SATHYABAMA

INSTITUTE OF SCIENCE AND TECHNOLOGY

(DEEMED TO BE UNIVERSITY)

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SCHOOL OF MANAGEMENT STUDIES

UNIT – I - CORPORATE ACCOUNTING II - SBA1401

UNIT I

AMALGAMATION ABSORPTION AND EXTERNAL RECONSTRUCTION

AMALGAMATION

When two or more existing companies combine together to form a new company, it is amalgamation. All the combining companies are liquidated. A new company is floated to take over their business. Real life example: Hero + Honda = Herohonda.

ABSORPTION

When one existing company takes over the business of one or more existing companies, it is absorption. The companies whose business is taken over are liquidated. No new company is formed. Real life example: hutch + Vodafone = Vodafone.

EXTERNAL RECONSTRUCTION

When an existing company is liquidated and a new company is formed with the same share holders to take over its business, it is external reconstruction. Sick companies with accumulated losses usually undergo such reconstruction. Real life example: Goldstar = LG

DIFFERENCES BETWEEN AMALGAMATION AND EXTERNAL ECONSTRUCTION

1. Amalgamation of companies involves liquidation of two or more companies, while external reconstruction involves liquidation of only one company,

2. Amalgamation of companies results in combination of companies, but external reconstruction does not result in any such combination.

DIFFERENCES BETWEEN ABSORPTION AND EXTERNAL RECONSTRUCTION

1. Absorption of companies does not involve formation of a new company, however, external reconstruction involves formation of a new company.

2. Absorption of companies results in liquidation of one or more companies while external reconstruction results in liquidation of only one company.
3. Absorption of companies involves combination of companies, whereas external reconstruction does not involve any combination.

ACCOUNTING PROCEDURE FOR EXTERNAL RECONSTRUCTION

The accounting procedure in case of external reconstruction is the same as in case of amalgamation or absorption in the nature of purchase. However, there are no different kinds in this case, unlike in case of amalgamation or absorption, which were of two kinds viz, in nature of merger and in the nature of purchase. The steps in accounting for external reconstruction are outlined below:

1. Calculation of purchase consideration:
2. Ascertainment of discharge of purchase consideration
3. Closing the books of Vendor Company
4. Passing /opening entries in the books of purchasing company

I. Purchase Consideration:

Purchase Consideration refers to the consideration payable by the purchasing company to the vendor company for taking over the assets and liabilities of Vendor Company.
Accounting Standard – 14 defines the term purchase consideration as the "aggregate of the shares and other securities issued and the payment made in the form of ach or other assets by the transferee company to the shareholders of the transferor company". Although, purchase consideration refers to total payment made by purchasing company to the shareholders of Vendor Company, its calculation could be in different methods, as explained below:

a. Lump sum method
b. Net payments method
c. Net Assets Method
d. Other basis for purchase consideration

a). Lump sum Method:

strictly speaking, this is not a method. Where the purchase consideration amount is mentioned in the agreement directly, it is called Lump Sum consideration. This method, does not involve any calculation regarding purchase consideration.

b)Net Payments Method:

under this method, the purchase consideration will be the total of payments made (in any form)by purchasing company to vendor company, on any basis. Generally, purchasing company decides the payment to be made towards liabilities of Vendor Company, not taken over and towards expenses. The total of such payment s will be the purchase consideration.

C)Net Assets Method:

under this method, purchase consideration will be the excess of value of assets taken over by the purchasing company, over the value of liabilities taken over. that is, under this method, the purchase consideration will be calculated using the formula

Purchase Consideration = Assets taken over (at taken over values) - Liabilities taken over (at taken over value)

d)Intrinsic value method:

Under this method, the purchase consideration is ascertained on the basis of ration in which shares of the purchasing company are exchanged with those of the selling company. The exchange ratio is generally, determined on the basis of intrinsic values of the respective companies' shares.

Accounting Entries in the books of Transferor Company or Vendor Company:

1. ***For transferring Assets to RealisationA/c***

Realisation Account	Dr.
To Sundry Asset Account	

2. ***For transferring Liabilities to Realisation A/c***

Liabilities Account	Dr.
To Realisation Account	

3. ***For purchase consideration due***

Purchasing company account	Dr.
To Realisation Account	

4. ***For receiving the purchase consideration***

Bank A/c	Dr.
Share in Purchase Co.A/c	Dr
Debenture in purchasing Co.A/c	Dr
To Purchasing Co;s A/c	

5. ***For realization assets not taken over***

Bank A/c	Dr
To Realisation A/c	

6. ***For payment of liabilities not taken over***

Liability A/c	Dr.
Realisation A/c (Premium)	Dr.
To Bank A/c	
To Realisation A/c (Discount)	

7. ***For the payment of realization expenses***

(a) If a Expenses paid by Transferor company:

Realisation Account Dr.

To Cash/Bank Account

(b) If Expenses paid by purchasing company:

Purchasing company account Dr.

To cash/bank account

8. For discharging the debentures

i. Payable at Premium

Debenture account Dr. (with face value)

Realisation Account Dr.

To Debenture Account

ii. Payable at Discount

Debenture Account Dr.

To Realisation Account

To Debenture Account

9. For payment to debenture holders

Debenture holders A/c Dr.

To Bank A/c

To Debenture in purchasing Co.

10. For discharge of preference share capital

i. Payable at Premium

Preference Share Capital Account Dr. (with face value)

Realisation Account Dr.

To Preference Shareholders Account

ii. Payable at Discount

Preference Share Capital Account Dr.

To Realisation Account

To Preference Shareholders Account

11. For closing realisation account

i. In case of profit

Realisation Account Dr.

To Equity Share Holders Account

ii. In case of loss

Equity Share Holders Account Dr.

To Realisation Account

12. For final payment to the equity shareholders

Equity shareholder A/c Dr.

To Bank A/c

To Share in purchasing Co.

Accounting Entries in the books of Transferee Company or Purchasing company

1. For Purchase consideration payable

Business purchase A/c Dr.

To liquidator of Transfere Co.,

2. For Assets and Liabilities taken over

Sundry Assets A/c Dr.

Goodwill A/c Dr.

To Sundry Liabilitie A/c

To Business Purchase A/c

To Capital Reserve A/c

3. For payment of purchase price

Liquidator of selling Co. A/c Dr.

To Bank A/c

To Share capital A/c

To Securities premium A/c

To Debenture A/c

4. For Expense of liquidation paid by Transferee Co.

Goodwill A/c Dr.

To Bank A/c

5. For Formation expenses of Transferee Co.

Preliminary expenses A/c Dr.

To Bank A/c

6. For Statutory reserve of the Transferor Co. to be continued

Amalgamation adjustment A/c Dr.

To Statutory Reserve A/c

7. For settlement of debenture holder or creditors of Transferor Co.

Debenture holder A/c Dr.

Creditors A/c Dr.

To Bank A/c

Problems

1. Raman Ltd., agrees to purchase the business of Krishnan Ltd., on the following terms:
   (a) For each of the 10000 shares of Rs.10 each in Krishnan Ltd. 2 shares in Raman Ltd., of Rs.10 each will be issued at an agreed value of Rs,12 per share. In addition, Rs.4 per share cash also will be paid.
   (b) 8% debentures worth Rs.80000 will be issued to settle the Rs.60000 9% debentures in Krishnan Ltd.,
   (c) Rs.10000 will be paid towards expenses of winding up.
   Calculate the purchase consideration.
2. Following is the balance sheet of Samy Ltd., as on 31-3-2014

Liabilities	Rs.	Assets	Rs.
Share capital:		Fixed assets	16,25,000
8% preference shares of		Investments	3,00,000
Rs.100 each	3,75,000	Current assets	2,50,000
Equity shares of Rs.10 each	7,50,000		
General Reserve	4,50,000		
7% debentures	3,50,000		
Current liabilities	2,50,000		
Total	**21,75,000**	Total	**21,75,000**

Romy Ltd., agreed to take over the business of samy Ltd.,

(A) Calculate purchase consideration under Net assets method on the basis of the following:

(i) Romy ltd., agreed to discharge 7% debentures at a premium of 10% by issuing 9% debentures of Romy ltd.,

(ii) Fixed assets are to be valued at 10% above book value, the investments at par, current assets at 10% discount and current liabilities at book value.

(B) Calculate purchase consideration under net payment method on the basis of the following :

(i) Romy ltd., agrees to discharge the 7% debentures at a premium of 10% by issuing 9% debentures of Romy ltd.,

(ii) Preference shares are discharged at a premium of 10% by issuing 10% preference shares of Rs.100 each in romy ltd.,

(iii) For every 2 equity share in samy ltd., Equity shares of Rs.10 each in Romy ltd., will be issued in addition to cash payment of Rs.3 per equity share in samy ltd.,

3. M ltd., and N ltd., agreed to amalgamate on the basis of the following balance sheet as on 31-3-2014.

Liabilities	M Ltd Rs.	N Ltd Rs.	Assets	M Ltd Rs.	N Ltd Rs.
Share capital at			Goodwill	30,000	---
Rs.25 each	75,000	50,000	Fixed assets	31,500	38,800
P&L A/c	7,500	2,500	Stock	15,000	12,000
Creditors	3,500	3,500	Debtors	8,000	5,200
Depreciation fund	---	2,500	Bank	1,500	2,500
Total	**86,000**	**58,500**	Total	**86,000**	**58,500**

The assets and liabilities are to be taken over by a new company formed called P ltd., at book values. P ltd., capital is Rs.2,00,000 divided into 10,000 equity shares of Rs.10 each and 10,000 9% preference shares of Rs.10 each.

P ltd., issued the equity shares equally to the vendor companies and preference shares were issued for any balance of purchase price.

Pass journal entries in the books of P ltd., and prepare its balance sheet, if the amalgamation is in the nature of purchase.

4. X ltd., and Y ltd., agree to amalgamate as from 31-3-2014 on which date their respective balance sheet were as follows:

Liabilities	X Ltd Rs.	Y Ltd Rs.	Assets	X Ltd Rs.	Y Ltd Rs.
<u>Sharecapital:</u>			Cash in hand	100	50
Shares of Re.1 each	80,000	25,000	Cash at bank	3,400	450
Sundry creditors	3,000	1,000	Sundry debtors	22,500	6,000
Reserves	7,500	4,000	Plant	12,000	4,500
Profit & loss A/c	2,500	1,000	Stock	15,000	7,000
			Premises	30,000	10,000
			patents	10,000	3,000
Total	**93,000**	**31,000**	**Total**	**93,000**	**31,000**

Draw up the balance sheet of the new company 'XY' ltd., which was incorporated to take over the amalgamated concerns and state the number of shares in the new company which will be allotted to the shareholders of the old companies. (Assume the same face value).

5. Raj ltd., and Gopi ltd., agreed upon an amalgamation. The balance sheet of both the companies were as follows:

liabilities	Raj ltd Rs.	Gopi ltd Rs.	Assets	Raj ltd., Rs.	Gopi ltd. Rs.
Issued capital			Furniture	9,000	6,300
(Rs.10 each)	30,000	24,000	Debtors	14,400	18,000
Reserve	---	1,500	Bank	18,360	12,240
Profit & loss A/c	---	3,600	Profit & loss A/c	1,140	---
Sundry creditors	12,900	7,440			
Total	**42900**	**36,540**	**Total**	**42,900**	**36,540**

The assets of Raj ltd., are to be taken over at book values except furniture which is to be written down by Rs.3060. Gobi ltd., assets are to be taken over at book values except debtors which are to be considered worth 9,900. The share capital of the combined company is to be 2400 preference shares of Rs.10 each fully paid and ordinary shares of Rs.5 each fully paid. The allocation of the shares is equal except that the surplus capital of Raj ltd., is to be satisfied by preference shares.

6. Show the balance sheet of the new company P ltd., and Q ltd., propose to amalgamate.

Their balance sheet as on 31-3-14 were as follows:

Liabilities	P ltd Rs.	Q ltd., Rs.	Assets	P ltd., Rs.	Q ltd., Rs.
Equity share capital	4,00,000	1,50,000	Fixed assets	3,30,000	100000
General reserve	1,80,000	15,000	Investment(face		
Proit& loss A/c	60,000	23,000	values Rs.80000)	72,000	---
creditors	1,04,500	24,500	Stock	1,60,000	40,500
			Debtors	93,500	50,000
			cash	89,000	22,000
Total	**7,44,500**	**2,12,500**	**Total**	**7,44,500**	**2,12,500**

Profit after tax	P Ltd., Rs.	Q Ltd., Rs.
1991	1,23,000	41,500
1990	1,09,500	31,500
1989	99,000	27,000

Goodwill may be taken at 4 years purchase of average super profits of 3 years from trading on the bases of 10% normal trading profit on closing capital invested. B ltd., is formed for the purpose of amalgamation of both companies.

Prepare balance sheet of B ltd., as on year ended

7. The companies carrying on similar business enter into a contract to amalgamate a new company called ‘A’co.ltd., being formed to take over the assets and liabilities of each. The following are the respective balance sheets, showing the values of the assets as agreed in the contract, and it is provided then fully paid Rs.50 shares shall be issued by the new company to the value of the net asset of each of the old companies.

E Company Ltd., Balance sheet as on 31st December 2013

Liabilities	Rs.	Assets	Rs.
Share capital:		Property	75,000
2000 shares of Rs.100 each	2,00,000	Machinery	1,00,000
Sundry creditors	30,000	Stock	45,000
Reserve fund	50,000	Debtors	35,000
Profit & loss A/c	10,000	Cash in hand	35,000
Total	2,90,000	Total	2,90,000

S. Company Ltd., Balance sheet as on 31-12-2013

liabilities	Rs.	` Assets	Rs.
Share capital:		Property	95,000
2500 shares of Rs.100 each	2,50,000	Machinery	90,000
Sundry creditors	41,000	Stock	75,000
		Cash at bank	11,000
		Profit & loss	20,000
Total	**2,91,000**	**Total**	**2,91,000**

State what shares the liquidator of each company will receive from the new company. Give the opening entries in the books of the new company and give its balance sheet.

8. X Co., Ltd., and Y co., Ltd., agreed to amalgamate and from a new company XY Ltd., which takes over assets and liabilities (with certain exceptions) of the existing companies. On 31st December 2013 the balance sheet of the two companies were as under.

Liabilities	**Rs.**	**Rs.**	**Assets**	**Rs.**	**Rs.**
Capital:			Property	1,05,000	60,000
15000 shares	1,50,000	---	Plant	25,000	15,000
8000 shares	---	80,000	Vehicle	10,000	---
General reserve	80,000	---	Stock	60,000	78,000
P &L A/c	20,000	20,000	Debtors	82,000	21,000
5% debentures	---	60,000	cash	43,000	18,000
creditors	75,000	32,000			
Total	**3,25,000**	**1,92,000**	**Total**	**3,25,000**	**1,92,000**

The assets and liabilities are to be taken over at book values with the following exceptions:

(i) Goodwill of X Co., and Y Co., is to be valued at Rs.80000 and Rs.30000 respectively.

(ii) Vehicle of X Ltd., is to be valued at Rs.30000

(iii) Debentures of Y co., are to be discharged at premium of 5% by the issue of 5% debentures of Xy co.,

(iv) Debtors and cash of Y co.,, are to be retained by the liquidator and creditors are to be paid out of the proceeds thereof.

Compute the basis on which shares in XY co., will be issued to shareholders in the existing companies. Pass entries in the books of XY Ltd., and draw up the balance sheet of the XY Co., as at 1st January 1994.

9. Raman ltd and Sivan ltd., have agreed to amalgamate. A new company, Sivaram ltd., has been formed to take over the running concerns as on 31.3.2014 The following balance sheet shows the position of the companies amalgamating.

Liabilities	Raman ltd Rs.	Sivan ltd Rs.	Assets	Raman ltd Rs.	Sivan ltd Rs.
Share capital			Goodwill	---	6,000
Rs.10 each	20,000	50,000	Plant	14,000	20,000
General	16,000	----	Furniture	8,000	12,000
reserve Capital	---	4,000	Stock	16,000	8,000
reserve P&l a/c	4,000	----	Sundry debtors	10,000	17,000
Loan from	10,000	16,000	Cash at bank	12,000	7,000
bank creditors	10,000	6,000	P&l A/c	---	6,000
Total	**60,000**	**76,000**	**Total**	**60,000**	**76,000**

Sivan ltd. took over all the assets and liabilities of both the transferor companies at book values except cash at bank, creditors and the goodwill of sivan ltd., which was considered worthless.

The purchase consideration was agreed at Rs.60000 for Raman ltd., and Rs.40000 for Sivan ltd. Fully paid equity shares of Rs.10 each were issued to settle the purchase price for both the companies.

Cash at bank of both the companies was exactly sufficient to settle their creditors at 10% discount and pay the liquidation expenses.

You are required to give important ledger accounts to close the books of the transferor companies and the journal entries and balance sheet in the books of the transferee company, assuming that the amalgamation is in books of the transferee company, assuming that the amalgamation is in the nature of purchase.

10. The following is the balance sheet of suma ltd., which is absorbed by Kusum ltd.,

liabilities	**Rs.**	**Assets**	**Rs.**
Equity shares (Rs.10 each)	6,00,000	FixedAssets:	
Pref., share (Rs.100 each)	2,00,000	Machinery	3,40,000
Current liabilities	1,00,000	Building	1,60,000
10% debentures	3,00,000	Current Assets:	
		Stock	4,00,000
		Debtors	2,00,000
		Profit & Loss A/c	1,00,000
Total	12,00,000	Total	12,00,000

Kusum Ltd., takes over suma ltd., on the following terms:

(a) Take the fixed assets at 10% depreciation, stock at RS.300000 and debtors after a provision of 25%.

(b) Debentures are to be settled by issuing them 9% debentures in Kusum Ltd., current liabilities will be taken over at book values.

(c) The consideration will be discharged by issue of 10000 equity shares of Rs.10 each in kusum ltd., at an agreed value of Rs.15 per share and the balance in cash.

(d) Expenses of liquidation of Rs.20000 will be reimbursed by kusum ltd.,

You are required to Prepare

(a) journal entries to close the books of suma ltd.,

(b) jounal entries to record the acquisition assuming it is in the nature of purchase.

11. The following is the balance sheet of XYZ ltd., on 31stdec.2013

Liabilities	Rs.	Assets	Rs.
20000 shares of Rs.10 each	2,00,000	Land & building	1,00,000
Debentures	1,00,000	Plant & machinery	1,50,000
Sundry creditors	30,000	Work in progress	30,000
Reserve fund	25,000	Stock	60,000
Dividend equalization fund	20,000	Furniture and fittings	2,500
P & L A/c	5,100	Sundry creditors	25,000
		Cash at bank Cash	12,500
		in hand	100
Total	**3,80,100**	**Total**	**3,80,100**

The company is absorbed by ABC company ltd., on the above date. The consideration for the absorption is the discharge of debentures at a premium of 5% taking over the liability in respect of the sundry creditors and payment of Rs.7 in cash and one share of Rs.5 in ABC., Co., ltd., at the market value of Rs.8 per share in exchange for one share in XYZ co., ltd., The cost of liquidation of Rs.5000 is to be met by the purchasing company.

Pass journal entries in the books of both the companies.

Show how the purchase price is arrived at.

12. Following is the balance sheet of K ltd., as on 31.3.2014

Liability	Rs.	Assets	Rs.
2000 shares of Rs.10 each	20,000	Goodwill	4,000
Profit & loss A/c	7,000	Fixed assets	16,500
Debentures	10,000	Current assets	19,500
Creditors	3,000		
Total	**40,000**	**Total**	**40,000**

R limited agreed to take over the assets of K ltd., (exclusive of one fixed assets of Rs.4000 and cash Rs.1000 included in current assets) at 10% more than the book values. It agreed to take over creditors also. The purchase price was to be discharged by the issue of 2000 shares of Rs.10 each at the market value of Rs.15 each and the balance in cash. Liquidation expenses came to Rs.400.

K ltd., sold the fixed assets of Rs.4000 and realized the book value. It paid off its debentures and liquidation expenses.

You are required to give journal entries in the books of K ltd., and R ltd.,

13. The following is the balance sheet of X ltd., as on 31-3-2014

Liabilities	**Rs.**	**Assets**	**Rs.**
Sharecapital:		Land & buildings	10,00,000
200000 shares of Rs.10 each	20,00,000	Plant & machinery	15,00,000
General reserve	2,50,000	Furniture	25,000
Dividend reserve	2,00,000	Stock	6,00,000
Profit & loss A/c	51,000	Work in progress	3,00,000
12% debentures	10,00,000	Sundry debtors	2,50,000
Sundry creditors	3,00,000	Cash at bank	1,26,000
Total	**38,01,000**	**Total**	**38,01,000**

The company was absorbed by A ltd., on the above date. The consideration for the absorption is the discharge of the debentures at a premium of 5%, taking over the liability in respect of sundry creditors and a premium of Rs.7 in cash and one share of Rs.5 in A ltd., at the market value of Rs.8 per share for every share in X ltd. The cost of liquidation of Rs.15000 is to be met by the purchasing company.

a) Close the entries in the books of X ltd b) Pass Journal entries in the books of A ltd

14. The following is the balance sheet of X Co.., ltd as on 30th june 2014

liabilities	Rs.	Assets	Rs.
Sharecapital:		Goodwill	35,000
2000 shares of Rs.100 each	2,00,000	Land & building	85,000
Reserves	20,000	Plant & machinery	1,60,000
5% debentures	1,00,000	Stock	55,000
Loan from A (a director)	40,000	Sundry debtors	65,000
Sundry creditors	80,000	Cash at bank	34,000
		Discount on debentures	6,000
Total	**4,40,000**	**Total**	**4,40,000**

The business of the company is taken over by Y co., ltd., as on that date on the following terms:

(i) Y co., to take over all assets except cash, to value the assets at book values less 10% except goodwill which is to be valued at 4 years purchase of the excess of average (5years) profits over 8% of the combined amount of share capital and reserves.

(ii) Y co. Ltd., to take over trade liabilities at a discount of 5%.

(iii) The purchase consideration was to be discharged in cash to the extent of Rs.150000 and the balance in fully paid equity shares of Rs.10 each valued at Rs.12.50 per share. The average of the 5 years profits was Rs.30100. The expenses of absorption, Rs.4000 were paid by x co., ltd., but afterwards reimbursed by Y co., ltd.

Pass journal entries in the books of X co ltd.

Hint : prepare share holders account /bank account to know amount of cash transferred to share holders

15. The following is the balance sheet of Ram Ltd., as on 31st December 2013.

liabilities	Rs.	Assets	Rs.
Equity Share capital:		Goodwill	20,000
(Rs.10 each)	1,50,000	Plant	1,50,000
6% preference shares (Rs.10 each)	1,00,000	Stock	80,000
5% debentures	50,000	Debtors	1,20,000
Employees profit sharing A/c	14,000	Cash at bank	8,800
Bank Over draft	20,000	P & L A/c	40,200
Creditors	91,500	Preliminary expenses	5,000
Interest on drawing due	2,500	Commission on issue of shares	4,000
Contingent liabilities:			
Arrears of preference dividend Rs.12000	----		
Total	**4,28,000**	**Total**	**4,28,000**

Raj ltd., agreed to absorb Ram Ltd., from 1-7-93 on the following terms;

(a) Raj ltd., is to take over all tangible assets except cash.

(b) It is to pay the debenture holders at a premium of 10% by issue of its 6% preference shares of Rs.10 each

(c) It is to issue one equity share of Rs.10 each and make a payment of Rs.4 in cash in exchange of every two equity shares in Ram ltd.,

(d) Creditors will receive 90% of the sums due to them in fully paid equity shares of 10 each in Raj ltd., in full settlement of their claims.

(e) Preference share holders will be issued 5% debentures in Raj ltd., Pass the journal entries in the books of Raj ltd., to record this take over. Also show the necessary ledger accounts to close the books of Ram ltd., the absorption may be taken as in the nature to purchase.

Hint : prepare share holders account /bank account to know amount of cash transferred to share holders

16. The following are the balance sheets of Honey ltd., and stark ltd., as on 31-3-2014

Liabilities	**Honey ltd. Rs.**	**Stark ltd., Rs.**	**Assets**	**Honey ltd., Rs.**	**Stark ltd., Rs.**
Sharecapital:			Fixed assets	240000	500000
Shares of Rs.10 each	200000	400000	Debtors	40000	20000
General reserve	80000	120000	Stock	60000	80000
P & L A/c	20000	---	cash	20000	20000
Creditors	60000	100000			
Total	**360000**	**620000**	**Total**	**360000**	**620000**

Stark ltd., agreed to absorb Honey ltd., on the following terms;

Stark ltd., to give one share of Rs.10 each, at an agreed value of Rs.30 per quoted in the market at Rs.45 per share.

The trade liability is to be taken over.

Give the required journal entries in the books stark ltd., and the balance sheet after the absorption is completed if the amalgamation in the nature of purchase.

External Reconstruction

17. Kala Ltd., Balance sheet showed the following position on 31st march 2014

Liabilities	Rs.	Assets	Rs.
10000 equity shares of Rs.100 each	1000000	Fixed assets	800000
Capital reserve	200000	Current assets	400000
Bank loan	200000	Cash at bank	200000
Trade creditors	300000	Profit & loss A/c	300000
Total	**1700000**	**Total**	**1700000**

Mala ltd., was incorporated to take the fixed assets and 60% of the current assets at an agreed value of Rs.900000 to be paid as to Rs.740000 in equity shares of Rs.10 each and the balance in 9% debentures. The debentures were accepted by bank in settlement of loan. Remaining current assets realized Rs.90000. After meeting Rs.20000 expenses of liquidation, all the remaining cash was paid to the creditors in full settlement.

Give journal entries in the books of both the companies and prepare the initial balance sheet of Mala ltd., if the amalgamation is in the nature of purchase.

18. The following is the balance sheet of X Cp., ltd. As on 31stdec 2013

Liabilities	**Rs.**	**Assets**	**Rs.**
Share capital:		Land & building	90000
12000 shares of Rs.10 each fully paid	120000	Machinery	50000
		Stock	17000
Sundry creditors	30000	Sundry debtors	20000
Bank overdraft	28000	Profit & loss A/c	1000
Total	**178000**	**Total**	**178000**

The company went into voluntary liquidation and the assets were sold to Y co., ltd. For Rs.150000 payable as to Rs.60000 in cash (which sufficed to discharge creditors and bank overdraft and to pay off the winding up expenses of Rs.2000) and as to Rs.90000 by theallotment of 12000 shares of Rs.10 each of the Y co. Ltd. Rs.750 per share paid up. Draw up the important ledger accounts to close the books of X ltd., and the journal entries for recording these transactions in the books of Y ltd.,

QUESTIONS

PART A

1. What is amalgamation?
2. What is absorption?
3. State the difference between amalgamation and absorption.
4. State the difference between absorption and external reconstruction.
5. Write a note on purchase consideration
6. What is net assets method?
7. How is purchase consideration computed under intrinsic value method?
8. Write the entry for Realization of profit
9. What is external reconstruction?
10. List the various forms for discharge of purchase consideration.

PART B

11. Explain the various methods of computing purchase consideration.
12. Give the journal entries passed for closing the books of transferor Company.
13. Give the journal entries passed in the books of purchasing company in case of absorption.

14. Distinguish between ‘net assets method’ and ‘net payment method’ as a basis for computing purchase consideration.

15. Explain with appropriate journal entries, the treatment of realization expenses when it is borne by the i) selling company ii) Purchasing company.

16. Sun Ltd and Moon Ltd. Are two companies carrying on business in the same line of activity. The balance sheets as on 31.12.2014 are:

Liabilities	**Sun Ltd Rs.**	**Moon Ltd Rs.**	**Assets**	**Sun Ltd Rs.**	**Moon Ltd Rs.**
Fully paid equity shares of Rs. 10 each	6,00,000	2,00,000	Land and buildings		
General Reserve	4,00,000	2,00,000	Land and buildings	1,00,000	
Secured loan	6,00,000	1,00,000	Plant and Machinery	7,00,000	3,00,000
Current liabilities	6,00,000	4,00,000	Investments	1,00,000	-
			Stock	9,00,000	4,00,000
			Debtors	3,00,000	1,00,000
			Cash at bank	1,00,000	1,00,000
Total	**22,00,000**	**9,00,000**	**Total**	**22,00,000**	**9,00,000**

The two companies decided to amalgamate into Mars ltd. The following further information is given

- All assets and liabilities off the two companies are taken over
- Each share in Moon Ltd is valued at Rs.25 for the purpose of amalgamation
- Shareholders of moon ltd and sun ltd are paid off by issue of sufficient number of equity shares of Rs.10 each in Mars Ltd as fullypaid at par
- Each share in sun Ltd is valued at Rs.15 for the purpose of amalgamation

Show the journal entries to close the books of both the companies.

17. . The following is the balancesheet of X Co.Ltd as on 31st Dec 2014

Liabilities	Rs.	Assets	Rs.
Share capital: 12000 shares of Rs.10 each fully paid	120000	Land and buildings	90000
Sundry creditors	30000	Machinery	50000
Bank overdraft	28000	Stock	17000
		Sundry debtors	20000
		Profit and loss account	1000
Total	**178000**	**Total**	**178000**

The company went into voluntary liquidation and the assets were sold to Y Co.Ltd For Rs.150000 payable as to Rs.60000 in cash (which sufficed to discharge creditors and bank overdraft and to pay of the winding you expenses of Rs.2000) and as to Rs.90000 by the allotment of 12000 of Rs.10 each of the Y Co. Ltd Rs. 7.50 per share paid up. Draw up the important ledger accounts to close the books of X Co., Ltd and the journal entries for recording these transactions in the books of Y Co.Ltd.

TEXT / REFERENCE BOOKS

1. Gupta R.L,Corporate Accountlng,Sultan Chand & Sons,15th Edltlon,2015
2. Jaln & Narang, Advanced Accountancy, Kalyanl Publlcatlon, 20th Edltlon, 2018.
3. Reddy & Murthy, Corporate Accountlng, Margham Publlcatlon.2017.
4. Hanlf M and A Mukherjee, Fundamentals of Corporate Accountlng, Mcgrawhlll, 2019.

SCHOOL OF MANAGEMENT STUDIES

UNIT – II - CORPORATE ACCOUNTING II- SBA1401

ALTERATION OF SHARE CAPITAL

Conversion of shares to stock- Bonus Shares- guidelines for issue of bonus shares-Free reserves for issues of bonus shares and not free reserves available for issue of bonus shares-Accounting Treatment for Bonus shares- accounting for employee stock option – Buy-back of shares-advantages-Accounting entries in buy-back of shares - equity shares with differential rights.

DIFFERENCES BETWEEN SHARE AND STOCK

The principal points of difference between share and stock are as follows:

1. A share is that smallest part of the share capital of the company which highlights the ownership of the shareholder. On the other hand, the bundle of shares of a member in a company, are collectively known as stock.
2. The share is always originally issued while the original issue of Stock is not possible.
3. A share has a definite number known as a distinctive number which distinguishes it from other shares, but a stock does not have such number.
4. Shares can be partly paid or fully paid. Conversely, Stock is always fully paid.
5. Shares can never be transferred in the fraction. As opposed to stock, can be transferred in the fraction.
6. Shares have nominal value, but the stock does not have any nominal value.

CONVERSION TO SHARES INTO STOCK

As per Section 61, Companies Act, 2013, the company can convert its shares which are fully paid up, into stock. A ‘Share‘is the smallest unit, into which the company’s capital is divided, representing the ownership of the shareholders in the company. A ‘Stock‘ on the other hand is a collection of shares of a member that are fully paid up. When shares are transformed into stock, the shareholder becomes a stockholder, who possesses same right with respect to the dividend, as a shareholder possess.

ALTERATION OF SHARE CAPITAL

Sec 2(3) "Alter or alteration" includes the making of additions, omissions and substitutions.

Section 61 of Companies Act, 2013 deals with power of limited company to alter its share capital. According to this section a limited company having a share capital may, if so authorized by its articles, alter its share capital by passing an ordinary resolution in general meeting.
However, the notice of such alterations shall be given to registrar within 30 days of such alteration in e-form SH-7 with certified true copy of ordinary resolution along with explanatory statement and altered copy of Memorandum of Association.

STEPS TO BE FOLLOWED FOR THE ALTERATION OF SHARE CAPITAL

- **Step 1:** Convey the Board Meeting with respect to that issue the Board Meeting Notice at least 7 days before the date of Board Meeting
- **Step2:** Hold the Board Meeting and pass the resolution for the alteration of Share Capital subject to the approval of the Shareholder Meeting.
- **Step3:** For convening the Shareholder Meeting, fix the date, day, time, and venue and authorize a Director or any other person to send the notice to the Members.
- **Step 4:** Issue the Notice of Shareholder Meeting at least 21 days before the date of the Shareholder Meeting. The shorter notice of Shareholder Meeting can also be called if the consent of atleast 95% of such part of paid-up capital of the Company has given the consent for the same.
- **Step 5:** Hold the Shareholder Meeting, pass the special resolution for the same with the majority consent of the Shareholder.
- **Step 6:** After passing the Resolution, file the Form SH-7 within 30 days from the passing of the Ordinary resolution.

TYPES OF ALTERATION OF SHARE CAPITAL

As mentioned in Section 61 of the **Companies Act, 2013**[1] there are different types of alteration of Share Capital are as under:

1. **Increase** in Authorised Share Capital;
2. Consolidation and **division all or any of the Share Capital into shares of larger amount** than existing Share;

3. **<u>Convert all or any of its fully paid-up shares into the stock</u>** and re-convert that stock into the fully paid-up shares of any denomination;

4. **<u>Sub-divide its shares</u>** or any of them, into the shares of smaller amount than is fixed by the memorandum the proportion between the amount paid and the amount if any, the unpaid amount on each reduced share shall be the same as it was in the case of share from which the reduced share has been derived;

5. **<u>Cancellation of shares</u>** which at the date of passing of the resolution in that behalf, have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the number of shares so canceled (not be deemed as Reduction of Share Capital)

CONVERSION MODEL JOURNAL ENTRIES

Pass journal entries for the following:—

(i) Conversion of fully paid equity share capital of Rs 6,00,000 into equity stock.

(ii) Cancellation of unpaid amount of Rs 2,00,000 in respect of 1,00,000 equity shares of Rs 10 each, Rs 8 called and paid up.

(iii) Sub-division of 20,000 fully paid equity shares of Rs 100 each into 2,00,000 equity shares of Rs 10 each fully paid.

(iv) Consolidation of40,000 14% preference shares of Rs 25 each, fully paid up into 10,000 14% preference shares of Rs 100 each.

(v) Conversion of equity stock of Rs 2,50,000 into 25,000 equity shares of Rs 10 each.

Note :

Give Debit the item which you should change (old)

Give credit to which you need to change (new)

Solution:

Journal

	Particulars		Dr. ₹	Cr. ₹
	(*i*) Equity Share Capital Account	Dr.	6,00,000	
	To Equity Stock Account			6,00,000
	Conversion of fully paid equity share capital of ₹ 6,00,000 into equity stock.			
	(*ii*) Equity Share Capital (Partly called) Account	Dr.	8,00,000	
	To Equity Share Capital (Fully called) Account			8,00,000
	Cancellation of unpaid amount of ₹ 2,00,000 in respect of 1,00,000 equity shares of ₹ 10 each, ₹ 8 called and paid up.			
	(*iii*) Equity Share Capital (₹ 100 each) Account	Dr.	20,00,000	
	To Equity Share Capital (₹ 10 each) Account			20,00,000
	Sub-division of 20,000 fully paid equity shares of ₹ 100 each into 2,00,000 equity shares of ₹ 10 each, fully paid.			
	(*iv*) 14% Preference Share Capital (₹ 75 each) Account	Dr.	10,00,000	
	To 14% Preference Share Capital (₹ 100 each) Account			10,00,000
	Consolidation of 40,000 14% preference shares of ₹ 25 each, fully paid up into 10,000 14% preference shares of ₹ 100 each.			
	(*v*) Equity Stock Account	Dr.	2,50,000	
	To Equity Share Capital (₹ 10) Account			2,50,000
	Conversion of equity stock of ₹ 2,50,000 into 25,000 equity shares of ₹ 10 each.			

Note 1: share capital to stock

2:partly paid to fully paid

3:Rs.100 each shares to Rs.10 each and so on. But Amount will not be change.

Bonus Shares

As per the Companies Act 2013 section 63 the companies under specific conditions were allowed to give their accumulated earning in form of additional shares rather than dividend to existing shareholders. These are allocated to the shareholders depending upon the original number of shares held by them. A part of the company's reserve is directly brought into equities to bring these shares live. The companies are given the option to spend from

- Capital redemption reserve account
- Securities premium account
- Free reserves

Any of the funds available with the firm can be used leaving apart the revenue generated from revaluation of assets and the profits it has accumulated.

Benefits of issue of Bonus Share

The general benefits observed by companies who have introduced bonus shares have been quite similar some of them being

1. It brings ease to the investors with respect to the value of the shares as with the introduction of the bonus shares the value of each share comes down and the investor buys the particular equity easily.
2. No taxes are imposed on the investor on receiving bonus shares
3. With the introduction of bonus shares the equity base of the company expands increasing the retail participation
4. Bonus shares show the company functions are going healthy and the company has reserved funds to put on such policies and is ready for a larger equity
5. Once equity size increases the company gets a bigger image in the trade market due to a heavier equity base
6. The bonus shares allows gives the company a leverage to conserve cash, which otherwise would have been given to shareholders in terms of dividends, and increases investment capacity of the company
7. Introduction of bonus shares increases the liquidity value of the company as small investors join in the decreased value but increased number of shares
8. On receiving bonus shares the belief of the investor on the company increases and the investor becomes a more firm clientele of the company.

Therefore it has been seen that the issue of bonus shares is beneficial for both parties up to some extent.

SEBI guidelines on bonus issue of a company are as follows:

1. ***No bonus shares shall dilute other issues:***

Issue of bonus shares shall not be made pending conversion of fully convertible debentures or partly convertible debentures unless sufficient number of shares is reserved for allotment to the holders of the said FCDs or PCDs after conversion.

2. ***Bonus issue from free reserves:***

Bonus shares can be issued only out of free reserves built out of genuine revenue profits or share premium collected in cash.

3. ***Revaluation reserve not eligible:***

Reserve created by revaluation of assets cannot be capitalized for issue of bonus shares.

4***. Issue in lieu of dividend:***

Bonus issue shall not be made in lieu of dividend.

5. ***Partly paid shares not eligible:***

Partly paid shares, if any, will not be eligible for bonus shares. Such partly paid shares, if any, must be made fully paid before a bonus issue is contemplated.

6. ***No default of payment of interest, etc.:***

The issuing company shall not have defaulted in the payment of interest or principal in respect of fixed deposits and interest payment on dentures or repayment of principal on redemption of debentures. The company must be certain that it has not defaulted in respect of payment of statutory dues of the employees, such as contribution of provident fund, gratuity, bonus, etc.

7. ***Time within which bonus issue shall be made:***

A company which announces a bonus issue after the approval of its Board of Directors must implement the proposal within a period of six months from the date of such approval.

8. *Bonus proposal cannot be withdrawn:*

A company which has announced its proposal to issue bonus shares, cannot have the option to change its decision.

9. ***Provision in the articles:***

There must be a suitable provision in the Articles of Association of the company for capitalisation of reserves. If not, the company must pass a special resolution and incorporate a suitable provision in the Articles of Association, before initiating action for a bonus issue.

10. *Increase in authorized capital:*

Where necessary, before action on a bonus issue is taken, the company shall increase its authorized capital so as to permit the proposed bonus issue.

11. ***Prohibition of issue of bonus shares by revaluation of assets:***

The Department of Company Affairs has vide Circular No. 9/94 dated 6-9-1994, informed all companies (listed as well as unlisted) that no company shall venture to issue bonus shares out of reserves created by revaluation of fixed assets.

CONDITION REGARDING ISSUE OF BONUS SHARES UNDER FREE RESERVE

Bonus shares are issued by converting the reserves of the company into share capital. It is nothing but capitalization of the reserves of the company.

There are some conditions which need to be satisfied before issuing Bonus shares:

1) Bonus shares can be issued by a company only if the Articles of Association of the company authorizes a bonus issue.

Where there is no provision in this regard in the articles, they must be amended by passing special resolution act at the general meeting of the company.

2) It must be sanctioned by shareholders in general meeting on recommendations of BOD of company.

3) Guidelines issue by SEBI must be complied with.

Otherwise, the authorized capital must be increased by amending the capital clause of the Memorandum of association.

If the company has availed of any loan from the financial institutions, prior permission is to be obtained from the institutions for issue of bonus shares.

If the company is listed on the stock exchange, the stock exchange must be informed of the decision of the board to issue bonus shares immediately after the board meeting.

Where the bonus shares are to be issued to the non-resident members, prior consent of the Reserve Bank should be obtained.

Only fully paid up bonus share can be issued. Partly paid up bonus shares cannot be issued since the shareholders become liable to pay the uncalled amount on those shares.

It is important to note here that Issue of bonus shares does not entail release of company's assets.

When bonus shares are issued/credited as fully paid up out of capitalized accumulated profits,

There is distribution of capitalized accumulated profits but such distribution does not entail release of assets of the company.

ACCOUNTING ENTRIES FOR ISSUE OF BONUS SHARES

A) The bonus may be applied to convert partly paid shares into fully paid shares

B) The bonus may be issued as fully paid up bonus shares.

a) The bonus may be applied to convert partly paid shares into fully paid shares

(i) Equity share final call a/c Dr.

To equity capital a/c

(Being call money due on … shares)

(ii) P&L a/c Dr.

Securities Premium a/c

Reserve a/c Dr.

To bonus to shareholders a/c

(Being bonus declared)

(iii) Bonus to shareholders a/c Dr.

To equity share final call a/c

b) The bonus may be issued as fully paid up bonus shares.

(i) P&L a/c

Securities Premium a/c

Reserve a/c Dr.

To bonus to shareholders a/c

(Being bonus declared)

(ii) Bonus to shareholders a/c Dr.

To equity share capital a/c

(Being bonus utilised to issue fully paid up bonus shares)

MODEL PROBLEMS

The bonus may be applied to convert partly paid shares into fully paid shares

X Ltd. has resolved to utilise Rs. 3,00,000 out of the general reserve balance to declare bonus to the shareholders in the form of payment of final call @ Rs. 3 per share on 1,00,000 equity shares of Rs. 10 each. Along-with this, the company further decided to utilise the balance of share premium account to issue fully paid-up bonus shares in the ratio of one equity share for every five equity shares held. Show journal entries in the books of X Ltd.

SOLUTION

Note:

1.Final call (receivable Rs.3.00 each for 1,00,000 shares). It is having general reserve Rs.3,00,000 which is payable as dividend to the share holders.

Instead of giving bonus and getting the receivable, it wants to adjust with capital, if it do so, company will be kept in safe financially.

2.further it is having share premium amount which is issued in ratio (one share for every five shares held,

It has 1,00,000 share at 10 each (now how many share, how much amount is the question)

= 1,00,000 shares/5shares*Rs.10

=20,000 shares*10

=Rs.2,00,000

Journal entries

No.1. Bonus payable to share holder

No.2. Final Call Receivable is adjusted with capital from the above

No.3. Adjusted Final call amount is adjusted with shareholder account

No.4.Bonus shares are given for balance amount of Rs.2,00,000

Journal entries

Solution: **Journal Book of X Ltd.**

Particulars		Amount (₹)	Amount (₹)
General reserve account Securities premium account To bonus to equity shareholders account (Utilisation of general reserve for declaring bonus on partly paid up shares and securities premium account for issuing fully paid up bonus shares)	Dr. Dr.	3,00,000 2,00,000	5,00,000
Equity share final call account To equity share capital account (Final call of ₹ 3 per share on 1,00,000 shares)	Dr.	3,00,000	3,00,000
Bonus to equity shareholders account To equity share final call account (Amount due from equity shareholders adjusted)	Dr.	3,00,000	3,00,000
Bonus equity shareholders account To equity share capital account (Issue of fully paid bonus shares in the ratio of one equity share for every five shares held)	Dr.	2,00,000	2,00,000

b) The bonus may be issued as fully paid up bonus shares.

Swan Limited has a share capital of Rs.20, 00,000 in equity shares of Rs. 10 each. The company declared bonus out of its reserve fund of Rs. 12, 00,000 and this bonus is to be paid by issue of fully paid equity shares at a premium of Rs. 5 per shares. Shares are quoted at Rs. 22 on the date of allotment of bonus shares.

Give Journal entries to record the above transaction.

Solution: **Journal Entries**

Particulars		Amount (₹)	Amount (₹)
1. Reserve fund a/c To bonus to shareholders a/c	Dr.	12,00,000	 12,00,000
2. Bonus to shareholders a/c To share capital a/c To securities premium a/c (80,000 shares of ₹ 10 each issued as fully paid bonus shares at a premium of ₹ 5 per share as per directors resolution dated)	Dr.	12,00,000	 8,00,000 4,00,000

ADVANTAGES OF BUYBACK OF SHARES

- Buyback helps a company to reduce its excessive share capital that is not required for the time being
- It helps the company to utilize its large sum of free reserves.
- It helps the company to improve its book value earning per share, price earning ratio and return on equity.
- Companies may buyback its own shares as protection against unfriendly takeovers from others companies.
- Buyback is relatively a quick method for reduction of share capital.
- It involves lower cost transaction
- If a company has a larg sum of cash and decides how to invest it one of the option is to distribute a part of it to the shareholders. Companies can do this either of two ways
  - As dividends or
  - By buying up outstanding shares.

BUYBACK OF SHARES

A buyback, also known as a share repurchase, is when a company buys its own outstanding shares to reduce the number of shares available on the open market. Companies buy back shares for a number of reasons, such as to increase the value of remaining shares available by reducing the supply or to prevent other shareholders from taking a controlling stake.

RESTRICTIONS ON BUY-BACK OF SHARES:

A buy-back cannot be made:

(i) Through any subsidiary company including its own subsidiary company; or

(ii) Through any investment company or group of investment companies; or

(iii) If a default by the company is subsisting in repayment of deposit or interest payable thereon, redemption of debentures or preference shares or payment of dividend to any shareholders or repayment of any term loan or interest payable thereon to any financial institution or bank.

SOURCES FOR BUY-BACK OF SHARES:

The company may purchase its own shares from out of:

(i) Its free reserves, or

(ii) The securities premium account; or

(iii) The proceeds of any shares or other specified securities like employees' stock option.

No buy-back of shares can be made out of the proceeds of an earlier issue of the same kind of shares.

MODEL PROBLEM

Zaveri Ltd. resolved to buy back 3,00,000 of its fully paid equity shares of Rs 10 each at Rs 12 per share.

For the purpose, it issued 10,000 13% preference shares of Rs 100 each at par, the total sum being payable with applications. T

he company uses Rs 8,50,000 of its balance in Securities Premium Account apart from its adequate balance in General Reserve Account to fulfill the legal requirements regarding buy-back.

SOLUTION

- Company wants to buyback its shares of shares 36 lakhs (3,00,000 *Rs.12)

Money Raised for that

1.To meet out the amount, company issues preference shares for Rs.10 laksh (10,000 shares * Rs.100 each)

2.it uses its Security Premium of Rs.8,50,000

3. Balance is taken from General Reserve.

Journals for the followings

At the time of issue and adjustment

NO.1. Getting money by issuing preference shares for Rs.10,00,000

No.2. Received amount is transferred to the pref.sh.capital Account.

No.3. face value (orginal valued is 30 laksh) Taking money from premium and general Reserve was tranfered to the Capital Redemption Reserve Account.

At the time of buyback

No.4. Total amount payable to the share holder, insufficient amount is taken from general Reserve account. It is the entry for payable to share holder

No.5. Amount is Paid to the share holder account.

Solution:

Journal

			₹	₹
	Bank ...Dr. To 13% Preference Share Application & Allotment Account Receipt of application money on 10,000 13% preference shares @ ₹ 100 per share.		10,00,000	10,00,000
	13% Preference Share Application & Allotment Account ...Dr. To 13% Preference Share Capital Account Capitalisation of application money @ ₹ 100 per share on 10,000 13% preference shares allotted by the Board of Directors		10,00,000	10,00,000
	Securities Premium Account ...Dr. General Reserve Account ...Dr. To Capital Redemption Reserve Account Creation of Capital Redemption Reserve for buy-back of equity shares to the extent not covered by fresh issue of preference shares.		8,50,000 11,50,000	20,00,000
	Equity Share Capital Account ...Dr. General Reserve Account ...Dr. To Sundry Equity Shareholders Amount payable to sundry equity shareholders on buy-back of 3,00,000 equity shares of ₹ 10 each at ₹ 12 per share.		30,00,000 6,00,000	36,00,000
	Sundry Equity Shareholders ...Dr. To Bank Payment made to sundry equity shareholders for buy-back of shares.		36,00,000	36,00,000

DIFFERENCE BETWEEN BONUS SHARES AND RIGHT SHARES

• **Bonus Issue:** Bonus shares are additional free shares issued to the shareholder by the company. Profitable Companies in India issue Bonus Shares. These are additional shares issues given the shareholder without any cost to existing shareholders.

• **Rights Issue:** Rights issues are the shares issued by a company only to its existing shareholders which will be cheaper than the current market price of that company share. In Rights Issue, some costs are involved and the shareholders can either subscribe or unsubscribe.

Free reserves that can be used for issue of Bonus shares:

a) Surplus in profit and loss account.

b) General reserve.

c) Dividend equalization reserve.

d) Capital reserve arising from sale of fixed assets in cash.

e) Balance in debenture redemption reserve after redemption of debentures.

f) Capital redemption reserve account created at the time of redemption of redeemable preference shares out of the profits.

g) Securities premium account collected in cash.

Reserves not available for issue of Bonus Shares:

a) Capital reserve arising due to revaluation of assets.

b) Securities premium arising on issue of shares on amalgamation or take over.

c) Investment allowance reserve/ Development allowance reserve before expiry of 4 years from the date of creation.

d) Surplus arising from a change in the method of depreciation.

e) Balance in debenture redemption reserve account before redemption takes place.

QUESTIONS

PART A

1. Explain "Capital reduction"

2. Explain Internal reconstruction.

3. What do you understand by "Alteration of share capital'?

4. Distinguish between 'Internal' and 'External' reconstruction.

5. What you understand by 'Consolidation' and 'Sub division' of share?

6. Write short note on:

   a. Scheme of Capital reduction

   b. Surrendered shares

   c. Capital Reduction Account.

7. X Ltd., having a share capital of Rs. 5,00,000 divided into 5,000 shares of Rs. 100 each, resolves to consolidate the shares into 50,000 shares of Rs. 10 each. Show the entries:

8. X Ltd. has a share capital of Rs. 2,00,000 divided into 2,000 shares of Rs. 100 each, of which Rs. 80 per share called-up and paid-up:

Show the entries under each of the following conditions:

(i) if X Ltd. resolves to subdivide the shares into 20,000 shares of Rs. 10 each, of which Rs. 8 per share paid-up and called-up.

(ii) if X Ltd. resolves to convert its 2,000 shares of Rs. 100 each (assume fully-paid) into Rs. 2,00,000 worth of stock.

9. V Co. Ltd. passed a special resolution and obtained the necessary sanction from the court to reduce the uncalled liability of its shares. The Balance Sheet of Y Co. Ltd. was as under:

10. Mention different kinds of Alteration share capital.

Long Answer Questions:

1. Explain the different kinds of 'Alteration of share capital' which do not required approval of a court of law.

2. What are capital reductions? What are the provisions of the companies act in regard to the reduction of share capital?

3. What is the procedure to be followed for the reducing share capital?

4. Explain SEBI guidelines on bonus share issue of a company.

5. V Co. Ltd. passed a special resolution and obtained the necessary sanction from the court to reduce the uncalled liability of its shares. The Balance Sheet of Y Co. Ltd. was as under:

Balance Sheet

as at ....

Liabilities	Rs.	*Assets*	Rs.
Authorised Capital		Fixed Assets	4,00,000
1,00,000 Equity Shares of Rs. 10 each	10,00,000	Current Assets	2,00,000
5,000, 8% Pref. shares of Rs. 100 each	5,00,000		
	15,00,000		
Issued and Paid-up Capital			
50,000 Equity Shares of Rs. 10 each, Rs. 7.50 per share paid-up	3,75,000		
2,500, 8% Pref. Shares of Rs. 100 each, Rs. 70 per share paid-up	1,75,000		
Sundry Liabilities	50,000		
	6,00,000		6,00,000

The company cancelled the uncalled capitals of both Equity shares and Preference shares restoring to its Authorised Capital. Show the entries and the Balance Sheet.

6. The following are the extracts from the draft Balance Sheet of A Ltd., as on December 31,2010

	₹
Authorised Capital	
20,000 Equity shares of ₹10 each	2,00,000
Issued and Subscribed Capital 10,000 Equity Share of ₹10/–each	1,00,000
Reserve Fund	80,000
Profit and Loss Account	30,000

A resolution was passed by the company declaring bonus of 25% on equity shares to be provided as to Rs 15,000 out of reserve fund and the balance out of profit and loss account. The bonus was to be satisfied by issuing fully paid equity shares.

You are required to make necessary journal entries and show the effect on the Balance Sheet of the company.

7. The extracts are given from the draft Balance Sheet of Bharat Gears Ltd. as on 31st December 2010:

The Board of Directors pass a resolution to capitalise a part of existing reserves and profits by issuing Bonus Shares. One bonus share is being issued for every 4 equity shares held at present. For this purpose, Rs. 10,000 are to be provided out of Reserve Fund and the balance out of Profit and Loss Account.

	₹
Authorised Capital :	
20,000 Equity Shares of ₹10 each	2,00,000
Issued and Subscribed Capital :	
7,000 Equity Shares of ₹10 each fully called up	70,000
Reserve Fund	36,000
Profit and Loss Account	29,000

Set out the journal entries to give effect to the resolution and show how they would affect the Balance Sheet of the Company.

8. A company has a share capital of 10,00,000 equity shares of Rs. 10 each, Rs. 8 per share paid up.

It has a reserve fund of Rs. 80,00,000. If is decided to utilise the whole of the reserve fund in the following manner:

(a) The existing shares to be made fully paid up without the shareholders having to pay anything and

(b) Each shareholder is to be given proportionate to his holdings, bonus shares for the remaining amount in the Reserve Fund, the shares to be valued at Rs. 12 each.

Pass the necessary journal entries to record the above deal.

TEXT / REFERENCE BOOKS

1. Gupta R.L,Corporate Accounting,Sultan Chand & Sons,15th Edition,2015
2. Jain & Narang, Advanced Accountancy, Kalyani Publication, 20th Edition, 2018.
3. Reddy & Murthy, Corporate Accounting, Margham Publication.2017.
4. Hanif M and A Mukherjee, Fundamentals of Corporate Accounting, Mcgrawhill, 2019.

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SCHOOL OF MANAGEMENT STUDIES

UNIT – III - CORPORATE ACCOUNTING II- SBA1401

INTERNAL RECONSTRUCTION

Internal reconstruction - Meaning, Importance- Legal provision relating to Capital Reduction- steps in reconstruction- Accounting entries on Internal Reconstruction- Re-organization through Surrender of shares- Preparation of reconstructed Balance sheet.

INTERNAL RECONSTRUCTION

It is an arrangement made by the companies whereby the claims of shareholders, debenture holders, creditors and other liabilities are altered/ reduced, so that the accumulated loss are written off, asset are valued at its fair value and the balance sheet shows the true and fair view of the financial statement

FORMS OF INTERNAL RECONSTRUCTION

- Re-organization or alteration of share capital
- Reduction of share capital and other liabilities

OBJECTIVES OF INTERNAL RECONSTRUCTION

- ✓ To resolve the problem of over-capitalization/ huge accumulated losses/ over valuation of assets
- ✓ When the capital structure of a company is complex and is required to make it simple
- ✓ When change is required in the face value of shares of the company

MEANING OF CAPITAL REDUCTION ACCOUNT

Reduction of share capital is regarded as one of the process of decreasing company's share capital (apart from Redemption of preference shares and Buy Back of shares which are governed by other provisions separately). The Reduction of Share Capital means reduction of issued, subscribed and paid up share capital of the company. In simple words it can be regarded as 'Cancellation of Uncalled Capital' i.e. part of subscribed share capital.

REDUCTION OF SHARE CAPITAL

1.Reducing or completely extinguishing shareholder liability for uncalled capital

2.Refunding suplus paid up capital

3.cancellation or write off paid up capital

LEGAL PROVISIONS REGARDING REDUCTION OF SHARE CAPITAL

I. Section 66 of the Companies Act, 2013; Reduction by way of cancellation of shares

II. Rule 2 to 6 of the National Company Law Tribunal (Procedure for Reduction of Share Capital of Company) Rules, 2016

III. Section 61 of the Companies Act, 2013; Alteration of share capital involves reduction in authorised share capital by cancellation of shares

IV. Section 230 of the Companies Act, 2013; where tribunal passes order under scheme of compromise or arrangement,

V. Section 242 of the Companies Act, 2013; In the case of oppression and mismanagement

VI. In case of listed company; SEBI (LODR) Regulations, 2015.

PROCEDURE INVOLVES

- Board Resolution
- Special Resolution subject to confirmation of NCLT
- A statement of solvency duly signed by all the Directors
- Special resolution needed for alteration of share capital.
- Copies of the solvency statement
- A memorandum setting out details of the share capital MOA
- A statement by Director confirming that the solvency statement was made not more than 15 days**.**

The share capital of company may be of the following types:

1. ***Registered, Authorised or Nominal Capital:***

The Memorandum of Association of every company has to specify the amount of capital with which it wants to be registered. The capital so stated is called Registered, Authorized or Nominal Capital. The Registered Capital is the maximum amount of share capital which a company can raise by way of public subscription.

2. ***Issued Capital:***

The company may not issue the entire authorised capital at once. It goes on raising the capital as and when the need for additional fund is felt. So, issued capital is that part of Authorised/Registered or Nominal Capital which is offered to the public for subscription in the form of shares.

3. ***Unissued Capital:***

The balance of nominal capital remaining to be issued is called Unissued Capital.

4. ***Subscribed Capital:***

It is that part of "issued capital" for which applications are received from the public. The subscribed capital is allotted to the respective subscribers as per resolution passed by the directors of the company.

5. ***Called up Capital:***

It is that part of subscribed capital which has been called up by the company. A company does not call at once the full amount on each of the shares it has allotted and therefore, calls up only such amount as it needs.

6. ***Uncalled up Capital:***

It is the uncalled portion of the allotted capital and represents contingent liability of the shareholders on the shares.

7. ***Paid up Capital:***

It is that part of called up capital against which payment has been received from the members on their respective shares in response to the calls made by the company.

8***. Reserve Capital or Reserve Liability:***

By Reserve Capital we mean that amount which is not callable by the company except in the event of the company being wound up. The company cannot demand the payment of money on the shares to that extent during its life time. Reserve capital may be created by means of a special resolution passed by the company in its General Meeting by three-fourths majority of those voting on it.

When once the Reserve Capital has been so created the company cannot alter its Articles of Association so as to make the reserve liability available at any time. The Reserve Capital cannot be charged as security for loans by the directors. It cannot be turned into ordinary capital without the order of the court. It cannot be cancelled at the time of reduction of capital.

9. ***Fixed Capital:***

The fixed capital of a company is what the company retains in the shape of fixed assets such as land and buildings, plant and machinery, furniture, etc.

10. ***Circulating Capital:***

The circulating capital is a part of subscribed capital which is circulated in business in the form of using goods or other assets such as book debts, bill receivables, cash, bank balance, etc.

Classes of Share Capital:

The share capital of a company limited by shares may be of the following two kinds:

1. Preference share capital, and

2. Equity share capital.

1. Preference Share Capital:

It means that part of the capital of the company which:

(a) Carries a preferential right as to payment of dividend at fixed rate during the life time of the company.

(b) Carries, on the winding up of the company, a preferential right to be repaid the amount of the capital paid up.

2. Equity Share Capital:

It means with reference to a company, limited by shares, all share capital which is not preference share capital.

Steps in Reconstructions:

The following steps are taken into consideration for drafting a scheme, in brief:

1. Losses to be written off are to be determined by adding accumulated losses, fictitious assets, overvaluation of assets, under-provision of liabilities, preliminary expenses etc. The total amount of losses to be written off is thus determined and is reduced from the profit on revaluation of assets etc.

Alternatively, to find out the amount to be written off is to add the present value of assets and deduct there from the amount of contingent liabilities. The resulting figure is the value of net assets; and the amount of paid up capital and reserves, if any, deducted from the value of net assets will show the amount to be written off.

2. To write off the losses, it is necessary to ascertain the parties who will have to bear the loss. SECURED CREDITORS will not normally sacrifice anything unless the value of securities is inadequate. They are treated as ordinary creditors to the extent they are not covered and they may have to accept some sacrifices in connection with that portion along with ordinary creditors.

DEBENTUREHOLDERS may be fully secured as above and hence their case should also be considered on the above line. When Debenture has a floating charge on assets so that assets remaining after payment of secured debts and preferential creditors are applicable, the holders of such debentures may accept reduction in the rate of interest if better security is offered. UNSECURED CREDITORS will not agree to sacrifice anything unless the Company is insolvent, that is, assets are not sufficient to pay off outside liabilities. They may consider the prospect of higher income as compared with the immediate benefit to be derived from liquidation.

When the Company has a bright future and if the creditors are given some share in the Equity capital, they may agree to sacrifice to some extent. PREFERENTIAL SHAREHOLDERS are preferential both regarding dividend and repayment of capital in liquidation. When they cannot be paid in full in liquidation, they will be normally agreeable to sacrifice some capital claim for early prospect of dividend.

EQUITY SHAREHOLDERS have to bear substantial portion of the loss. If the Company is reorganized by Capital Reduction as an alternative to liquidation, the equity shareholders must be interested to keep their control over the company. When equity shares are issued to other parties against their sacrifice, the control of the existing equity shareholders may be lost. Under this situation, existing equity shareholders are to come forward with fresh investment in equity capital to keep their control intact.

Arrangements is to be made for liquid resources for purchasing machinery, etc. urgently required, for meeting immediate commitments and for working capital by means of further call, fresh issue of shares, sale of investments, arrangement of overdraft and the like.

1. Application to NCLT in Form RSC-1, with following documents:

i. List of creditors, indicating their names, address and amount owed to them, class wise; duly certified by Managing Director of Company or by 2 directors in his absence, made on date not earlier than 15 days prior to the date of filing,

ii. Certificates by Auditor to the effect that;

a) the list of creditors referred above is correct as per the records of the company verified;

b) the company is not, as on the date of filing of the application, in arrears in the repayment of the deposits or the interest thereon

c) the accounting treatment proposed by the company for the reduction of share capital is in conformity with the accounting standards specified in section 133 or any other provisions of Act.

iii. Declaration by a director of the company that the company is not, as on the date of filing of the application, in arrears in the repayment of the deposits or the interest thereon;

2. NCLT shall within 15 days of submission of application give notice to ROC and SEBI(if listed) in Form RSC-2 and to every creditor in Form RSC-3

**Notice to creditors in Form RSC-3 shall be sent within 7 days seeking their representations and objections.

** Representations and objections, if any to be made within 3 months from the date of receipt or notice and copy of such representation shall simultaneously be sent to the company

3. Newspaper Advertisement: Form RSC-4 within 7 days of direction by NCLT in leading English and vernacular language newspaper, for seeking their representations and objections. (To be uploaded on company's website simultaneously).

** Representations and objections, if any to be made within 3 months from the date of receipt or notice and copy of such representation shall simultaneously be sent to the company

4. Company to file an affidavit in Form RSC-5 confirming the despatch and publication of the notice within 7 days from the date of issue of such notice.
5. Company shall send the representations and objections, if any received along with responses of the company within 7 days of expiry of period up to which objections were sought.
6. NCLT may hold any enquiry or adjudication or claims or for hearing the objection give such directions as may deem proper with reference to securing the debts or claims of creditors who do not consent to the proposed reduction.
7. The order confirming the reduction of share capital and approving the minute shall be in Form No. RSC – 6 on such terms and conditions as may be deemed fit.
8. Order copy of NCLT to be filed in e-form INC 28 with ROC within 30 days of passing order.
9. ROC shall issue certificate in Form RSC-7 to that effect.

QUESTIOS

PART-A

1. What do understand the meaning of 'Internal reconstructions'?
2. Explain 'Subdivided' and 'Consolidation' of shares.
3. Write short note on convert share into stock and stock in to share.
4. What is consolidated balance sheet?
5. What do you understand 'Surrender of Share'?
6. Differentiate Internal and External reconstructions.

6. X Ltd., having a share capital of Rs. 5,00,000 divided into 5,000 shares of Rs. 100 each, resolves to consolidate the shares into 50,000 shares of Rs. 10 each. Show the entries:
7. X Ltd. has a share capital of Rs. 2,00,000 divided into 2,000 shares of Rs. 100 each, of which Rs. 80 per share called-up and paid-up if X Ltd. resolves to subdivide the shares into 20,000 shares of Rs. 10 each, of which Rs. 8 per share paid-up and called-up.
8. Differentiate Subdivided and Consolidation of share.
9. Enumerate importance of internal reconstruction.
10. Write short note on objectives of internal reconstruction.

PART-B

1 . Explain Merits and demerits on internal reconstructions.
2. Discuss different kinds of internal reconstructions.
3. Explain detail provisions relating to capital reduction.
4. Give the detailed format of reconstructed balance sheet.
5. The following is the Balance Sheet of Hopeful Ltd. as on 31st December, 2006:

Balance Sheet

Liabilities	*Rs.*	*Assets*	*Rs.*
13% Cumulative Preference Shares of Rs. 100 each	1,00,000	Fixed Assets	15,00,000
Equity shares of Rs. 10 each, fully paid-up	7,00,000	Current Assets	35,00,000
8% Debentures	3,00,000	Profit and Loss Account	3,00,000
Current liabilities	39,00,000		
Provision for Taxation	3,00,000		
	53,00,000		53,00,000

The following scheme of re-organisation is sanctioned:
(i) Fixed assets are to be written down by 33.33%.
(ii) Current assets are to be revalued at Rs. 27, 00,000.
(iii) Preference shareholders to forego their right to arrears of dividend, which are in arrears for three years.
(iv) The taxation liability of the company is settled at Rs. 4, 00,000.
(v) One of the creditors of the company, to whom the company owes Rs. 25, 00,000, decides to

forego 50% of his claim. Others for Rs. 5, 00,000 were allotted 1, 00,000 equity shares of Rs. 5 each in satisfaction of balance of their claims.

(vi) The rate of interest on debentures is increased to 11%. The debenture holders surrender their existing debentures of Rs. 100 each and exchange the same for fresh debentures of Rs. 75 each.

(vii) All existing equity shares are reduced to Rs. 5 each.

(viii) All preference shares are reduced to Rs. 75 each.

Pass journal entries and show the Balance Sheet of the company after giving effect to the above.

6. Bad Ltd. has just recovered from great financial difficulty.

Its Balance Sheet as on 31-12- 2006 was as following:

	Rs.		Rs.
Equity Share Capital	6,00,000	Buildings	4,00,000
5% Pref. Share Capital	4,00,000	Plant	2,00,000
Sundry Creditors	1,50,000	Current Assets	3,50,000
		Profit and Loss A/c	2,00,000
	11,50,000		11,50,000

A New Company, Good Ltd. was formed to take over Building at Rs. 3, 00,000, Plant at Rs. 1, 40,000 and Stock at Rs. 60,000. Purchase consideration is to be satisfied by the issue of 6% Preference Shares of Rs. 100 each and Equity Shares of Rs. 10 each in the ratio of 3: 2. Preference shareholders are to be settled in full by the allotment of new preference shares.

Sundry debtors- realised Rs. 1, 50,000 and Rs. 1, 10,000 was paid to the creditors in full settlement. There is no current asset except stock and debtors. Cost of winding up amounted to Rs. 10,000. Show the Ledger accounts in the books of Bad Ltd. And Journal entries in the books of Good Ltd.

7. The following is the Balance Sheet of Sai Ltd. as on 31-3-2011 :

Liabilities	Rs.	Assets	Rs.
Share Capital :		Goodwill	70,000
4,000 Eq. shares of Rs.100 each	4,00,000	L & Buildings	1,50,000
8% Pref. Shares of Rs. 100 each	3,00,000	P & Machinery	3,50,000
Profit Prior to Incorporation	10,000	Patents	20,000
4% Debentures	3,00,000	Stock	3,20,000
Sundry Creditors	2,00,000	Cash at bank	5,000
		Preliminary Expenses	21,000
		Profit and Loss A/c	2,74,000
	12,10,000		**12,10,000**

The following scheme of reconstruction was approved :

1) 8% Pref.shares be converted into 9% Pref. share, the amount being reduced by 30%.

2) Equity share be reduced to fully paid share of Rs. 50 each.

3) L&Building be appreciated be 20%.

4) The Debenture Holders are agreeable to have their claims reduced by 20%.

5) All intangible assets including patents written off, utilize share premium if necessary.

Pass the journal entries in the books of Sai Ltd.and draw Balance sheet.

8. The following is the Balance Sheet of Insolvent Ltd. as on 31.3.2006 :

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Share Capital --		Goodwill	15,000
5% 2000 Cumulative Pref.		Freehold property	2,00,000
Shares of Rs. 100 each	2,00,000	Plant and Machinery	3,00,000
4000 Equity Shares of		Stock in Trade	50,000
Rs. 100 each	4,00,000	Debtors	40,000
6% Mortgage Debentures	1,00,000	Profit and Loss A/c	2,40,000
Bank Overdraft	50,000	Cash	5,000
Creditors	1,00,000		
	8,50,000		**8,50,000**

The company got the following scheme of capital reduction approved by the Court :

(1) The preference share to be reduced to Rs. 75 per share fully paid up and Equity shares to Rs. 40 fully paid up.

(2) The debentureholders took over the stock-in-trade and the Book Debts in full satisfaction of the amount due to them.

(3) The Goodwill A/c is to be eliminated.

(4) The Freehold Property is to be increased by 30%.

(5) The value of Plant and Machinery to be depreciated by 33 1/3 %

(6) The Expenses of Reconstruction amounted to Rs. 3,000.

Give the journal entries to record the above transactions and prepare the revised Balance Sheet as on 31.3.2006

9. The following was the Balance Sheet of Navin Ltd. as on 31.3.2011 Balance Sheet as on 31st March, 2011

Liabilities	Rs.	Assets	Rs.
Share Capital :		Freehold Property	23,75,000
15,000 7% Cumulative		Plant & Machinery	8,00,000
Preference Shares of		Goodwill	3,00,000
Rs. 100 each	15,00,000	Stock	3,50,000
2,75,000 Eq. Shares of		Debtors	2,25,000
Rs. 10 each	27,50,000	Preliminary Exp.	2,50,000
Share Premium A/c	4,00,000	Profit & Loss A/c	7,50,000
Sundry Credtors	4,00,000		
	50,50,000		**50,50,000**

The following scheme of reconstruction was approved and duly sanctioned :

(a) Preference shares to be reduced to Rs. 80 per share.

(b) Equity shares to be reduced to Rs. 5 per share.

(c) Write off all intangible assets and share premium account.

(d) Freehold property to be written down to Rs. 18,50,000

Give necessary journal entries to record the above transactions in the books of Navin Ltd.

Also prepare a Revised Balance after the scheme of reconstruction as on 31.3.2011.

TEXT / REFERENCE BOOKS

1. Gupta R.L,Corporate Accountlng,Sultan Chand & Sons,15th Edltlon,2015
2. Jaln & Narang, Advanced Accountancy, Kalyanl Publlcatlon, 20th Edltlon, 2018.
3. Reddy & Murthy, Corporate Accountlng, Margham Publlcatlon.2017.
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SCHOOL OF MANAGEMENT STUDIES

UNIT – IV - CORPORATE ACCOUNTING II- SBA1401

UNIT IV

LIQUIDATION

MEANING:

Liquidation or the winding up of a company means the termination of the legal existence of a company. Under such circumstances, the assets of the company are disposed off and the debts are paid, out of the amount realized from assets or from the contributions made by the members and the surplus if any is distributed among members in proportion to their holding.

TYPES OF WINDING UP:

There are three models of liquidation of a company.

A. Compulsory winding up by the court.

B. Voluntary winding up:

- Member's voluntary winding up.
- Creditor's voluntary winding up.

C. Voluntary winding up under the supervision of the court.

- **In case of a compulsory winding up:** an official liquidator is appointed by the court.
- **In the case of a member's voluntary winding up:** the liquidator is appointed by the members at their general meeting.
- **In case of a creditor's voluntary liquidation:** both the creditors and the members of the company nominate the liquidator in their respective meetings, If the creditors and the members nominate different persons as the liquidator, the liquidator nominated by creditors will act as liquidator.
- **Where winding up takes place at the supervision of the court:** the liquidator may be appointed by the members or the creditors or by the court. The liquidator appointed by the court as well as the members and creditors may together function as liquidators.

FUNCTIONS OF LIQUIDATOR

The liquidator is required to perform certain functions at the time of liquidation. The main functions are as follows:

1. The primary function of a liquidator is to realise the assets of the company.
2. He has to collect the money due from the contributories.
3. He has to distribute the amount realised from sale of assets and amount received from contributories in the order of preference as per Rule 329 of Companies Act.
4. He has to maintain and submit the record of receipts and payments of cash to the members in the case of voluntary winding-up and to the court in the case of compulsory winding up. Liquidator's Final Statement of Account At the time of liquidation of a company, the liquidator realises all the assets and discharge the liabilities and capital. The statement prepared to record such receipts and payments is called 'Liquidator's Final Statement of Account.' This statement is prepared after the affairs of the company are fully wound-up.

The liquidator must make payments in the following order of payment

1. Secured Creditors.
2. Legal expenses (including liquidation expenses and cost of winding up).
3. Liquidator’s remuneration.
4. Payments to debenture holders and other creditors having floating charge on the assets of the company.
5. Payments to Preferential Creditors.
6. Payments to unsecured Creditors.
7. Calls in advance, if any.
8. Arrears of dividends on cumulative preference shares.
9. Amount due to preference shareholders.
10. Amount due to equity shareholders.

The form of liquidator's final statement of accounts is given below:

ABC Company Ltd Liquidator's Final Statement

Receipts	Rs.	Payments	Rs.
Cash in hand		Secured creditors	
Cash at bank		Legal Charges (including liquidation expenses)	
Assets Realized		Liquidator's remuneration	
Marketable securities		Other expenses on liquidation	
Bills receivable		Debenture holders	
Trade debtors		Outstanding interes on debenture	
Loans and advances		Debentures	
Stock in trade		Preferential creditors	
Work in progress		Unsecured creditors	
Plant and machinery		Calls in advance if any	
Furniture and fixtures		Arrears of dividend	
Patents ,trademarks etc		Preference share holders	
Investments		Equity share holders	
Surplus realized from secured creditors			
Calls in arrears			
Amount received from calls on shares			
Total		**Total**	

The following important points to be borne in mind while preparing the Liquidator's Final Statement of Account:

1. The words 'To' and 'By' need not be used, since it is a statement and not an Account.
2. When a specific asset pledged as security is realised by the liquidator:

Where a specific asset is provided as security towards debentures or creditors, the amount realised on that should be used by liquidator for discharge of such debentures or creditors before making any other payment. That is, on the Receipts side, the amount realised from the assets pledged, will be recorded and on the payments side, the amount payable towards secured creditors, will be recorded to the extent of amount due or amount realised whichever is less, Where the amount realised on the asset pledged is less than the amount clue towards secured creditors, the difference will be treated as unsecured creditors and paid after making payment to preferential creditors.

3. When a specific asset pledged as security against debentures or creditors is realised by debenture holders or creditors:

   In this case, surplus if any in the hands of debenture holders or creditors must be treated as receipts and recorded on the receipts side of the statement.

   However, if the amount received on realization is less than the amount due to debenture holder or creditors, it must he paid after making payment to preferential creditors. (i.e., they must be treated as unsecured creditors),

4. Calls in arrears:

Calls in arrears given in the Balance Sheet must be recovered by the liquidator from the concerned shareholders without which repayment of capital on those shares cannot be made. If the amount is not realised, the liquidator can forfeit the shares.

5. Calls on shares:

Where the amount available is not sufficient to pay outside liabilities or preference shareholders, any uncalled amount on equity shares must be called to the extent required at the relevant stage of deficiency.

6. Legal charges and other expenses on liquidation:

Legal expenses includes registration expenses, stamp duty, litigation expenses etc. The other expenses on liquidation includes cost of liquidation like auctioneers and valuers charges, cost of possession and maintenance of estate, cost of notices in Gazette and newspapers, establishment charges and other incidental expenses on liquidation, When liquidation expenses" or "cost of winding up" is given, without mentioning the details, it can be shown before liquidator's remuneration.

7. Liquidator's Remuneration:

Normally a fixed amount is paid to liquidator or it is paid as a percentage on assets realised by the liquidator and/or amount paid to unsecured creditors.

A. Where the remuneration is to be paid on assets realised: The following points must be kept in mind.

(i) Until otherwise specified for calculating liquidator's remuneration, "assets realised" means any assets realised by liquidator except cash in hand and cash at Bank, because cash in hand and at bank is already in the realised form and no effort is require for realising it.

(ii) Until otherwise specified, no remuneration should be paid to liquidator on calls-in-arrears and call money realised.

(iii) Surplus received from secured creditors must be considered in calculating liquidator's remuneration, since the liquidator makes an effort to realise the surplus from secured creditors.

(iv) When the problem states that remuneration is to be paid as a percentage on a 'Total amount realised', then remuneration should be calculated on total Receipts (ie., including surplus. calls in-arrears and call money received)

B. Where the remuneration is to be paid on payments made: The following points must be kept in mind

(i) For calculating remuneration on payment made to unsecured creditors, preferential creditors must be considered as part of unsecured creditors.

(ii) Where the balance amount available is sufficient enough to pay unsecured creditors calculated using the following formula:

Amount Payable to Unsecured Creditors x Percentage of commission /100

(iii) When the balance amount available is 'not sufficient' enough to pay unsecured creditors completely, liquidator's remuneration on payment to unsecured creditors will be calculated using the following formula:

Amount available x Percentage of commission/ 100 + Percentage of commission

(iv) Where the liquidator has to be paid remuneration on final amount payable to shareholders, then the amount or remuneration must be calculated using the following formula:

Balance amount available before making payment to shareholders x Percentage of commission / 100 + Percentage of commission

8. When Debentures are not secured against a specific asset, it must always be treated as secured on 'floating charge'. Hence, it must be discharged before making payment to preferential creditors

9. Interest on Debentures:

Any outstanding interest on debentures must be paid before discharging debenture. Interest on Debentures and other loans must be paid as follows:

(i) If the company is solvent, interest must be paid until the date or repayment of loan.

(ii) If the company is insolvent. Interest must be paid until the date of winding up only, irrespective of when the final repayment is made.

10. Calls paid in advance

Calls paid in advance by shareholders must be paid immediately after paying unsecured creditors.

11. Preference Dividend

(i) Preference dividend declared but not paid must be treated as "unsecured creditors" and paid accordingly.

(ii) In case of cumulative preference shares, if dividends are in arrears for one or more years, but not declared, then, it must be paid before paying preference share capital.

12. Where the preference shares are participating preference shares, the balance available after paying preference share capital and equity share capital, must be proportionately distributed to both preference shareholders and equity shareholders,

13. When share capital of the company includes fully paid shares and partly paid shares.

1. The ABC Ltd., is to be liquidated. Their summarized Balance sheet as at 30th sep. 2014 appears as under:

Liabilities	Rs.	Assets	Rs.
250000 equity shares of Rs.10 each	25,00,000	Land & buildings	5,00,000
secured debentures (on land & buildings)	10,00,000	Other fixed assets	20,00,000
Unsecured loans	20,00,000	Current assets	45,00,000
Trade creditors	35,00,000	Profit & loss Ac	20,00,000
Total	**90,00,000**	**Total**	**90,00,000**

Contingent liabilities are:	Rs.
For bills discounted	1,00,000
For excise duty demands	1,50,000

On investigation, it is found that the contingent liabilities are certain to devolve and the assets are likely to be realized as follows:

Land and buildings	11,00,000
Other fixed assets	18,00,000
Current assets	35,00,000

Taking the above into account, prepare the statement of affairs.

2 The following information is extracted from the books of a Drum company on june30, 2006 on which date a winding up order was made:

Equity share capital, 8000 shares of Rs.10 each	8,00,000
10% preference share capital 12000 shares of Rs.10 each	12,00,000
Calls in arrears on equity shares (estimated to produce Rs.8000)	16,000
9% first mortgage debentures, secured by a floating charge on the whole of the assets of the company	8,00,000
Creditors fully secured (value of shares in X ltd. Rs.160000)	1,40,000
Creditors partly secured (value of shares in Y ltd. Rs.80000)	1,60,000
Preferential creditors	30,000
Bank overdraft, secured by a second charge on the whole of the assets of the company	80,000
Unsecured creditors	10,40,000
Estimated liability on bill discounted	40,000
Cash in hand	8,100
Book debts - Good	1,50,000
- Doubtful (estimated to produce 40%)	30,000
- Bad debts	18,000
Stock in trade (estimated to produce Rs.238700)	2,88,000
Freehold land & buildings (estimated to produce Rs.782000)	6,60,000
Plant & machinery (estimated to produce Rs.212000)	3,00,000
Fixtures &fixtures (estimated to produce Rs.30000)	50,000

Prepare a statement of affairs

(a) As regards creditors and (b) As regards contributories

3. Shri B. Rose is appointed liquidator of a company in voluntary liquidator on 1.7.2014 and the following balances are extracted from the books on that date:

Liabilities	Rs.	Assets	Rs.
Share capital:		Machinery	60,000
32000 shares of Rs.5 each	1,60,000	Leasehold properties	80,000
Provision for bad debts	20,000	Stock in trade	2,000
Debentures	1,00,000	Book debts	1,20,000
Bank overdraft	36,000	Investments	12,000
Liabilities for purchases	40,000	Calls in arrear	10,000
		Cash in hand	2,000
		Profit and loss A/c	70,000
Total	**3,56,000**	**Total**	**3,56,000**

The assets are revalued as under:

(i) Investments at Rs.8000

(ii) Stock in trade at Rs.4000

(iii) Machinery at Rs.120000

(iv) Leasehold properties at Rs.146000

Bad debts are Rs.4000; doubtful debts are Rs.8000, estimated to realize Rs.4000; The bank overdraft is secured by deposit of title deeds od leasehold properties.

Preferential creditors for tax and wages Rs.2000;

Telephone rent owing is Rs.160.

You are required to prepare:

(i) statement of affairs as regards creditors and contributors and

(ii) (ii) deficiency or surplus A/c.

4. The following particulars relate to limited company which went into voluntary liquidation:

Preferential creditors	25000
Unsecured creditors	58000
6% debentures	30000

The assets realized Rs.80000. The expenses of liquidation amounted to Rs.1500 and the liquidator's remuneration was agreed at 2.5 % on the amount realized and 2% on the amount paid to unsecured creditors including preferential creditors.

Show the liquidators final statement of account.

5. The following particulars relate to a limited company which has gone into voluntary liquidation. You are required to prepare the liquidator's final account allowing for his remuneration @ 3% on the amount realized and 2.5% on the amount paid to the unsecured creditors.

Share capital issued;

5000 preference shares of Rs.100 each (fully paid)

30000 equity shares of Rs.10 each fully paid.

12000 equity shares of Rs.10 each, Rs.8 paid up.

Assets realized Rs.924000 excluding amount realized by sale of securities held by the secured creditors.

Preferential Creditors	Rs.24,000
Unsecured Creditors	Rs.8,51,094
Secured Creditors (security realized Rs.1,62,000)	Rs.1,38,000
Expenses of liquidation amounted to	Rs.9000

A call of Rs.2 per share on the partly paid equity shares was duly paid except. In case of one shareholder owing 1200 shares.

6. Sun co. ltd went into liquidation on 31.12.2013. Its capital is divided into 20000 shares of Rs.50 each. Its assets and liabilities on this date were as follows:

Cash in hand Rs.1500; Realised from stock Rs.59200; from book debts Rs.98400; furniture Rs.2100; Investment with bank for overdraft Rs.9800; unsecured creditors Rs.107550; preferential creditors Rs.10590; Bank overdraft Rs.8000; 6% debentures having a floating charge Rs.88000

Bank, after deducting its amount from investment of Rs.9800, gave the surplus to the liquidator. Debentures were paid on 30.06.2014with interest.

Remuneration of liquidator: 3% on net amount realized (excluding the amount given to secured creditors but including cash in hand): 2% on the amount paid to unsecured creditors (excluding preferential creditors). Cost of liquidation is Rs.2030.

Prepare liquidators final statement of account.

7. A company went into voluntary liquidation on 31.3.2014. When the following balance sheet was prepared:

Liabilities	Rs.	Assets	Rs.
Authorized capital:		Good will	6,960
4000 shares of Rs.10 each	40,000	Freehold property	5,000
Issued capital:		Machinery	7,480
3000 shares of Rs.10 each	30,000	Stock	11,710
Unsecured creditors	15,432	Debtors	9,244
Partly secured creditors	5,836	Cash	100
Preferential creditors	810	Profit & loss A/c	11,816
Bank overdraft (unsecured)	232		
Total	**52,310**	**Total**	**52,310**

The liquidator realized the assets as follows:

Freehold property which was used in the first instance to pay the partly secured creditors pro-rate Rs.3600; Machinery Rs.5000; Stock Rs.6200; debtors Rs.8700; cash Rs.100.

The expenses of liquidation amounted to Rs.100 and the liquidator remuneration was agreed at 2.5% on the amount realized including cash and 2% on the amount paid to unsecured creditors.

Prepare the liquidator final statement of account.

8. The following is the summarized Balance sheet of HarPreet Ltd., as at 31.12.2013

Liabilities	**Rs.**	**Assets**	**Rs.**
Share capital:		Land & buildings	2,60,000
3000 6% cumulative preference shares of Rs.100 each, fully paid	3,00,000	Plant & machinery	1,75,000
1000 equity shares of Rs.100 each fully paid	1,00,000	Stock	37,250
1000 equity shares of Rs.100 each, Rs.50 paid up	50,000	Debtors	15,000
Bank loan (secured on stock & debtors)	25,000	Cash in hand	250
Current liabilities	50,000	Profit & loss A/c	37,500
Pref. dividend arrears Rs.36000			
Total	**5,25,000**	**Total**	**5,25,000**

Under the Articles of Association of the company, the preference shares are preferential as to dividend (whether declared or not) and capital.

The company went into voluntary liquidation and sold the fixed assets, stock and debtors for a sum of Rs.375000 payable in cash. The expenses of liquidation were Rs.250. A call of Rs.50 per share is made by the liquidator on 1000 equity shares which are partly paid up. The money called is fully paid up.

You are required to prepare the liquidator's final statement of account.

9. From the data relating to a company (in voluntary liquidation), you are asked to prepare liquidator final statement of account.
   - (i) Cash with liquidator (after all assets are realized and secured creditors and debenture holders are paid) is Rs.673800.
   - (ii) Preferential creditors to be paid Rs.30000
   - (iii) Other unsecured creditors Rs.215000
   - (iv) 4000 6% preference shares of Rs.100 each fully paid.
   - (v) 2000 equity shares of Rs.100 each, Rs.75 per share paid up.
   - (vi) 6000 equity shares of Rs.100 each, Rs.60 per share paid up.
   - (vii) Liquidator remuneration 2% on preferential and other unsecured creditors.
   - (viii) Preference dividends were in arrears for 2 years.

10. A liquidator is entitled to receive remuneration @ 2% of the assets realized and 3% on the amount distributed among the unsecured creditors.

The assets realized Rs.7000000 against which payment was made as follows:

Liquidation expenses Rs.50000

Preferential creditors Rs.150000

Secured creditors Rs.4000000

Unsecured creditors: Rs.3000000

Calculate the total remuneration payable to the liquidator.

11. Knight co. ltd went into voluntary liquidation on 31/12/2013 when their Balance sheet read as follows:

Liabilities	Rs.	Assets	Rs.
Issued & subscribed capital:		Land & buildings	7,50,000
15000 10% preference shares o		Plant & machinery	18,75,000
Rs.100 each fully paid	15,00,000	Patents	3,00,000
7500 equity shares of		Stock	4,02,500
Rs.100 each, Rs.75 paid	5,62,500	Sundry debtors	8,25,000
22500 equity shares of		Cash at bank	2,25,000
Rs.100 each, Rs.60 paid	13,50,000	Profit & loss A/c	8,53,750
15% debenture secured by a			
floating charge	7,50,000		
Interest outstanding on debentures	1,12,500		
Creditors	9,56,250		
Total	**52,31,250**	**Total**	**52,31,250**

Preference dividends were in arrear for 2 years and the creditors include preferential creditors of Rs. 380000.

The assets were realised as follows:

Land and buildings RS 9,00,0000; Plant and Machinery Rs 15,00,0000; Patents Rs2,25000; Stock Rs 4,50,000;Sundry Debtors Rs 6,00,000.

The expenses of liquidation amounted to Rs 27,250.

The liquidator is entitled to a commission of 3% on assets realised except cash.

Assuming the final payments including those on debentures was made on 30.6.2014.

Show liquidator final statement of accounts.

PART A

1. Define Liquidation.
2. Who is called Liquidator?
3. Write Short note on Winding Up.
4. State the functions of a liquidator of a company.
5. Who is a contributory?
6. Give a list of different items which are included under unsecured creditors.
7. State the order of payment.
8. Who is secured creditors?
9. Who is a preferential creditor?
10. What do you mean by creditors voluntary winding up?

PART B

11. Explain the various methods of winding up of a company.
12. What is liquidation? Explain in detail the various modes of liquidating a company.
13. Explain in detail about each item in order of payment.
14. What is statement of Affairs? Give a Performa of statement of affairs and deficiency account.
15. Explain in detail about liquidators final statement of account and also give the form of liquidator's final statement of accounts.
16. 'A' Ltd went into liquidation with the following liabilities:
    - Secured creditors Rs.20000(securities realized Rs.25000)
    - Preferential creditors Rs.600
    - Unsecured creditors Rs.30500

    Liquidation expenses are Rs. 252. Liquidator is entitled to a remuneration of 3% on the amounts realized (including securities with creditors) and 1.5% on the amount distributed to unsecured creditors. The various assets realized Rs.26000 (excluding securities in the hands of secured creditors) Prepare the liquidation's final statement of account.

17. K Ltd went into voluntary liquidation on 30.10.2013. The below given is its balance sheet on that date.

Liabilities	Rs.	Assets	Rs.
2000 equity shares of Rs.100 each	2,00,000	Land and buildings	1,40,000
6% Debentures	1,00,000	Machinery	60,000
Mortgage loan (secured on machinery	50,000	Stock	1,22,500
Sundry Creditors	1,50,000	Debtors	1,10,000
		Cash	2,500
		P & L A/c	65,000
Total	**5,00,000**	**Total**	**5,00,000**

Sundry creditors include Rs.6000 payable as preferential creditors' Assets realized as follows: Land and buildings Rs.60000, Machinery Rs.63500, Stock Rs.90000, Debtors 40% of book value. Liquidation expenses amounted to Rs.1800, Liquidators remuneration 3% on assets realized including cash and 2% on the amount paid to unsecured creditors including preferential creditors. Debenture holders were repaid on 31.12.13 along with two months interest. Prepare liquidator's final statement of account.

18. A liquidator is entitled to receive remuneration @ 2% of the assets realized and 3% on the amount distributed among the unsecured creditors.

The assets realized Rs.7000000 against which payment was made as follows:

Liquidation expenses Rs.50000

Preferential creditors Rs.150000

Secured creditors Rs.4000000

Unsecured creditors: Rs.3000000

Calculate the total remuneration payable to the liquidator.

19. Knight co. ltd went into voluntary liquidation on 31/12/2013 when their Balance sheet read as follows:

Liabilities	Rs.	Assets	Rs.
Issued & subscribed capital:		Land & buildings	7,50,000
15000 10% cumulative preference shares of Rs.100 each fully paid	15,00,000	Plant & machinery	18,75,000
		Patents	3,00,000
		Stock	4,02,500
7500 equity shares of Rs.100 each, Rs.75 paid	5,62,500	Sundry debtors	8,25,000
		Cash at bank	2,25,000
22500 equity shares of Rs.100 each, Rs.60 paid	13,50,000	Profit & loss A/c	8,53,750
15% debenture secured by a floating charge	7,50,000		
Interest outstanding on debentures	1,12,500		
Creditors	9,56,250		
Total	**52,31,250**	**Total**	**52,31,250**

Preference dividends were in arrears for 2 years and the creditors include preferential creditors of rs 380000.The assets were realised as follows : Land and buildings RS 9,00,0000; Plant and Machinery Rs 15,00,0000; Patents Rs2,25000; Stock Rs 4,50,000;Sundry Debtors Rs 6,00,000. The expenses of liquidation amounted to Rs 27,250.The liquidator is entitled to a commission of 3% on assets realised except cash. Assuming the final payments including those on debentures was made on 30.6.2014.

Show liquidator final statement of accounts.

20. The following is the summarized Balance sheet of HarPreet Ltd., as at 31.12.2013

Liabilities	Rs.	Assets	Rs.
Share capital:		Land & buildings	2,60,000
3000 6% cumulative preference shares of Rs.100 each, fully paid	3,00,000	Plant & machinery	1,75,000
1000 equity shares of Rs.100 each fully paid	1,00,000	Stock	37,250
1000 equity shares of Rs.100 each, Rs.50 paid up	50,000	Debtors	15,000
Bank loan (secured on stock & debtors)	25,000	Cash in hand	250
Current liabilities	50,000	Profit & loss A/c	37,500
Pref. dividend arrears Rs.36000			
Total	**5,25,000**	**Total**	**5,25,000**

Under the Articles of Association of the company, the preference shares are preferential as to dividend (whether declared or not) and capital.

The company went into voluntary liquidation and sold the fixed assets, stock and debtors for a sum of Rs.3,75,000 payable in cash.

The expenses of liquidation were Rs.250. A call of Rs.50 per share is made by the liquidator on 1000 equity shares which are partly paid up. The money called is fully paid up.

You are required to prepare the liquidator's final statement of account.

21. The following is the balance sheet of M/unfortunate Ltd. As on 31.12.2013

Particulars	Rs.	Particulars	Rs.
1000 6% preference shares of Rs.100 each fully paid up	4,00,000	Land and buildings	2,00,000
2000 equity shares of Rs.100 each, Rs.75 per share paid up	1,50,000	Plant and machinery	5,00,000
6000 equity shares of Rs.100 eachRs.60 per share paid up	3,60,000	Patents	80,000
5% debentures (having floating charge on all assets)	2,00,000	Stock at cost	1,10,000
Interest outstanding on debentures (also secured as above)	10,000	Sundry Debtors	2,20,000
Creditors		Cash at bank	60,000
		Profit and loss account	2,40,000

On that date, the company went into liquidation. The dividends on preference shares were in arrear for two years. Creditors include a loan of Rs.100000 on mortgage of land and building. The assets realized were as under: Land and buildings – 240000, plant and machinery – 400000, patents – 60000, Stock – 120000, sundry debtors – 160000. The expenses of liquidation amounted to Rs.21800. The liquidator is entitled to a commission of 3% on all assets realized (except cash at bank) and commission of 2% on amounts distributed among unsecured creditors. Preferential creditors amount to Rs. 30000.

All payments were made on 30th June 2014. Prepare the liquidators final statement of account.

TEXT / REFERENCE BOOKS

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4. Hanlf M and A Mukherjee, Fundamentals of Corporate Accountlng, Mcgrawhlll, 2019.

SCHOOL OF MANAGEMENT STUDIES

UNIT – V - CORPORATE ACCOUNTING II - SBA1401

HOLDING COMPANY

MEANING AND DEFINITION OF HOLDING COMPANY:

A holding company is one which controls one or more other companies by means of

(a) Holding majority shares or

(b) Controlling the composition of Board of directors or

(c) Controlling a holding company with subsidiaries.

DEFINITION OF SUBSIDIARY COMPANY:

According to Sec. 4(1) of the Companies, a company is a subsidiary of another company if

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

(b) The other company

- (i) Holds more than half in nominal value of its equity share capital or
- (ii) If it is a company formed before 1^{St} April 1956 with both equity and preference shareholders having the same voting rights, the other company exercises or controls more than half of its voting power, or
- (iii) It is a subsidiary of any company which is that others company subsidiary.

The Indian company Act does not define a holding company directly. Section 4(4) of the companies Act says "A company shall be deemed to be the holding company of another, if that other is its subsidiary".

Advantages Of Holding companies:

Following are the advantages of Holding Company:

1) Subsidiary company maintained their separate identity.
2) The public may not be aware the existence of combination among the various company.
3) Holding company need not to be invest entire amount in the share capital in subsidiary company still enjoy controlling power in such company.
4) It would be possible to carry forward losses for income tax purposes.

5) Each subsidiary company prepares its own accounts and therefore financial position and profitability of each undertaking is known.

6) Holding company may additional acquired or disposed of and the shares in subsidiary company in market whenever if desired.

Disadvantages Of Holding Companies

1) There is a possibility of fraudulent manipulation of accounts.
2) Intercompany transaction may not be at a fair prices.
3) Minority share holders interest may not be properly protected.
4) The accounts of various companies may be made upon different dates to, manipulate profit or financial position of Group companies.
5) Creditors and outsiders shareholder in the subsidiary company may not be aware of true financial position of subsidiary company.
6) The Subsidiary Companies may be force to appoint person of the choice of holding company such as Auditors, Directors other officers etc. at in dually high remuneration.
7) The Subsidiary Company may be force for purchases or sale of goods, certain assets etc. as per direction of holding company.
8) The shareholders in the holding company may not be aware of true financial position of subsidiary company

Legal Requirements Relating to Presentation of accounts by Holding Companies

As laid down in section (212) of the companies Act, 1956. A holding company requires to attach its balance sheet. The following documents and present the same to its shareholders.

a) A copy of the Balance Sheet of the subsidiary.
b) A copy of the Profit and Loss Account of the subsidiary.
c) A copy of the Report of the Board of Directors of the subsidiary.
d) A copy of the Auditors Report of subsidiary.
e) A statement indicating the extent of holding company’s interest in the subsidiary at the end of the accounting year of the subsidiary.

f) Where the financial year of the subsidiary company does not coincident with the financial year of the holding company. a statement showing the following.

i) Whether there are any changes in holding companies interest in subsidiary company since the close of financial year of the subsidiary company.

ii) Details of material changes which have occurred between the end of the financial year or the subsidiary company an end of the financial year of the holding company.

Consolidation of Balance Sheet

A holding company is required to present to its shareholders consolidated balance sheet of holding company and its subsidiaries. Consolidated balance sheet is nothing but combining the balance sheet of holding and its subsidiary together. However assets and liabilities are straight forward, i.e. added line to line and combination of share capital, reserves, and accumulated losses are not directly added in consolidated balance sheet.

Preparation of consolidated balance sheet. The following points need special attention while preparing consolidated balance sheet.

1) Share of holding company and share of minority (outside shareholders).
2) Date of Balance sheet of holding company and that of various subsidiary companies must be same. If they are not so necessary adjustment must be made before consolidation.
3) Date of Acquisition of control in subsidiary companies.
4) Intercompany owing.
5) Revaluation of fixed assets as on date of acquisition, depreciation, adjustment on revaluation amount etc. which are discussed here in after.

Cost of Control / Goodwill / Capital Reserve :

The holding company acquires more than 50% of the shares of the subsidiary company. Such shares may be acquired at a market price which may be at a premium or at discount. This amount is reflected in the balance sheet of holding company of the assets side as investment in the shares of subsidiary company.

This is the price paid for shares in net assets of subsidiary company as on date of its acquisition. Net assets of the subsidiary company consist of share capital, accumulated profits and reserve after adjustment, accumulated losses as on the date of acquisition. If the amount paid by the holding company for the shares of subsidiary company is more than its proportionate share in the net asset of the subsidiary company as on the date of acquisition, the difference is considered as goodwill.

If there is excess of proportionate share in net assets of subsidiary company intrinsic of shares acquired and cost of shares acquired by holding company there will be capital reserve in favour of holding company.

It goodwill already exists in the balance sheet of holding company or both the goodwill thus calculated, will be added up to the existing goodwill. Capital Reserve will be deducted from Goodwill.

In short, net amount resulting from goodwill and capital Reserve will be shown in the consolidated Balance sheet.

Minority Interest :

The claim of outside shareholders in the subsidiary company has to be assessed and shown as liability in the consolidated balance sheet. Minority interest in the net assets of the company is nothing but the proportionate share of aggregation of share capital, reserve surpluses funds etc. proportionate share of all assets should be deducted from the minority interest.

Thus, minority interest is the share of outsider in the following.

1) Share in share capital in subsidiary.
2) Share in reserves (Both pre and post acquisition of subsidiary).
3) Share in accumulated losses should be deducted.
4) Proportionate share of profit or loss on revaluation of assets.
5) Preference share capital of subsidiary company held by outsiders and dividend due on such share capital, if there are profits.

Minority interest means outsiders interest. It is treated as liability and shown in consolidated. Balance sheet as current liability. This amount is basically intrinsic value of shares held by minority.

Capital Profits And Revenue Profits :

The holding company may acquire the shares in the subsidiary company either on the balance sheet date or any date earlier than balance sheet date. All the profit earned by the subsidiary company till the date of acquisition of shares by holding company have to be taken as capital profits for the holding company.

Such reserves lose their individual identity and considered as capital profits. In case, the holding company acquired shares on a date other than balance sheet date of subsidiary, the profits of subsidiary company will have to be apportioned between capital profits and Revenue profits from the point of view of the holding company. Thus any profit earned by subsidiary company before the date of acquisition is the capital profit, while any profit earned by subsidiary company after the date of acquisition is Revenue profits. While preparing the consolidated balance sheet share in capital profits should be adjusted with the cost of control and Revenue profits / Reserves should be merged with the balances in the Reserve and surpluses of the holding company.

Elimination of Investments In Shares of Subsidiary Company :

Investment in shares in subsidiary company represents the cost paid by the holding company to acquire the shares of the subsidiary company. The investment in shares of the subsidiary company entitles the holding company to share the net assets of the subsidiary company. While preparing consolidated balance sheet all the assets and liabilities of subsidiary company have to be merged with those of the holding company and therefore it is logical to eliminate investments of the holding company in the shares of the subsidiary company. Share in net assets of the outside shareholders should treat as the minority interest it is shown in the balance sheet on the liability side of holding company.

Mutual Owing / Inter Company Transactions :

The holding company and the subsidiary company may have number of inter company transactions in any one or more of the following matters.

1. Loan advanced by the holding company to the subsidiary company or vice versa.
2. Bill of Exchange drawn by holding company on subsidiary company or vice versa.
3. Sale or purchase of goods on credit by holding company form subsidiary company.
4. Debentures issued by one company may be held by the other.

Contingent Liabilities:

As 29 defines a contingent liabilities as: A possible obligation that arises from past events and whose existence will be confirmed only by occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity or a present obligation that arises from the past events but not recognized / provided.

Revaluation of Assets And Liabilities :

The holding company may decide to revalue the assets and liabilities of the subsidiary company on the date of acquisition of share in the subsidiary company. Any profit or loss on such revaluation is a capital profit or loss.

Profit on revaluation of assets of the subsidiary company whether before or after date of acquisition of shares by the holding company, the same must be shared by the holding company, and the minority share holders in proportion to their respective holding. The minority share holders share should be added to the minority interest. But the holding company share should be treated as capital profits and considered in cost of control.

Further readjustment for depreciation on increase in the value of assets should be made in the profit and loss account in the subsidiary company. And same should be deducted from the Revenue profits of the subsidiary company.

Preference Shares In Subsidiary Company :

In case the subsidiary company has also Preference share capital, its treatment on consolidation will be as follows:

a) Nominal value of non participating Preference share capital of the subsidiary company is held by the holding company should be adjusted in cost of control against the cost of preference Shares

b) Preference shares held by outsiders. Paid up value of such Preference shares should be included in Minority interest.

Bonus Shares:

The issue of bonus shares by the subsidiary company will increase the number of shares held by the holding company as well as by the minority share holders without any additional cost. However ratio of holding will not change. Issue of bonus shares may or may not affect the cost of control depending upon whether such shares are issued out of capital profits or revenue profits.

i) Issue of bonus shares out of pre acquisition profits (capital profits):

In case the subsidiary company issues bonus shares out of capital profits the cost of control remains unaffected in the consolidated balance sheet on account of issue of bonus shares. As share capital increases by the amount of bonus and capital profits decreases by the same amount. Hence, there is no effect on cost of control when bonus shares are issued from pre acquisition profits.

ii) Issue of bonus share of post acquisition profits (Revenue profits):

In this case, a part of revenue profits will get capitalised resulting decrease in cost of control or increase in capital reserve.

Issue of bonus shares whether out of capital profits or revenue profits will not affect on minority interest. Minority interest will remain unaffected.

Treatment of Dividend:

When subsidiary company pays dividend, the holding company will naturally receive its due share. On receipt the holding company will debit bank account. However account to be credited depends upon whether dividend received out of pre-acquisition profit or out of post acquisition profit. Dividend received by the holding company out of Pre- acquisition profit should be credited to investment account. Only the dividend out of post acquisition profit should be treated as Revenue income and credited to profit and loss account.

Steps for preparing consolidated balance Sheet of the holding company: Step 1:

Add all the assets of subsidiary company with the assets of holding company. But Investment of holding company in Subsidiary company will not shown in consolidated balance sheet because, investment in subsidiary company will automatically adjust with the amount of share capital of subsidiary company in holding company.

Step 2:

Add all the liabilities of subsidiary company with the liabilities of holding company. But Share capital of subsidiary company in holding company will not shown in the consolidated balance sheet in the books of holding company. Because, this share capital automatically adjust with the amount of the investment of holding company in to subsidiary company .

Step 3:

Treatment of Pre – Acquisition of reserve and profit- Capital Profit: Pre – acquisition profit and reserve of subsidiary company will be shown as capital reserve in consolidated balance sheet but the value of minority interest's profit or reserves deducts from it and add in minority interest value.

Step 4:

Calculate post acquisition profits- Revenue Profit. After the date of purchasing the shares of subsidiary company , profit of subsidiary company will also deem of holding company and it include in the profit of holding company and we also separate the part of profit of minority interest and add in minority interest's value and shown in liability side .

Step 5:

Calculate cost of capital / Goodwill or Capital Reserve: If holding company purchases shares of subsidiary company at premium, then the value of premium will be deemed as goodwill or cost of capital and shows as goodwill on the assets side of consolidated balance sheet. But if holding company purchases the shares of subsidiary company at discount, then this value of discount will be capital reserve and show in the liability side of consolidated balance sheet.

Step 6:

Calculation of minority interest: First of all we should know what minority interest is. Minority interest is the shareholder but there is not holding company's shareholder. So, when holding company shows consolidated balance sheet, it is the duty of accountant to show minority interest in the liability side of consolidated balance sheet.

Step 7:

Elimination of common transactions. All common transaction between holding company and subsidiary company will not show in the consolidated balance. There following common transaction

1. goods sold and goods purchase on credit and the value of debtor or creditor either subsidiary company or holding company will not shown in consolidated balance sheet
2. Value of bill payable or bill receivable of holding company on subsidiary company will also not shown but if some bills value is discounted from third party then either of both company's payable value shown as liability in the consolidated balance sheet.

Step 8:

Treatment of unrealized Profits: If subsidiary company sells the goods to holding company or holding company sells the goods to subsidiary company at profit and if such goods will not sold in third party , then the profit will not realized , so such unrealized profit will not credited to profit and loss account . At this time a stock reserve account is opened and all amounts of unrealized profit transfers to this account and this accounts total amount is deducted from closing stock of consolidated balance sheet.

Step 9 :

Treatment of dividends: If holding company gets the dividends from subsidiary company, then this will divide into two parts. If subsidiary company declare dividend out of capital profits, then this will add in capital reserves in consolidated balance sheet. But, if subsidiary company has declared the profit out of revenue gains, then this dividend will add in general profit and loss account and will shown in the liability side of consolidated balance sheet.

Steps involved in Preparation of consolidated balance sheet:

i) Holding-Minority ratio
ii) Capital profit
iii) Revenue profit
iv) Minority interest
v) Cost of control or Goodwill
vi) Elimination of Unrealized profit
vii) Elimination of Inter-company debt
viii) Consolidated balance sheet.

Consolidated balance sheet of Holding co and Subsidiary as on………………

Liabilities	Rs	Rs	Assets	Rs	Rs
Share capital:		xxxx	**Fixed Assets:**		
Share capital of Holding Co			Holding Co	xxx	
			Subsidiary Co	xxx	xxx
Reserves and surplus:					
			Investments:		
P&L a/c	xxx		H.Co	xxx	
(+) Revenue profit of H.Co	xxx		S.Co	xxx	xxx
(-) Unrealised profit	xxx	xxx			
			Current asset Loan and Advances:		
Secured Loan:					
H.Co	xxx		Subsidiary Co.	xxx	
S.co	xxx	xxx	(-) Inter Company Dept.	xxx	
Unsecured Loan:				xxx	
H.Co	xxx		(-) Unrealised profit	xxx	xxx
S.co	xxx	xxx			
			Miscellaneous Expenditure:		
Current Liabilities & Provisions:			P & L of Holding co	xxx	xxx
H.Co	xxx				
S.Co	xxx	xxx			
(-) Inter Company Liabilities	xxx	xxx			
Minority Interest		xxx			
Total		**xxx**	**Total**		**xxx**

1.Prepare a consolidated Balance Sheet from the following Balance sheet

Liabilities	H.Ltd Rs	S.Ltd Rs	Assets	H.Ltd Rs	S.Ltd Rs
Capital :			Sundry assets	885	1,510
Re.1 shares	1,400	1,000	Shares's in S Ltd		
Creditors	350	190	900 shares at cost	1,125	-
P&L A/c	260	320			
	2,010	**1,510**		**2,010**	**1,510**

On the date of acquisition of shares by H.Ltd. in S.Ltd the credit balance on latter's profit and loss was Rs. 220. No dividends have been declared since that date.

2. Balance sheet as on 31-12-2013.

Liabilities	H.Ltd Rs	S.Ltd Rs	Assets	H.Ltd Rs	S.Ltd Rs
Capital :			Sundry assets	16,000	10,000
R.1 each	10,000	5,000	5,000 shares in S Ltd	6,000	
Reserve	5,000	-			
P&L A/c	4,000	1,800			
Creditors	3,000	3,200			
	22,000	**10,000**		**22,000**	**10,000**

Shares of S.Ltd were purchased by H.Ltd on 30 th june 2013. On 1St January 2013 the Balance sheet of S.Ltd showed a loss of Rs. 3,000. Prepare the consolidated balance sheet.

3. The following are the Balance sheets of Sun Ltd. and Moon Ltd. as on Dec 31,2013.

Liabilities	**Sun.Ltd Rs**	**Moon.Ltd Rs**	**Assets**	**Sun.Ltd Rs**	**Moon.Ltd Rs**
Share Capital :			Fixed assets	1,95,000	70,000
Shares of Rs.10 each	2,00,000	50,000	Shares in Moon ltd.	60,000	-
General Reserve	50,000	20,000	Debtors	35,000	25,000
P&L A/c on1.1.2013	30,000	7,500	Other current assets	60,000	12,500
Profit for the year 2013	50,000	20,000			
Creditors	20,000	10,000			
	3,50,000	**1,07,500**		**3,50,000**	**1,07,500**

(a) Sun Ltd. purchased on July, 1 2013 4,000 shares in Moon Ltd.at Rs.15 each.

(b) Stock in Moon Ltd. includes Rs.7,500 worth of goods purchased from Sun Ltd. which company sells goods at 25% above cost.

(c) Creditors of Moon Ltd. include Rs.5,000 due to Sun Ltd.

Prepare a consolidated Balance Sheet as on December 2013.

4. From the following Balance Sheet on 31.12.2013 relating to H Ltd. and S. Ltd .Prepare a consolidated Balance Sheet.

Liabilities	**H.Ltd Rs**	**S.Ltd Rs**	**Assets**	**H.Ltd Rs**	**S.Ltd Rs**
Share Capital :			Sundry fixed assets	80,000	12,000
(Shares of Rs.10 each)	1,00,000	20,000	Stock	61,000	24,000
P&L A/c	40,000	12,000	Debtors	13,000	17,000
General Reserve	10,000	6,000	Bills Receivable	1,000	-
Creditors	20,000	12,000	Shares in S Ltd at cost(15,000 shares)	15,000	-
Bills payable	-	3,000			
	1,70,000	**53,000**		**1,70,000**	**53,000**

(a) All profits of S Ltd have been earned after the shares were acquired by H. Ltd. But there was already a reserve of Rs. 60,000 on that date.

(b) All the bills payable of S. Ltd were accepted in favour of H. Ltd.

(c) Sundry assets of S.Co Ltd. under valuation by Rs.2,000.

(d) The stock of H. Ltd includes Rs. 5,000 purchased from H .Ltd . The profit added was on cost.

5. On 31St March, 2013 the balance sheets of H.Ltd. and its subsidiary S Ltd. stood as follows:

Liabilities	**H.Ltd Rs**	**Y.Ltd Rs**	**Assets**	**X.Ltd Rs**	**Y.Ltd Rs**
Equity share capital	8,00,000	2,00,000	Fixed assets	5,50,000	1,00,000
General Reserve	1,50,000	70,000	75% shares in		
P&L A/c balance	90,000	55,000	S. Ltd.(at cost)	2,80,000	-
Creditors	1,20,000	80,000	Stock	1,05,000	1,77,000
			Other current assets	2,25,000	1,28,000
	11,60,000	**4,05,000**		**11,60,000**	**4,05,000**

Draw a consolidated Balance Sheet as at 31st March, 2013 after taking into consideration the following information.

(i) H. Ltd acquire the shares on 31st July, 2012.

(ii) S. Ltd. earned profit of Rs. 45,000 for the year ended 31st March 2013.

(iii) In January 2012 S.Ltd sold to H.Ltd goods costing Rs. 15,000 for Rs.20,000. On31st March, 2013 half of there goods were lying as unsold in the godown of H. Ltd.

6. The Balance Sheet of H Ltd. and S Ltd on 31.12.2013 were as under.

Liabilities	H.Ltd Rs	S.Ltd Rs	Assets	H.Ltd Rs	S.Ltd Rs
Share capital:			Land & Building	60,000	-
(shares of 100 each)	2,00,000	50,000	Plant & Machinery	2,00,000	-
General Reserve	30,000	10,000	Stock	40,000	85,000
P&L A/c on 1.1.2013	40,000	20,000	Sundry debtors	10,000	30,000
Profit for 2013	50,000	25,000	Cash at bank	10,000	10,000
Creditors	30,000	30,000	300 shares in S Ltd		
Bank overdraft	20,000	-	at cost	65,000	-
Bills payable	15,000	-	Bills receivable	-	10,000
	3,85,000	**1,35,000**		**3,85,000**	**1,35,000**

Shares were acquired by H Ltd. on 1st July 2013. Bills receivable held by S Ltd .are all accepted by H Ltd. Included in the debtors of S Ltd ,is Rs.6,000 owned by H Ltd, in respect of goods supplied. Prepare the consolidated Balance Sheet.

7. The following Balance Sheet on 31.12.2013 are presented to you.

Liabilities	H.Ltd Rs.	Y.Ltd Rs.	Assets	H.Ltd Rs.	Y.Ltd Rs.
Share capital:			Fixed assets	3,50,000	1,50,000
Shares of Rs.100 each	5,00,000	2,00,000	Stock –in-trade	90,000	40,000
General Reserve	1,00,000	-	6% debentures in		
P&L A/c	80,000	-	S Ltd. acquired@ par	60,000	-
6% debentures	-	1,00,000	Shares in S ltd.		
Trade Creditors	75,000	45,000	1,500@ Rs.80 each	1,20,000	-
			Cash at bank	75,000	25,000
			Debtors	60,000	30,000
			P&L A/c	-	1,00,000
	7,55,000	**3,45,000**		**7,55,000**	**3,45,000**

H Ltd acquired the shares on 1st May 2013. The Profit & Loss of S. Ltd showed a debit balance of Rs. 1,50,000 on 1st January 2013. During March 2013 goods costing Rs.6,000 were destroyed against which the 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 31st December 2013. Prepare the consolidated Balance sheet.

8. The following are Balance Sheets of A Ltd. and B Ltd. as at 31st December 2013.

Liabilities	**A. Ltd Rs**	**B. Ltd Rs**	**Assets**	**A. Ltd Rs**	**B. Ltd Rs**
Equity share capital, Rs10 each	1,00,000	50,000	Sundry assets	66,250	69,100
Revenue reserve	9,000	10,000	Shares in B Ltd. at cost	70,000	-
P & L A/c on 1.1.2013	8,500	8,000	Goodwill	-	10,000
Profit for the year less transfer to reserves	3,750	3,500			
Creditors	15,000	7,600			
	1,36,250	**79,100**		**1,36,250**	**79,100**

Profit for the Year of B Ltd, was Rs.6,000 out of which Rs. 2,500 was transferred to reserves.

The holding of A Ltd. in B Ltd. is 90% acquired a year ago on 31.12.2012.

Write off from sundry assets of A Ltd. Rs 9,000 . Also write off Rs.3,100 form the sundry assets of B Ltd. out of the current years profit.

Draft a consolidated Balance Sheet of A Ltd and it’s subsidiary.

9. From the Balance sheets given below prepare a consolidated Balance Sheet of A Ltd and it Subsidiary company B Ltd.

Liabilities	A.Ltd Rs	B.Ltd Rs	Assets	A.Ltd Rs	B.Ltd Rs
Share capital:			Land & Building	6,40,000	2,00,000
Shares of Rs.10 each	25,00,000	6,00,000	Machinery	12,60,000	3,40,000
General Reserve	3,60,000	1,20,000	Furniture	1,40,000	60,000
P&L A/c	2,40,000	1,80,000	40,000 shares in		
Trade Creditors	3,50,000	1,00,000	B Ltd.	5,00,000	-
			Stock	4,10,000	2,50,000
			Debtors	3,80,000	1,00,000
			Bank Balance	1,20,000	50,000
	34,50,000	**10,00,000**		**34,50,000**	**10,00,000**

At the date of acquit ion by A Ltd . of its holding of 40,000 share in B Ltd. the latter company had undistributed profits and reserves amounting to Rs.1,00,000. None of which had been distributed since then.Prepare a consolidated Balance Sheet of A Ltd and it Subsidiary company B Ltd.

10. The Balance Sheets of C Ltd. and D. Ltd as at 31st December ,2013 are as follows

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

In the case of D Ltd, profit for the year ended 31st December 2013 is Rs. 12,000 and transferred to reserve is Rs. 5,000. The holding of C. Ltd. in D. Ltd .is 90 % acquired on 30th June 2013. Draft a consolidated Balance Sheet of C Ltd. and its subsidiary.

11. The following are the Balance Sheets of H. Ltd and its Subsidiary S. Ltd as on 31.3.2014

Liabilities	H.Ltd Rs	Y.Ltd Rs	Assets	H.Ltd Rs	Y.Ltd Rs
Share capital :			Machinery	3,00,000	1,00,000
Rs.10 each fully paid	6,00,000	2,,00,000	Furniture	70,000	45,000
General reserve	1,50,000	70,000	70% shares in S. Ltd		
Profit & Loss A/c	70,000	50,000	at cost	2,60,000	-
Creditors	90,000	60,000	Stock	1,75,000	1,89,000
			Debtors	55,000	30,000
			Cash at Bank	50,000	10,000
			Preliminary expenses	-	6,000
	9,10,000	**3,80,000**		**9,10,000**	**3,80,000**

H Ltd. acquired the share of S. Ltd on 30th June . On 1st April ,2013 S.Ltd is general reserve and Profit & Loss account stood at Rs. 60,000 and Rs.20,000 respectively. No part of the preliminary expenses was written off in the year ended 31.3.2014.

12. The balance sheet of H ltd and S ltd as on 31st December 2012 are given below:

Liabilities	H ltd Rs.	S ltd Rs.	Assets	H ltd Rs.	S ltd Rs.
Shares of Rs.10 each	5,00,000	1,00,000	Fixed assts	5,00,000	1,70,000
General reserve	80,000	30,000	8000 shares in S ltd	1,40,000	-
Profit & loss	60,000	40,000			
Total	**6,40,000**	**1,70,000**	**Total**	**6,40,000**	**1,70,000**

S ltd had the reserve of Rs.30000 when H ltd acquired the shares in S ltd but the profit & loss account balance of S ltd was fully earned after the purchase of shares.

S ltd decided to issue the bonus shares out of post acquisition profit in the ratio of 2 shares for every 5 shares held.

Calculate the cost of control before the issue of bonus shares and after the issue of bonus shares.

13. The Balance Sheets of H Ltd. and S Ltd. on 31st December 2013 were as follows

Liabilities	**A. Ltd Rs**	**B. Ltd Rs**	**Assets**	**A. Ltd Rs**	**B. Ltd Rs**
Share capital:			Land & Building	3,10,000	1,60,000
10% pref. shares of Rs.100 each	-	1,00,000	Machinery Less 10% depreciation	2,70,000	1,35,000
Equity shares of Rs.100 each	10,00,000	4,00,000	3,000 shares in S Ltd.	4,50,000	-
General reserve	1,00,000	50,000	Stock at cost	2,20,000	1,50,000
P & L A/c on 1.1.2013	40,000	30,000	Debtors	1,55,000	90,000
Profit for 2013	2,00,000	80,000	Bank balance	85,000	1,95,000
Creditors	1,50,000	70,000			
	14,90,000	**7,30,000**		**14,90,000**	**7,30,000**

H Ltd. acquired 3,000 equity shares in S Ltd on 1St July 2013. As on the date of acquisition, H Ltd. found that the value of Land and Buildings and Machinery of S Ltd, should be Rs. 1,50,000 and Rs. 1,92,,500 respectively.

Prepare the consolidated Balance Sheet of H Ltd and its Subsidiary S Ltd, showing the asset at their proper values.

Part A

1. Define Holding Company.
2. Describe the meaning of Subsidiary Company.
3. Distinguish between capital profits and revenue profits.
4. Write a short note on minority interest.
5. What is cost of control?
6. How is minority interest ascertained?
7. State examples for mutual obligation.
8. Write a note on consolidated balance sheet.
9. What are revenue profits?
10. What is capital dividend?

PART B

1. When a company does become holding company?

2. Explain the legal requirements relating to presentation of accounts by holding companies.

3. Elucidate the methods of consolidating the balance sheets of a holding company.

4. Explain the treatment of the following while consolidating accounts of holding companies and its subsidiary companies
   i) Bonus shares
   ii) profit/loss on revaluation of Assets

5. Briefly describe the steps for preparing consolidated balance Sheet of the holding company and its subsidiary company.

6. Distinguish between Holding Company and Subsidiary Company.

7. The balance sheet of H Ltd and S Ltd as on 31-3-2012 are as follows

Liabilities	H Ltd Rs.	S Ltd Rs	Assets	H Ltd Rs.	S Ltd Rs
Share capital of Rs 10 each	4,00,000	1,00,000	Fixed Assets	5,00,000	2,00,000
Sundry liabilities	2,00,000	1,00,000	Investment: 10000 shares of Rs. 10 each in S Ltd	1,00,000	-
Total	**6,00,000**	**2,00,000**	**Total**	**6,00,000**	**2,00,000**

8. The balance sheet of A Ltd and B Ltd as at 31st December, 2012 are as follows:

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

In the case of B Ltd, profit for the year ended 31st December2012 is Rs. 12000 and transfer to reserve is Rs. 5000. The holding of A Ltd in B Ltd is 90% acquired on 30th June 2012. Prepare a consolidated balance sheet of A Ltd and its subsidiary.

9. From the following Balance sheet relating to C Ltd and D Ltd, prepare consolidated balance sheet.

Liabilities	C Ltd	D Ltd	Assets	C Ltd	D Ltd
Share capital (shares of Rs. 10 each)	10,00,000	2,00,000	Sundry Assets	8,00,000	1,20,000
General Reserve	1,0,0000	60,000	Stock	6,10,000	2,40,000
Profit & Loss A/c	4,00,000	1,20,000	Debtors	1,30,000	1,70,000
Creditors	2,00,000	1,20,000	Bills receivable	10,000	-
Bills payable	-	30,000	Shares in D Ltd at cost (15000 shares)	1,50,000	
Total	**17,00,000**	**5,30,000**	**Total**	**17,00,000**	**5,30,000**

(i) All profits of D Ltd have been earned after shares were acquired by C Ltd. But there was already a reserve of Rs. 60000 on that date

(ii) All the bills payable of D Ltd were accepted in favour of C Ltd.

(iii) The stock of C Ltd includes Rs. 50000 purchased from D Ltd. The profit added was 25% on cost.

10.The Balance sheets as on 31st March, 2014 is given below:

Liabilities	H Ltd.	S Ltd.	Assets	H Ltd.	S Ltd.
Equity Shares of Rs. 10 each fully Paid	5,00,000	2,00,000	Fixed Assets	3,00,000	1,00,000
General Reserve	1,00,000	50,000	60% shares in S Ltd. at cost	1,62,400	--
Profit and loss	60,000	35,000	Current Assets	2,77,600	2,39,000
Creditors	80,000	60,000	Preliminary Exp.	-	6,000
	7,40,000	**3,45,000**		**7,40,000**	**3,45,000**

H Ltd. acquired the share on 1 st April 2013 on which date General Reserve and profit and loss Account of S Ltd. showed balances of Rs. 40,000 and Rs. 8,000 respectively. No part of preliminary expenses was written off during the year ending 31st March, 2014. Prepare the consolidated balance sheet of H Ltd. and its subsidiary S Ltd. as on 31st March 2014.

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