EQUITY AND LIABILITIES		
	1. Shareholders' Funds		
	(a) Share Capital	1	4,00,000
	(b) Reserves and Surplus	2	95,000
	Sub Total		4,95,000
	2. Minority Interest	3	1,13,000
	3. Non-Current Liabilities		
	Long term Loans (secured)	4	2,00,000
	4. Current Liabilities		
	Trade Payables	5	5,05,000
	Total Equity and Liabilities		13,13,000
II	ASSETS		
	1. Non-Current Assets		
	(a) Fixed Assets		
	(i) Tangible	6	7,40,000
	(ii) Intangible	7	15,000
	Sub Total		7,55,000
	2. Current Assets	8	5,58,000
	Total Assets		13,13,000

Notes to Accounts

Particulars	Rs.	Rs.
-------------	-----	-----

1	Share capital (R Ltd.)		
	Issued, subscribed and Fully Paid		
	40,000 Equity shares of Rs. 10 each	4,00,000	
2	Reserves and Surplus		
	(i) General Reserves (R Ltd.)	50,000	
	Add: Share - in S Ltd.	15,000	
		65,000	
	(ii) Surplus (R Ltd.)	30,000	
	Add: Share in S Ltd.	2,000	
		32,000	
	Less: Unrealised Profit on Stock	2,000	30,000
			95,000
3	Minority Interest		
	1,000, 13% Preference shares of Rs. 100 each	1,00,000	
	Add: Dividends @ 13%	13,000	
			1,13,000
4	Long-term Liabilities		
	12% Debentures (secured)	2,00,000	
5	Current Liabilities: R Ltd.	3,20,000	
	S Ltd.	1,85,000	
			5,05,000
6	Tangible Assets		
	Sundry Fixed R Ltd.	5,00,000	
	S Ltd.	2,40,000	
			7,40,000
7	Intangible Assets		
	Goodwill on consolidation	15,000	
8	Current Assets: R Ltd.	3,00,000	
	S Ltd.	2,60,000	
		5,60,000	
	Less: Unrealised Profit on Stock	2,000	5,58,000
			5,58,000

Illustration 12: (Debentures in Subsidiary Company)

The following are the balance sheets of M Ltd. and its subsidiary N Ltd. as at 31 March, 2017 :

Particulars	Note No.	M Ltd.	N Ltd.
-------------	----------	--------	--------

		(Rs.)	(Rs.)
I	EQUITY AND LIABILITIES		
	1. Shareholder's Funds		
	(a) Share Capital		
	Equity Shares of Rs. 10 each, fully paid	3,00,000	2,00,000
	(b) Reserve and Surplus		
	Capital Redemption Reserve	1,20,000	
	General Reserve	1,00,000	30,000
	Surplus Account (before appropriation)	60,000	40,000
	2. Non-Current Liabilities		
	(a) Long term borrowings (Debentures)	2,00,000	1,00,000
	3. Current Liabilities		
	(a) Trade Payables (Creditors)	1,90,000	1,15,000
	(b) Other Current Liabilities	30,000	15,000
	(Interest due on debenture for one year)		
	Total	10,00,000	5,00,000
II	ASSETS		
	1. Non-Current Assets		
	(a) Fixed Assets (Tangible)	6,00,000	3,40,000
	(b) Non-Current Investments		
	15,000 shares in N Ltd. On 30-9-2016	2,00,000	
	Debentures of N Ltd. At par	50,000	
	Debentures of M Ltd. At par		60,000
	2. Current Assets	1,50,000	1,00,000
	Total	10,00,000	5,00,000

Prepare the consolidated balance sheet as at 31 March 2017 assuming that N Ltd. has earned uniformly in 2016-2017 and its profit and loss statement showed a loss of Rs. 20,000 on 1.4.2016. Show the working also.

Solution

**Consolidated Balance Sheet of M Ltd.
And Its Subsidiary N Ltd. As On 31 March 2017**

	Particulars	Note	Rs.
I	EQUITY AND LIABILITIES		
	1. Shareholders' Funds		
	(a) Share Capital	1	3,00,000
	(b) Reserves and Surplus	2	3,02,500
	Sub Total		6,02,500
	2. Minority Interest	3	67,500
	3. Non-Current Liabilities		
	Long Term Borrowings (secured)	4	1,90,000
	4. Current Liabilities		
	(i) Trade payables	5	3,05,000
	(ii) Other Current Liabilities	6	28,500

	Sub Total	<u>3,33,000</u>
	Total Equity and Liabilities	<u>11,93,500</u>
II	ASSETS	
	1. Non-Current Assets	
	(a) Fixed Assets	
	(i) Tangible	7 9,40,000
	(ii) Intangible	8 <u>20,000</u>
	Sub Total	<u>9,60,000</u>
	2. Current Assets: Other Current Assets	9 <u>2,33,500</u>
	Total Assets	<u>11,93,500</u>

Notes to Accounts

	Particulars	Rs.	Rs.
1	Share capital (M Ltd.)		
	Issued, subscribed and Fully Paid		
	30,000 Equity shares of Rs. 10 each		<u>3,00,000</u>
2	Reserves and Surplus		
	(i) Capital Redemption Reserves		1,20,000
	(ii) General Reserves		1,00,000
	(iii) Surplus		
	M Ltd.	60,000	
	Add: Share in N Ltd.	<u>22,500</u>	<u>82,500</u>
			3,02,500
3	Minority Interest		
	Nominal Value of the shares held		
	(1/4 of Rs. 2,00,000)		50,000
	Add: 1/4 of Rs. 30,000 (General Reserves)		7,500
	Add: 1/4 of Rs. 40,000 surplus		<u>10,000</u>
			<u>67,500</u>
4	Long-term Liabilities		
	Debentures (M Ltd.)	2,00,000	
	Less: Holding by N Ltd.	<u>60,000</u>	1,40,000
	Debentures N Ltd.	1,00,000	
	Less: Held by M Ltd.	<u>50,000</u>	50,000
			<u>1,90,000</u>
5	Trade Payables: M Ltd.		1,90,000
	N Ltd.		<u>1,15,000</u>
			<u>3,05,000</u>
6	Other Current Liabilities		
	Interest Accrued And Due on		
	Debentures Issued by M Ltd.	30,000	

	Less: Interest due on Debentures held by N Ltd.	9,000	21,000
	Interest Accrued And Due on Debentures Issued by N Ltd.	<u>15,000</u>	
	Less: Interest due on Debentures held by N Ltd.	<u>7,500</u>	<u>7,500</u>
			<u>28,500</u>
7	Tangible Assets		
	M Ltd.		6,00,000
	N Ltd.		<u>3,40,000</u>
			<u>9,40,000</u>
8	Intangible Assets		
	Goodwill on consolidation :		
	Cost of Investment in N Ltd.		2,00,000
	Less: Share Capital held		<u>1,50,000</u>
			50,000
	Add: Pre-acquisition Loss (3/4)		<u>15,000</u>
			65,000
	Less: Share in capital profit and capital reserves		<u>45,000</u>
			<u>20,000</u>
9	Current Assets		
	M Ltd.	1,50,000	
	Less: Accrued Interest due on Debentures held in M Ltd.	<u>9,000</u>	
			1,41,000
	N Ltd.		
	Less: Accrued Interest due on debentures held in M Ltd.	1,00,000	
		<u>7,500</u>	<u>92,500</u>
			<u>2,33,500</u>

Illustration 13: (Treatment of Contingent Liabilities)

The balance sheets of H Ltd. and S Ltd. on 31 March 2017 were as under:

	Particulars	Note No.	H Ltd. (Rs.)	S Ltd. (Rs.)
I	EQUITY AND LIABILITIES			
	1. Shareholder's Funds			
	(a) Share Capital			
	Equity Shares of Rs. 100 each		5,00,000	3,00,000
	(b) Reserve and Surplus			
	General Reserve (1-4-2016)		90,000	51,000
	Surplus on (1-4-2016)		60,000	24,000
	Profit for 2016-17		1,10,000	84,000
	2. Non-Current Liabilities			

	(a) Long term borrowings		
	3. Current Liabilities		
	(a) Trade Payables - Creditors	1,40,000	71,000
	Bills Payable		<u>20,000</u>
	Total	<u>9,00,000</u>	<u>5,50,000</u>
II	ASSETS		
	1. Non-Current Assets		
	(a) Fixed Assets (Tangible)		
	Land and Buildings	2,50,000	2,00,000
	Plant and Machinery	1,25,000	1,60,000
	(b) Non-Current Investments (2,000 shares in S Ltd.)	2,95,000	
	2. Current Assets		
	(a) Inventories (stock-in-trade)	70,000	80,000
	(b) Trade Receivables - Debtors	1,20,000	1,05,000
	Bills Receivable	30,000	
	(c) Cash and Cash Equivalents (cash)	10,000	5,000
	Total	<u>9,00,000</u>	<u>5,50,000</u>

H Ltd. acquired shares in S Ltd. on 1.1.2017. S Ltd. issued bills payable to H Ltd. Bills receivable of H Ltd. include bills of S Ltd. for Rs. 12,000. Sundry debtors of S Ltd. include Rs. 10,000 owing by H Ltd. Stock of H Ltd. includes goods worth Rs. 15,000 purchased from S Ltd. for which the latter company has charged profit at 25% on cost. Contingent liability for bills discounted by H Ltd. is Rs. 25,000. Prepare a consolidated balance sheet.

Solution

**Consolidated Balance Sheet of H Ltd.
And Its Subsidiary S Ltd. As At 31 March 2017**

	Particulars	Note	Rs.
I	EQUITY AND LIABILITIES		
	1. Shareholders' Funds		
	(a) Share Capital	1	5,00,000
	(b) Reserves and Surplus	2	<u>2,71,000</u>
	Sub Total		<u>7,71,000</u>
	2. Minority Interest	3	<u>1,53,000</u>
	3. Current Liabilities		
	(i) Trade Payables	4	2,01,000
	(ii) Other Current Liabilities	5	<u>8,000</u>
	Sub Total		<u>2,09,000</u>
	Total Equity and Liabilities		<u>11,33,000</u>
II	ASSETS		
	1. Non-Current Assets		
	(a) Fixed Assets		
	(i) Tangible Assets	6	7,35,000
	(ii) Intangible Assets	7	3,000

Sub Total		<u>7,38,000</u>
2. Current Assets		
(a) Inventories	8	1,47,000
(b) Trade Receivables	9	2,15,000
(c) Cash and Cash Equivalents	10	15,000
(d) Short-term Loans and Advances	11	<u>18,000</u>
Sub Total		<u>3,95,000</u>
Total Assets		<u>11,33,000</u>

Notes to Accounts

	Particulars	Rs.	Rs.
1	Equity Share capital		
	Issued, subscribed and Fully Paid		
	5,000 Equity shares of Rs. 100 each		<u>5,00,000</u>
2	Reserves and Surplus		
	(i) General Reserve		90,000
	(ii) Surplus		<u>1,81,000</u>
			<u>2,71,000</u>
3	Minority Interest		
	Paid up capital held		1,00,000
	1/3 of 51,000 (General Reserves)		17,000
	1/3 of 24,000 (Surplus : 1-04-2016)		8,000
	1/3 of 84,000 (Surplus for 2016-17)		<u>28,000</u>
			<u>1,53,000</u>
4	Trade Payables		
	Sundry Creditors: H Ltd.		1,40,000
	S Ltd.		<u>71,000</u>
			2,11,000
	Less: Inter-Company Debts		<u>10,000</u>
			<u>2,01,000</u>
5	Other Current Liabilities		
	Bills Payable (S Ltd.)		20,000
	Less: Inter-Company Debts		<u>12,000</u>
			<u>8,000</u>
6	Tangible Assets		
	Land and Building: H Ltd.		2,50,000
	S Ltd.		<u>2,00,000</u>
			4,50,000
	Plant and Machinery: H Ltd.	1,25,000	
	S Ltd.	<u>1,60,000</u>	<u>2,85,000</u>
			<u>7,35,000</u>
7	Intangible Assets		
	Goodwill on consolidation		

	Cost of investments	2,95,000	
	<i>Less:</i> Paid up value of shares	2,00,000	
		95,000	
	<i>Less:</i> Capital Reserve	34,000	
	Capital Profit	58,000	92,000
			3,000
8	Inventories		
	Stock of Goods: H Ltd.		70,000
	S Ltd.		80,000
			1,50,000
	<i>Less:</i> Unrealised Profit		3,000
			1,47,000
9	Trade Receivables		
	Debtors for Goods: H Ltd.		1,20,000
	S Ltd.		1,05,000
			2,25,000
	<i>Less:</i> Inter-Company Debts		10,000
			2,15,000
10	Cash and Cash Equivalents		
	Cash in hand : H Ltd.		10,000
	S Ltd.		5,000
			15,000
11	Short-term Loans and Advances		
	Bill Receivables: H Ltd.		30,000
	<i>Less:</i> Inter-Company Debts		12,000
			18,000

There is a contingent liability of Rs. 17,000

Illustration 14: (Profit on revaluation of assets)

The following are the balance sheets of X Ltd. and its subsidiary Y Ltd. as at 31 March 2017 :

	Particulars	Note No.	X Ltd. (Rs.)	Y Ltd. (Rs.)
I	EQUITY AND LIABILITIES			
	1. Shareholder's Funds			
	(a) Share Capital			
	(Equity Shares of Rs. 10 each)		4,00,000	1,00,000
	(b) Reserve and Surplus			
	Surplus Account		50,000	20,000
	2. Current Liabilities		7,50,000	4,80,000
	Total		12,00,000	6,00,000
II	ASSETS			
	1. Non-Current Assets			
	(a) Fixed Assets (Tangible)			

Equipments	2,50,000	95,000
(b) Non-Current Investments (9,000 Equity Shares in Y Ltd. on 1-4-2016)	1,40,000	
2. Current Assets	<u>8,10,000</u>	<u>5,05,000</u>
Total	<u>12,00,000</u>	<u>6,00,000</u>

On 1.4.2016, Profit and Loss Statement of Y Ltd. showed a profit of Rs. 8,000 and equipment of Y Ltd. was revalued by X Ltd. at 20% above its book value of Rs. 1,00,000 (but no such adjustment effected in the books of Y Ltd.). Prepare the consolidated Balance Sheet as at 31 March 2017.

Solution

**Consolidated Balance Sheet of X Ltd.
And Its Subsidiary Y Ltd. As On 31 March 2017**

	Particulars	Note	Rs.
I	EQUITY AND LIABILITIES		
	1. Shareholders' Funds		
	(a) Share Capital	1	4,00,000
	(b) Reserves and Surplus	2	<u>59,900</u>
	Sub Total		4,59,900
	2. Minority Interest	3	13,900
	3. Current Liabilities	4	<u>12,30,000</u>
	Total Equity and Liabilities		<u>17,03,800</u>
II	ASSETS		
	1. Non-Current Assets		
	(a) Fixed Assets		
	(i) Tangible Assets	5	3,64,000
	(ii) Intangible Assets	6	<u>24,800</u>
	Sub Total		3,88,800
	2. Current Assets	7	<u>13,15,000</u>
	Total Assets		<u>17,03,800</u>

Notes to Accounts

	Particulars	Rs.	Rs.
1	Share capital		
	Issued, subscribed and Fully Paid		
	40,000 Equity shares of Rs. 10 each		4,00,000

2	Reserves and Surplus		
	Surplus (H Ltd.)		50,000
	Shares in S Ltd.		9,900
			<u>59,900</u>
3	Minority Interest		
	Paid of Value of Shares held		10,000
	Add: 1/10 of Pre-acquisition Profit		800
	1/10 of Post-acquisition Profit		1,100
	1/10 Profit on Revaluation of Assets		2,000
			<u>13,900</u>
4	Current Liabilities: X Ltd.		7,50,000
	Y Ltd.		4,80,000
			<u>12,30,000</u>
5	Tangible Fixed Assets: X Ltd.		2,50,000
	Equipment Y Ltd.	1,00,000	
	Add: Appreciation	20,000	
		<u>1,20,000</u>	
	Less: Additional Depreciation	6,000	1,14,000
			<u>3,64,000</u>
6	Intangible Assets		
	Goodwill on consideration		<u>24,800</u>
7	Current Assets: X Ltd.		8,10,000
	Y Ltd.		5,05,000
			<u>13,15,000</u>

Illustration 15: (Revaluation of Fixed Assets From the Back Date)

M Ltd. acquired 80% shares of S Ltd. as on 1 October 2016 at a cost of Rs. 2,30,000. The summarised balance sheet as on 31 March 2017 was as under:

	Particulars	Note No.	M Ltd. (Rs.)	S Ltd. (Rs.)
I	EQUITY AND LIABILITIES			
	1. Shareholder's Funds			
	(a) Share Capital			
	Equity Shares of Rs. 50 each		3,75,000	
	Equity Shares of Rs. 10 each			1,25,000
	(b) Reserve and Surplus			
	General Reserve		2,37,500	5,000
	Surplus		2,00,000	90,000
	2. Current Liabilities			
	Trade Payables (creditors)		37,500	40,000
	Total		<u>8,50,000</u>	<u>2,60,000</u>
II	ASSETS			
	1. Non-Current Assets			

(a) Fixed Assets (Tangible)	3,32,500	1,42,000
(b) Non-Current Investments	2,30,000	
2. Current Assets	<u>2,87,500</u>	<u>1,17,500</u>
Total	<u>8,50,000</u>	<u>2,60,000</u>

(i) About M Ltd.:

M Ltd. purchased goods worth Rs. 30,000 from S Ltd. which were sold at cost + 33 1/3 %. Of these, 50% remains unsold. This purchase has remained unpaid and included in current liabilities. Surplus includes dividend at 16% received from S Ltd. for the year 2015-16.

(ii) About S Ltd.:

The balance in surplus on 1 April 2016 was Rs. 70,000 whereas general reserve has remained unchanged. An item of plant which (included in fixed assets) had book value of Rs. 12,500 was to be valued at Rs. 20,000 on 1 April 2016. Depreciation at 20% is provided on this item.

Prepare consolidated balance sheet from the above informations.

Solution

**Consolidated Balance Sheet of M Ltd.
And Its Subsidiary S Ltd. As On 31 March 2017**

	Particulars	Note	Rs.
I	EQUITY AND LIABILITIES		
	1. Shareholders' Funds		
	(a) Share Capital	1	3,75,000
	(b) Reserves ad Surplus	2	<u>4,33,150</u>
	Sub Total		<u>8,08,150</u>
	2. Minority Interest	3	45,200
	3. Current Liabilities	4	<u>47,500</u>
	Total Equity and Liabilities		<u>9,00,850</u>
II	ASSETS		
	1. Non-Current Assets		
	(a) Fixed Assets		
	(i) Tangible	5	4,81,000
	(ii) Intangible	6	<u>48,600</u>
	Sub Total		<u>5,29,600</u>
	2. Current Assets	7	<u>3,71,250</u>
	Total Assets		<u>9,00,850</u>

Notes to Accounts

	Particulars	Rs.	Rs.
1	Share capital		
	Issued, subscribed and Fully Paid		

	7,500 Equity shares of Rs. 50 each	3,75,000
2	Reserves and Surplus	
	(i) General Reserve (M Ltd.)	2,37,500
	(ii) Surplus :	
	Balance b/d	2,00,000
	Add: Share in S Ltd.	15,400
		2,15,400
	Less: Dividends wrongly credited	16,000
		1,99,400
	Less: Unrealised Profit on stock	3,750
		1,95,650
		4,33,150
3	Minority Interest	
	Paid up capital	25,000
	Pre-acquisition Surplus and Reserves	11,000
	Profit on Revaluation of Plant	1,350
	Additional Capital Profit	4,000
	Pre-acquisition Profit	3,850
		45,200
4	Current Liabilities:	
	M Ltd.	37,500
	S Ltd.	40,000
		77,500
	Less: Common Debts	30,000
		47,500
5	Tangible Fixed Assets	
	N Ltd.	3,32,500
	S Ltd.	1,42,500
		4,75,000
	Appreciation	7,500
		4,82,500
	Depreciation	1,500
		4,81,000
6	Intangible Fixed Assets	
	Goodwill on consideration:	48,600
7	Current Assets	
	M Ltd.	2,87,500
	S Ltd.	1,17,500
		4,05,000
	Less: Unrealised Profit on Stock	3,750
	Less: Common Debts	30,000
		-33,750
		3,71,250

Illustration 16

(Entry for Interest Receivable Omitted)

H Ltd. acquired 8,000 shares of Rs. 10 each in S Ltd. on 31 March 2017. The summarised list of assets and liabilities of the two companies as on that are given below:

Liabilities	H Ltd. (Rs.)	S Ltd. (Rs.)
Share Capital		
30,000 Shares of Rs. 10 each	3,00,000	
10,000 Shares of Rs. 10 each		1,00,000
Capital Reserve		52,000
General Reserve	25,000	5,000
Surplus	38,200	18,000
Loan from S Ltd.	2,100	
Bills Payable (including Rs. 500 to H Ltd.)		1,700
Creditors	17,900	5,000
	3,83,200	1,81,700
Assets		
Fixed Assets	1,50,000	1,44,700
Shares in S Ltd. (at cost)	1,70,000	
Stock in hand	40,000	20,000
Loan to H Ltd.		2,000
Bills Receivable (including Rs. 200 from S Ltd.)	1,200	
Debtors	20,000	10,000
Bank	2,000	5,000
	3,83,200	1,81,700

Note on the balance sheet of H Ltd. : There is a contingent liability of Rs. 1,000 for bills discounted.

The following additional information is given to you :

- (a) Interest receivable Rs. 100 in respect of loan due by H Ltd. to S Ltd. has not been credited in the accounts of S Ltd.
- (b) On 31 March 2017, the directors of H Ltd. decide that the fixed assets of S Ltd. are overvalued and should be written down by Rs. 5,000.

Prepare the consolidated Balance Sheet as on 31 March 2017.

Solution

**Consolidated Balance Sheet of H Ltd.
And Its Subsidiary S Ltd. As On 31 March 2017**

	Particulars	Note	Rs.
I	EQUITY AND LIABILITIES		
	1. Shareholders' Funds		
	(a) Share Capital	1	3,00,000
	(b) Reserves and Surplus	2	63,200
	Sub Total		3,63,200
	2. Minority Interest	3	34,020
	3. Current Liabilities		
	(a) Trade Payables	4	22,900

	(b) Other Current Liabilities	5	1,500
	Sub Total		<u>24,400</u>
	Total Equity and Liabilities		<u>4,21,620</u>
II	1. Non-Current Assets		
	(a) Fixed Assets		
	(i) Tangible Assets	6	2,89,700
	(ii) Intangible Assets	7	33,920
	Sub Total		<u>3,23,620</u>
	2. Current Assets		
	(a) Inventories	8	60,000
	(b) Trade Receivables	9	30,000
	(c) Cash and Cash Equivalents	10	7,000
	(d) Short-term Loans and Advances	11	1,000
	Sub Total		<u>98,000</u>
	Total Assets		<u>4,21,620</u>

Notes to Accounts

	Particulars	Rs.	Rs.
1	Share capital (H Ltd.)		
	Issued, subscribed and Fully Paid up		
	30,000 Equity shares of Rs. 10 each		<u>3,00,000</u>
2	Reserves and Surplus		
	General Reserve (H Ltd.)		25,000
	Surplus (S Ltd.)		38,200
			<u>63,200</u>
3	Minority Interest		
	Share Capital		20,000
	Capital Reserve (20% of 52,000)		10,400
	General Reserves (20% of Rs. 5,000)		1,000
	Surplus (20% of 18,000 (18,000 + 100))		3,620
			<u>35,020</u>
	Less: Loss on Revaluation of Fixed Asset		1,000
			<u>34,020</u>
4	Trade Payables		
	Creditors for Goods		
	H Ltd.		17,900
	S Ltd.		5,000
			<u>22,900</u>
5	Other Current Liabilities		
	Bills Payables		1,700
	Less: Mutual Debts		200
			<u>1,500</u>

6	Tangible Assets		
	Equipment		
	H Ltd.		1,50,000
	S Ltd.	1,44,700	
	Loss on Revaluation	-5,000	1,39,700
			<u>2,89,700</u>
7	Intangible Assets		
	Goodwill:		
	Investments in shares of S Ltd.		1,70,000
	Paid up value of Shares held		-80,000
	Pre-acquisition Profit and Reserves		90,000
			-60,800
			<u>29,920</u>
	Loss on Revaluation of Tangible Assets		4,000
			<u>33,920</u>
8	Inventories		
	Stock of Goods		
	H Ltd.		40,000
	S Ltd.		20,000
			<u>60,000</u>
9	Trade Receivables		
	Debtors for Goods		
	H Ltd.		20,000
	S Ltd.		10,000
			<u>30,000</u>
10	Cash and Cash Equivalent		
	Cash at Bank		
	H Ltd.		2,000
	S Ltd.		5,000
			<u>7,000</u>
11	Short term Loans and Advances		
	(a) Loan to H Ltd.		2,000
	Add: Interest accrued		100
	Less: Mutual Debts		2,100
			<u>Nil</u>
	(b) Bills Receivables		1,200
	Less: Mutual Debts		200
			<u>1,000</u>

Illustration 17 (Issue of Bonus Shares From Pre-acquisition Profits)

Strong Ltd., acquired 3,200 equity shares of Weak Ltd., on 31 March, 2017. The summarised figures of the two companies as on that date are given below:

Credit	Strong Ltd.	Weak Ltd.	Debit	Strong Ltd.	Weak Ltd.
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	(Rs.)	(Rs.)		(Rs.)	(Rs.)
Share Capital (Rs. 100 each fully paid-up)	10,00,000	4,00,000	Land & Buildings	3,00,000	3,60,000
General Reserves	4,80,000	3,40,000	Plant & Machinery	4,80,000	3,18,800
Profit & Loss Account	1,14,400	72,000	Investments in Weak Ltd. At cost	6,80,000	
Bank Loan	1,60,000		Stocks	2,40,000	72,000
Bills Payable (including Rs. 8,000 to Strong Ltd.)		16,800	Sundry Debtors	88,000	80,000
Sundry Creditors	94,400	18,000	Bills Receivable (including Rs. 6,000 from Weak Ltd.)	31,600	
			Cash at Bank	29,200	16,000
	18,48,800	8,46,800		18,48,800	8,46,800

You are supplied with the following information:

- (a) Weak Ltd., made a bonus issue on 31 March 2017 of one equity share for every four shares held by its shareholders. Effect has not yet been given in the accounts for this.
- (b) The directors have decided to revalue the land and buildings and Plant & Machinery of Weak Ltd. at Rs. 4,00,000 and Rs. 2,98,800 respectively.
- (c) Sundry creditors of Strong Ltd. included Rs. 24,000 due to Weak Ltd. Prepare the consolidated balance sheet as at 31 March 2017 in the books of Strong Ltd. Show your working clearly.

Also calculate cost of control when bonus shares are not issued.

Solution

**Consolidated Balance Sheet of Strong Ltd.
And Its Subsidiary S Ltd. As On 31 March 2017**

	Particulars	Note	Rs.
I	EQUITY AND LIABILITIES		
	1. Shareholders' Funds		
	(a) Share Capital	1	10,00,000
	(b) Reserves and Surplus	2	5,94,400
	Sub Total		15,94,400
	2. Minority Interest	3	1,66,400
	3. Non-Current Liabilities		
	Long-term Borrowings	4	1,60,000
	4. Current Liabilities		
	(a) Trade Payables	5	88,400
	(b) Other Current Liabilities	6	10,800
	Sub Total		99,200
	Total Assets and Liabilities		20,20,000
II	ASSETS		
	1. Non-Current Assets		
	(a) Fixed Assets		
	(i) Tangible Assets	7	14,78,800

(ii) Intangible Assets	8	14,400
Sub Total		14,93,200
2. Current Assets		
(a) Inventories	9	3,12,000
(b) Trade Receivables	10	1,44,000
(c) Cash and Cash Equivalents	11	45,200
(d) Short-term Loans and Advances	12	25,600
Sub Total		5,26,800
Total Assets		20,20,000

Notes to Accounts

	Particulars	Rs.	Rs.
1	Share capital (Strong Ltd.)		
	Issued, subscribed and Fully Paid		
	10,000 Equity shares of Rs. 10 each		10,00,000
2	Reserves and Surplus		
	General Reserve		4,80,000
	Surplus		1,14,400
			5,94,400
3	Minority Interest		
	Paid up value of shares held (1/5 of Rs. 5,00,000)		1,00,000
	Add: Profit on Revaluation of Assets		4,000
	Add: Share in General Reserve (Rs. 2,40,000)		48,000
	Add: Share in surplus (Rs. 72,000)		14,400
			1,66,400
4	Long-term Borrowings		
	Bank Loan		1,60,000
5	Trade Payables		
	Strong Ltd.		94,400
	Weak Ltd.		18,000
			1,12,400
	Less: Inter-Company Debts		24,000
			88,400
6	Other Current Liabilities		
	Bills Payables		16,800
	Less: Inter-Company Debts		6,000
			10,800
7	Tangible Assets		
	(i) Land and Building:		
	Strong Ltd.		3,00,000
	Weak Ltd.		4,00,000
			7,00,000
	(ii) Plant and Machinery		

	Strong Ltd.	4,80,000	
	Weak Ltd.	2,98,800	7,78,800
			14,78,800
8	Intangible Assets		
	Goodwill on consolidation		
	Cost of Investment in Weak Ltd.		6,80,000
	<i>Less:</i> Paid up value of share capital acquired (including bonus shares)		4,00,000
			2,80,000
	<i>Less:</i> Profit on Revaluation of Assets		16,000
			2,64,000
	<i>Less:</i> Share in Capital Profits and Capital Reserves		2,49,600
			14,400
9	Inventories		
	Stock of Goods :		
	Strong Ltd.		2,40,000
	Weak Ltd.		72,000
			3,12,000
10	Trade Receivables		
	Debtors for Goods :		
	Strong Ltd.		88,000
	Weak Ltd.		80,000
			1,68,000
	<i>Less:</i> Common Debts		24,000
			1,44,000
11	Cash and Cash Equivalent		
	Cash in hand :		
	Strong Ltd.		29,200
	Weak Ltd.		16,000
			45,200
12	Short term Loans and Advances		
	Bills Receivables		31,600
	<i>Less:</i> Common Debts		6,000
			25,600

Illustration 18 (Bonus Issue)

H Ltd., acquired 1,200 equity shares in S Ltd., on 1.4.2016. The Summarised financial information of H Ltd. and its subsidiary S Ltd. as on 31 March, 2017 are as follows:

Liabilities	H Ltd. (Rs.)	S Ltd. (Rs.)
Preference Share Capital	1,00,000	
Equity Share Capital (Rs. 100 fully paid)	5,00,000	1,50,000

General Reserve	3,40,000	6,000
Surplus	3,60,000	1,08,000
Creditors	1,00,000	44,150
Bills Payable		24,150
	14,00,000	3,32,300
Assets		
Land	3,56,000	70,000
Properties	3,76,000	40,000
Plant and Machinery	1,40,000	91,300
Investments in S Ltd.	1,80,000	
Stock	1,36,000	50,600
Debtors and Cash	2,12,000	80,400
	14,00,000	3,32,300

The other information given are :

- (a) On 1.4.2016, Surplus of S Ltd., stood at Rs. 77,500 and General Reserve at Rs. 3,000. Also H Ltd. revalued Plant and Machinery of S Ltd., at the time of purchase of shares by Rs. 20,000 more than its book value (Ignore Depreciation).
- (b) Stock of H Ltd., includes Rs. 8,000 of stock purchased from S Ltd. Further, debtors of S Ltd., include Rs. 24,000 for sales to H Ltd., on which S Ltd., made a profit of Rs. 6,000.
- (c) S Ltd. made a Bonus issue during the year out of pre-acquisition profits for Rs. 60,000 not recorded in the books.

You are required to prepare the Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as on 31.3.2016.

Solution

**Consolidated Balance Sheet of H Ltd.
And Its Subsidiary S Ltd. As At 31 March 2017**

	Particulars	Note	Rs.
I	EQUITY AND LIABILITIES		
	1. Shareholders' Funds		
	(a) Share Capital	1	6,00,000
	(b) Reserves and Surplus	2	7,45,200
	Sub Total		13,45,200
	2. Minority Interest	3	56,800
	3. Current Liabilities		
	(a) Trade Payables	4	1,20,150
	(b) Other Current Liabilities	5	24,150
	Sub Total		1,44,300
	Total Equity and Liabilities		15,46,300
II	ASSETS		
	1. Non-Current Assets		
	(a) Fixed Assets		

(i) Tangible Assets	6	10,93,300
(ii) Intangible Assets		<u>Nil</u>
Sub Total		<u>10,93,300</u>
2. Current Assets		
(a) Inventories	7	1,84,600
(b) Trade Receivables and Cash and Cash Equivalents	8	<u>2,68,400</u> <u>4,53,000</u>
Sub Total		<u>4,53,000</u>
Total Assets		<u>15,46,300</u>

Notes to Account

	Particulars	Rs.	Rs.
1	Share capital (H Ltd.)		
	Issued, subscribed and Fully Paid		
	5,000 Equity shares of Rs. 100 each		5,00,000
	Preference Share Capital		<u>1,00,000</u>
			<u>6,00,000</u>
2	Minority Interest		56,800
3	Reserves and Surplus		
	(i) Capital Reserves		20,400
	(ii) General Reserves		3,40,000
	(iii) Surplus		<u>3,84,800</u>
			<u>7,45,200</u>
4	Trade Payables		
	Creditors for Goods		
	H Ltd.		1,00,000
	S Ltd.		<u>44,150</u>
			1,44,150
	Less : Inter-Company Debts		<u>20,000</u>
			<u>1,20,150</u>
5	Other Current Liabilities		
	Bills Payables		<u>24,150</u>
6	Tangible (Fixed) Assets		
	(i) Land		
	H Ltd.		3,56,000
	S Ltd.		<u>70,000</u>
			<u>4,26,000</u>
	(ii) Properties		
	H Ltd.	3,76,000	

	S Ltd.	<u>40,000</u>	4,16,000
	(iii) Plant and Machinery		
	H Ltd.	1,40,000	
	S Ltd. (91,300 + 20,000)	<u>1,11,300</u>	<u>2,51,300</u>
			<u>10,93,300</u>
7	Inventories		
	Stock of Goods		
	H Ltd.		1,36,000
	S Ltd.		<u>50,000</u>
			1,86,000
	Less: Unrealised Profit		<u>2,000</u>
			<u>1,84,800</u>
8	Trade Receivables and Cash and Cash Equivalents		
	Debtors for Goods and cash in hand		2,92,400
	Less: Common Debts		<u>24,000</u>
			<u>2,68,400</u>

Illustration 19 (Bonus Issue From Post-Acquisition Profits)

A Ltd. acquired 2,000 equity shares of Rs. 100 each in B Ltd. on 31 March 2016. The Balance Sheets of the two companies as on 31 March 2017 were as follows:

Particulars	Note No.	A Ltd. (Rs.)	B Ltd. (Rs.)
I EQUITY AND LIABILITIES			
1. Shareholder's Funds			
(a) Share Capital			
Equity Share Capital (Rs. 100 each)		8,00,000	2,50,000
(b) Reserve and Surplus			
Reserves		3,00,000	50,000
Surplus		1,00,000	1,00,000
2. Current Liabilities			
Trade Payables (Creditors)		<u>2,00,000</u>	<u>50,000</u>
Total		<u>14,00,000</u>	<u>4,50,000</u>
II ASSETS			
1. Non-Current Assets			
(a) Fixed Assets (Tangible)		7,00,000	2,50,000
(b) Non-Current Investments (2,000 shares in B Ltd. At cost)		3,00,000	
2. Current Assets		<u>4,00,000</u>	<u>2,00,000</u>
Total		<u>14,00,000</u>	<u>4,50,000</u>

B Ltd. had a credit balance of Rs. 50,000 in the reserves and Rs. 20,000 when A Ltd. acquired shares in B Ltd. B Ltd. issued bonus shares in ratio of one for every five shares held out of the profits earned during 2016-17. This is not shown in the above balance sheet of B Ltd. Prepare a consolidated balance sheet of A Ltd. and its subsidiary on 31 March 2017, giving all necessary workings.

Solution

**Consolidated Balance Sheet of A Ltd.
And Its Subsidiary B Ltd. As On 31 March 2017**

	Particulars	Note	Rs.
I	EQUITY AND LIABILITIES		
	1. Shareholders' Funds		
	(a) Share Capital	1	8,00,000
	(b) Reserves and Surplus	2	4,24,000
	Sub Total		12,24,000
	2. Minority Interest	3	80,000
	3. Current Liabilities	4	2,50,000
	Total Equity and Liabilities		15,54,000
II	ASSETS		
	1. Non-Current Assets		
	(a) Fixed Assets		
	(i) Tangible Assets	5	9,50,000
	(ii) Intangible Assets	6	4,000
	Sub Total		9,54,000
	2. Current Assets	7	6,00,000
	Total Assets		15,54,000

Notes to Accounts

	Particulars	Rs.	Rs.
1	Share capital (A Ltd.)		
	Issued, subscribed and Fully Paid		
	8,000 Equity shares of Rs. 100 each		8,00,000
2	Reserves and Surplus		
	(i) General Reserves		3,00,000
	(ii) Surplus	1,00,000	
	Add: Share in B Ltd.	24,000	1,24,000
			4,24,000
3	Minority Interest		
	Paid up Capital including Bonus shares		60,000
	Add: 1/5 of Surplus 1,00,000		20,000
			80,000
4	Trade Payables etc (Creditors for Goods)		
	A Ltd.		2,00,000
	B Ltd.		50,000

		2,50,000
5	Tangible (Fixed) Assets	
	A Ltd.	7,00,000
	B Ltd.	2,50,000
		9,50,000
6	Intangible Assets	
	Goodwill on consolidation:	
	Cost of Investments in B Ltd.	3,00,000
	Less: Share Capital including Bonus shares	2,40,000
		60,000
	Less: Capital profit and Reserve	56,000
		4,000
7	Current Assets	
	A Ltd.	60,000
	B Ltd.	20,000
		80,000

Illustration 20 (Dividends Paid From Pre-Acquisition Profits, Cheque-in-Transit and Goodwill of Subsidiary)

From the following balance sheets of a holding company and its subsidiary on 31.3.2017, prepare a consolidated balance sheet:

	Particulars	Note No.	X Ltd. (Rs.)	Y Ltd. (Rs.)
I	EQUITY AND LIABILITIES			
	1. Shareholder's Funds			
	(a) Share Capital (Rs. 10 each)		5,00,000	2,00,000
	(b) Reserve and Surplus			
	General Reserves		80,000	60,000
	Surplus Account		90,000	70,000
	2. Current Liabilities			
	(a) Trade Payables (Creditors)		50,000	40,000
	(b) Other Current Liabilities (Outstanding Expenses)		20,000	10,000
	Total		7,40,000	3,80,000
II	ASSETS			
	1. Non-Current Assets			
	(a) Fixed Assets			
	(i) Tangible (Machinery)		3,00,000	1,50,000
	(ii) Intangible (Goodwill)		30,000	10,000

(b) Non-Current Investments (16,000 shares in Y Ltd.)	1,90,000	
2. Current Assets		
(a) Inventories (stock-in-trade)	80,000	50,000
(b) Trade Receivables (Debtors)	1,20,000	1,60,000
(c) Cash and Cash Equivalents (Bank)	20,000	10,000
Total	<u>7,40,000</u>	<u>3,80,000</u>

When control was acquired, S Ltd. had Rs. 40,000 in general reserve and surplus of Rs. 30,000. Immediately on purchases of shares H Ltd. received Rs. 16,000 as dividend from S Ltd., which was transferred to profit and loss statement. Debtors of H Ltd. include Rs. 20,000 due from S Ltd. whereas creditors of S Ltd. include Rs. 15,000 due to H Ltd. : the difference being accounted for by a cheque-in-transit.

Solution

**Consolidated Balance Sheet of H Ltd.
And Its Subsidiary S Ltd. As At 31 March 2017**

	Particulars	Note	Rs.
I	EQUITY AND LIABILITIES		
	1. Shareholders' Funds		
	(a) Share Capital	1	5,00,000
	(b) Reserves and Surplus	2	<u>2,18,000</u>
	Sub Total		<u>7,18,000</u>
	2. Minority Interest	3	66,000
	3. Current Liabilities		
	(i) Trade Payables	4	75,000
	(ii) Other Current Liabilities	5	<u>30,000</u>
	Sub Total		<u>1,05,000</u>
	Total Equity and Liabilities		<u>8,89,000</u>
II	ASSETS		
	1. Non-Current Assets		
	Fixed Assets		
	(i) Tangible Assets	6	4,50,000
	(ii) Intangible Assets	7	<u>14,000</u>
	Sub Total		<u>4,64,000</u>
	2. Current Assets		
	(a) Inventories	8	1,30,000

(b) Trade Receivables	9	2,60,000
(c) Cash and Cash Equivalents	10	<u>35,000</u>
Sub Total		<u>4,25,000</u>
Total Assets		<u>8,89,000</u>

Notes to Accounts

	Particulars	Rs.	Rs.
1	Share capital		
	Issued, subscribed and Fully Paid up		
	50,000 Equity shares of Rs. 10 each		<u>5,00,000</u>
2	Reserves and Surplus		
	(i) General Reserves (H Ltd.)	80,000	
	Share in S Ltd.	<u>16,000</u>	96,000
	(ii) Surplus (H Ltd.)	90,000	
	Share in S Ltd.	<u>48,000</u>	
		1,38,000	
	Less: Dividend Paid	<u>16,000</u>	1,22,000
			<u>2,18,000</u>
3	Minority Interest		
	Paid up capital		40,000
	1/5 of Rs. 60,000 (General Reserve)		12,000
	1/5 of Rs. 70,000 (Surplus)		<u>14,000</u>
			<u>66,000</u>
4	Trade Payables etc		
	Sundry Creditors for Goods		
	H Ltd.		50,000
	S Ltd.		<u>40,000</u>
			90,000
	Less: Inter-Company debts		<u>15,000</u>
			<u>75,000</u>
5	Other Current Liabilities		
	Creditors for Expenses		
	H Ltd.		20,000
	S Ltd.		<u>10,000</u>
			<u>30,000</u>
6	Tangible Assets		
	Machinery		
	H Ltd.		3,00,000
	S Ltd.		<u>1,50,000</u>
			<u>4,50,000</u>
7	Intangible Assets		
	Goodwill		<u>14,000</u>
8	Inventories		

	Stock of Goods:		
	H Ltd.		80,000
	S Ltd.		<u>50,000</u>
			<u>1,30,000</u>
9	Trade Receivables		
	H Ltd.		1,20,000
	S Ltd.		<u>1,60,000</u>
			<u>2,80,000</u>
	Less: Inter-Company Debts	15,000	
	Cheque-in transit	<u>5,000</u>	<u>-20,000</u>
			<u>2,60,000</u>
10	Cash and Cash Equivalents:		
	Cash in hand and Bank		
	H Ltd.		20,000
	S Ltd.		<u>10,000</u>
			<u>30,000</u>
	Cheque in-transit		<u>5,000</u>
			<u>35,000</u>

Illustration 21 (Dividend from Pre-acquisition Surplus)

The statement of affair of H Ltd. and its subsidiary S Ltd. as on 31 March 2017 are as follows:

Liabilities	H Ltd.	S Ltd.
	(Rs.)	(Rs.)
Equity Shares of Rs. 100 each, fully paid up	10,00,000	5,00,000
General Reserve	1,00,000	1,70,000
Surplus	1,60,000	1,30,000
Current Liabilities	<u>4,40,000</u>	<u>2,00,000</u>
	<u>17,00,000</u>	<u>10,00,000</u>
Assets		
Fixed Assets	4,80,000	2,50,000
Investment in Shares of S Ltd.	5,00,000	
Current Assets	<u>7,20,000</u>	<u>7,50,000</u>
	<u>17,00,000</u>	<u>10,00,000</u>

The following additional information is provided :

- (i) H Ltd. acquired 3,000 shares in S Ltd. on 1 July, 2016. The Reserves and Surplus position of S Ltd. as on 1 April 2016 was as under :
 - General Reserve : Rs. 2,50,000
 - Surplus : Rs. 1,20,000

- (ii) On 1 October, 2016 S Ltd. issued one equity share for every four shares held as Bonus shares out of the General Reserve. No entry has been made in the books of H Ltd., for the receipt of these bonus shares. However, entry has been made in the books of S Ltd. for the issue of bonus shares.
- (iii) On 30 September, 2016, S Ltd. declared a dividend out of pre-acquisition profits @ 25% on Rs. 4,00,000, its capital on that date. H Ltd., transferred the dividend to its Profit and Loss Statement.
- (iv) S Ltd. owed H Ltd., Rs. 50,000 for purchase of stock from H Ltd. The entire stock is held by S Ltd. on 31 March 2017. H Ltd. made a profit of 25% on cost.

Prepare a Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as on 31 March 2017.

Solution

**Consolidated Balance Sheet of H Ltd.
And Its Subsidiary S Ltd. As On 31 March 2017**

	Particulars	Note	Rs.
I	EQUITY AND LIABILITIES		
	1. Shareholders' Funds		
	(a) Share Capital	1	10,00,000
	(b) Reserves and Surplus	2	3,50,000
	Sub Total		13,50,000
	2. Minority Interest	3	2,00,000
	3. Current Liabilities		
	(a) Trade Payables etc.	4	5,90,000
	Total Equity and Liabilities		21,40,000
II	ASSETS		
	1. Non-Current Assets		
	(a) Fixed Assets		
	(i) Tangible Assets	5	7,30,000
	2. Current Assets		
	(a) Inventories, Trade payables Cash and Cash Equivalents	6	14,10,000
	Total Assets		21,40,000

Notes to Accounts

	Particulars	Rs.	Rs.
1	Share capital (H Ltd.)		
	Issued, subscribed and Fully Paid up		
	10,000 Equity shares of Rs. 100 each		10,00,000
2	Reserves and Surplus		
	(i) Capital Reserves (On consolidation)		
	Cost of Investments in shares of S Ltd.		5,00,000
	Less: Face value of shares held		3,00,000
			2,00,000

	Less: Bonus Issue	75,000
		1,25,000
	Less: Pre-acquisition Surplus	39,375
	Provisional Goodwill	85,625
	Less: Pre-acquisition Reserves	1,12,500
	Dividend wrongly credited	75,000
	Capital Reserve	1,01,875
	(ii) General Reserves	1,00,000
	(iii) Surplus	1,48,125
		3,50,000
3	Minority Interest	
	Face Value of Shares held	1,25,000
	Add: 25% of General Reserve (1,70,000)	42,500
	Add: 25% of Surplus (1,30,000):	32,500
		2,00,000
4	Trade Payables etc	
	H Ltd.	4,40,000
	S Ltd.	2,00,000
		6,40,000
	Less: Mutual owings	50,000
		5,90,000
5	Tangible (Fixed) Assets	
	H Ltd.	4,80,000
	S Ltd.	2,50,000
		7,30,000
6	Invetories, Trade Payables Cash and Cash Equivalents	
	H Ltd.	7,20,000
	S Ltd.	7,50,000
		14,70,000
	Less: Mutual owings	50,000
		14,20,000
	Less: Unrealised profit on stock	10,000
		14,10,000

Illustration 22 (Cheque-in-Transit)

On April 1, 2016 S Ltd. issued 10% Preference Shares of Rs.1,00,000 at par. On this date, S Ltd.'s General Reserve and Statement of Profit and Loss Account showed balances of Rs. 80,000 and Rs. 50,000 respectively. On July 5, 2016 S Ltd. paid a final dividend of 12% on equity shares for the year ended 31 March 2016. On April 1, 2016, H Ltd. acquired 80% equity shares in S Ltd. for Rs. 3,00,000. On this date, machinery of S Ltd. was revalued at Rs. 2,50,000. No entry for this was made in the books of S Ltd.

On March 31, 2017 the summarised balance sheets of H Ltd. and its subsidiary S Ltd. stood as follows:

Balance Sheet As At 31 March, 2017

	Particulars	Note No.	H Ltd. (Rs.)	S Ltd. (Rs.)
I	EQUITY AND LIABILITIES			
	1. Shareholder's Funds			
	(a) Share Capital			
	Equity Share Capital		8,00,000	3,00,000
	10% Preference Share Capital			1,00,000
	(b) Reserve and Surplus			
	General Reserve		4,00,000	1,50,000
	Surplus		2,00,000	90,000
	2. Non-Current Liabilities			
	(a) Long term borrowings (loans)		1,10,000	
	3. Current Liabilities			
	Trade Payables - Creditors		1,70,000	76,000
	Bills Payable			4,000
	Total		16,80,000	7,20,000
II	ASSETS			
	1. Non-Current Assets			
	(a) Fixed Assets (Tangible)			
	Machinery		6,25,000	2,70,000
	Furniture		85,000	50,000
	(b) Non-Current Investments		3,00,000	
	(shares in S Ltd.)			
	(c) Long term loans & Advances			
	(Loan to H Ltd.)			10,000
	2. Current Assets			
	(a) Inventories (stock-in-trade)		4,00,000	1,90,000
	(b) Trade Receivables (Debtors)		1,50,000	80,000
	(c) Cash and Cash Equivalents (Bank)		1,20,000	1,10,000
	(d) Other Current Assets			10,000
	(Preliminary Expenses)			
	Total		16,80,000	7,20,000

The following further information is furnished:

- (i) S Ltd. provides depreciation on Machinery @ 10% on written down value. No Machine was sold or purchased during the year.
- (ii) H Ltd. remitted a cheque of Rs. 10,000 to S Ltd. on 27 March, 2017 for repayment of loan, which was received by S Ltd. in April 2017.
- (iii) No part of preliminary expenses was written off during the year.

Prepare consolidated Balance Sheet of H Ltd. and S Ltd. as at 31 March, 2017

Solution:

**Consolidated Balance Sheet of H Ltd. And Its
Subsidiary S Ltd. As On 31 March 2017**

	Particulars	Note	Rs.
I	EQUITY AND LIABILITIES		
	1. Shareholders' Funds		
	(a) Share Capital	1	8,00,000
	(b) Reserves and Surplus	2	6,84,000
	Sub Total		<u>14,84,000</u>
	2. Minority Interest	3	<u>2,05,000</u>
	3. Non-Current Liabilities		
	(a) Long-term Borrowings	4	<u>1,10,000</u>
	4. Current Liabilities		
	(a) Trade Payables	5	2,46,000
	(b) Other Current Liabilities	6	<u>4,000</u>
	Sub Total		<u>2,50,000</u>
	Total Equity and Liabilities		<u>20,49,000</u>
II	ASSETS		
	1. Non-Current Assets		
	(a) Fixed Assets		
	(i) Tangible Assets	7	9,85,000
	(ii) Intangible Assets	8	<u>4,000</u>
	Sub Total		<u>9,89,000</u>
	2. Current Assets		
	(a) Inventories	9	5,90,000
	(b) Trade Receivables	10	2,30,000
	(c) Cash and Cash Equivalents	11	2,40,000
	Sub Total		<u>10,60,000</u>
	Total Assets		<u>20,49,000</u>

Notes to Accounts

	Particulars	Rs.	Rs.
1	Share capital		
	Issued, subscribed and Fully Paid		
	Equity Share Capital		<u>8,00,000</u>
2	Reserves and Surplus		
	(i) General Reserves (H Ltd.)		4,00,000
	Add: Share in S Ltd.		<u>56,000</u>
			4,56,000
	(ii) Surplus (H Ltd.)	2,00,000	
	Add: Share in S Ltd.	56,800	
	Less: Dividend wrongly credited	<u>-28,800</u>	<u>2,28,000</u>
			<u>6,84,000</u>

CONSOLIDATION OF ACCOUNTS

3	Minority Interest	2,05,000
4	Long-term Borrowings	
	Loans	<u>1,10,000</u>
5	Trade Payables	
	Creditors for Goods	
	H Ltd.	1,70,000
	S Ltd.	<u>76,000</u>
		<u>2,46,000</u>
6	Other Current Liabilities	
	Bills Payables	<u>4,000</u>
7	Tangible (Fixed) Assets	
	(i) Machinery	<u>6,25,000</u>
	H Ltd.	3,00,000
	S Ltd. (2,70,000 x 100/90)	<u>30,000</u> 2,70,000
	Less: Loss on Revaluation (3,00,000 - 2,50,000)	-50,000
	Add: Reduced Depreciation	<u>5,000</u>
		<u>8,50,000</u>
	(ii) Furnitures	
	H Ltd.	85,000
	S Ltd.	<u>50,000</u> 1,35,000
		<u>9,85,000</u>
8	Intangible Assets	
	Goodwill (on consolidation)	<u>4,000</u>
	Cost of Investments in shares of S Ltd.	3,00,000
9	Inventories	
	Stock of Goods	
	H Ltd.	4,00,000
	S Ltd.	<u>1,90,000</u>
		<u>5,90,000</u>
10	Trade Receivables	
	Debtors for Goods	
	H Ltd.	1,50,000
	S Ltd.	<u>80,000</u>
		<u>2,30,000</u>
11	Cash and Cash Equivalents	
	Cash at Bank	
	H Ltd.	1,50,000
	S Ltd.	<u>80,000</u>
		<u>2,30,000</u>
	Cheque in transit	<u>10,000</u>
		<u>2,40,000</u>