SATHYABAMA

INSTITUTE OF SCIENCE AND TECHNOLOGY

(DEEMED TO BE UNIVERSITY)

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SCHOOL OF MANAGEMENT STUDIES

UNIT – I - ADVANCED CORPORATE ACCOUNTING- SBAA1401

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.

<u>Accounting Entries in the books of Transferee Company or Purchasing company</u>

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	Fixed Assets:	
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 31st dec.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
		Current assets	400000
Capital reserve	200000	Cash at bank	200000
Bank loan	200000	Profit & loss A/c	300000
Trade creditors	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	120000	Machinery	50000
fully paid		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 31^{st} 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.

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SCHOOL OF MANAGEMENT STUDIES

UNIT – II - ADVANCED CORPORATE ACCOUNTING-SBAA1401

UNIT II

FINAL ACCOUNTS OF INSURANCE COMPANY

MEANING:

In business, there are risks and uncertainties of human beings may suffer losses through accidents, fire, floods, earth quakes and other natural calamities. To protect themselves from these losses and risks, people may take a policy from the insurance company.

DEFINITION:

According to Justice Tindle, "Insurance is a contract through which the insurer agrees to pay a stipulated amount to the insured on the occurrence of an eventuality in lieu of a sum of premium.

INSURER:

The person one who agrees to indemnify these losses for a sum of money known as premium is called 'Insurer'.

INSURED:

The person for whom such a risk is to be borne is called 'Insured'.

INSURANCE POLICY:

The document through which the insurance company and the insured enter into contract is called 'Insurance Policy'.

TYPES OF INSURANCE

1. **LIFE INSURANCE:**

Under life insurance a certain fixed sum is payable on the death of the insured or on the expiry of certain fixed period whichever is earlier. Life policies are of various types

(i) Whole Life policy:

The premium continues to be paid throughout the life time of the Assured.

(ii) i) Endowment policy:

The money is payable either at the end of a specified number of Years or upon death of the insured person whichever is earlier.

(iii) With profit policy:

The policyholders are entitled to participate in the profit of the company in addition to receiving a guaranteed sum of money on maturity.

(iv)) Without profit policy:

The policy holders will get only a fixed sum of money on maturity and they are not eligible to get any share in the profits of the company.

(v)Annuity:

The person taking out an annuity may pay the premium in regular Installments over a certain period or may pay it in a lump sum at one go

2. GENERAL INSURANCE:

(i) Fire insurance:

The insurance company undertakes to pay the insured for the damage or loss caused to the property insured against fire for consideration of premium.

(ii) Marine insurance:

Contract of marine insurance covers cargo, ship and also freight. It is a contract of insurance under which the insurer agrees to indemnify the insured against the losses incidental to marine adventure.

IMPORTANT TERMS:

1. Premium:

Premium is the consideration for payment of the sum assured on completion of the stipulated period of time or on the happening of the death of policy holder.

2. Re-insurance:

In order to diversify the risk, the insurance company may safeguard its interest by insuring the same risks either wholly or partially with another insurance company

3. Claims:

Any amount payable by the insurance company to the insured is called claim.

It may arise out of death or maturity of the policy holder. This is the major source of expenditure for the insurance company.

Claims can be classified into four types:

a. Claims intimated, accepted and paid

b. Claims intimated, accepted but not paid

c. Claims intimated but not yet accepted

d. Claims rejected

4. ***Commission:***

Insurance company pays commission to its agents.

5. ***Commission on Re-insurance accepted:***

It is the commission by an insurance company payable to another insurance company for the reinsurance business

6. ***Commission on Re-insurance ceded:***

It is the commission receivable by an insurance company from another insurance company for the re-insurance business.

7. ***Annuities:***

Annuity is an annual payment guaranteed and paid by an insurance company regularly as long as the insured is alive in consideration of a lump sum received in the beginning.

8. ***Surrender:***

It means the cash value of the policy on the date of surrendering all the rights of the policy. Ex: A person may take out of 20 years policy but he may wish to stop paying premiums after he has paid them for three years. He may surrender the policy and thereafter the life insurance company will pay him a small proportion of the total premium paid.

9. ***Bonus:***

Bonus refers to the share of profit which a policy holder gets from the insurance company

10. ***Bonus in cash:***

Bonus paid in cash to the eligible policy holder.

11. Bonus in reduction of premium:

It refers to the bonus which is payable in cash but utilized by the policyholder to adjust the premium due from them

12. Reversionary Bonus:

It refers to bonus declared by insurance company which is payable only on the maturity of the policy together with policy amount.

13. Life Assurance Fund:

A life insurance company maintains a life assurance fund which represents the excess of revenue income over revenue expenditure relating to the life insurance business.

IRDA (INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY)

The IRDA (Insurance Regulatory and Development Authority) is the national regulatory body for Insurance industry (both Life and Non-Life Insurance Companies) under the auspices of Government of India, situated at Hyderabad. IRDA was established by an act enacted in Indian Parliament known as IRDA Act 1999 and was amended in 2002 to incorporate some emerging requirements as well as to overcome some deficiencies in the entire process. The mission of IRDA as stated in the act is as follows:-

a) To protect the interests of the policyholders

b) To promote, regulate and ensure orderly growth of the insurance industry and for matters connected therewith or incidental thereto

c) Conduction of insurance businesses across India in an ethical manner.

DUTIES, POWERS AND FUNCTIONS OF IRDA:

The duties, powers and functions of IRDA have been specified under Section 14 of IRDA Act, 1999. The IRDA Authority has the duty to promote, regulate and ensure orderly growth of the insurance and re-insurance businesses across India, subject to the provisions of this Act and any other additional law that is being enforced.

Without prejudice to the generality of the provisions contained in sub-section (1) of IRDA Act, the powers and functions of the Authority shall include:

1. Issuing a certificate of registration to the applicant as well as modify, renew, withdraw, suspend or cancel any such registration that is deemed unfit.
2. Protecting the interests of the policyholders in matters concerning assigning of insurance policy, nomination by policyholders, settlement of insurance claim, insurable interest, surrender value of policy and other terms and conditions based on contracts of insurance.
3. Specifying requisite qualifications, practical training and code of conduct for insurance intermediaries, insurance brokers and agents.
4. Specifying the code of conduct for surveyors and loss assessors.
5. Promotion of efficiency in the conduct of insurance business.
6. Promoting and regulating professional organizations connected with the insurance and re-insurance business across India.
7. Levying fees, commission and other charges for carrying out the purposes of this Act.
8. Calling for data or information from, undertaking inspection of, conducting enquiries and investigations, conducting audit of the insurers, intermediaries, insurance intermediaries and other organizations connected with the insurance business.
9. Under section 64U of the Insurance Act, 1938 (4 of 1938), controlling and regulation of the rates, advantages, terms and conditions etc that may be offered by insurers (or Insurance Companies) in respect of general insurance business not so controlled and regulated by the Tariff Advisory Committee.
10. Specifying the manner and form in which books of account shall be maintained and statement of accounts, financial statements etc shall be rendered by insurers and other insurance intermediaries.
11. Keeping a tab, exercising control and regulating investment of funds by insurance companies.
12. Regulating the maintenance of margin of solvency by the Insurers.

13. Adjudication of disputes between insurers and intermediaries or insurance intermediaries, hospitals, healthcare organizations or with customers.
14. To effectively supervise the functioning of the Tariff Advisory Committee.
15. Specifying the percentage of premium income of the insurer to finance schemes for promoting and regulating professional organizations referred to in clause.
16. Specifying the percentage of life insurance business and general (or non-life) insurance business to be undertaken by the insurance company in the rural or social sector.
17. Exercising any such other powers that may be prescribed with passage of time.

REVENUE ACCOUNT F O R M A T

Particulars	**Schedule**	**Current Year**	**Previous Year**
		(Rs.'000)	**(Rs.'000)**
Premiums earned – net			
(a) Premium (b) Reinsurance ceded	**1**		
Income from Investments			
(a) Interest, Dividends & Rent – Gross (b) Profit on sale/redemption of investments (c) (Loss			
Other Income (to be specified)			
TOTAL (A)			
Commission	**2**		
Operating Expenses related to Insurance Business	**3**		
Provision for doubtful debts			
Bad debts written off			
Provision for Tax			
Provisions (other than taxation)			
(a) For diminution in the value of investments			
TOTAL (B)			
Benefits Paid (Net)	**4**		

PROFIT & LOSS ACCOUNT F O R M A T

Particulars	**Schedule**	**Current Year**	**Previous Year**
		(Rs.'000)	(Rs.'000)
Amounts transferred from/to the Policyholder Account (Technical Account)			
Income From Investments			
(a) Interest, Dividends & Rent – Gross (b) Profit on sale/redemption of investments (c) (Loson sale/ redemption of investments)			
Other Income (To be specified)			
TOTAL (A)			
Expense other than those directly related to The insurance business			
Bad debts written off			
Provisions (Other than taxation)			
(a) For diminution in the value of investment(Net) (b) Provision for doubtful debts (c) Others (to be specified)			
TOTAL (B)			
Profit/ (Loss) before tax			
Provision for Taxation			
Profit / (Loss) after tax			
APPROPRIATIONS			
(a) Balance at the beginning of the year. (b) Interim dividends paid during the year			

BALANCE SHEET FORMAT

Particulars	**Schedule**	**Current Year**	**Previous Year**
		(Rs.'000)	**(Rs.'000)**
SOURCES OF FUNDS			
Shareholders' funds			
Share capital	**5**		
Reserves and surplus	**6**		
Credit/[debit] fair value change account			
Sub-Total			
Borrowings	**7**		
Policyholders' funds:			
Credit/[debit] fair value change account			
Policy liabilities			
Insurance reserves			
Provision for linked liabilities			
Sub-Total			
Funds for future appropriations			
TOTAL			
APPLICATION OF FUNDS			
Investments			
Shareholders'	**8**		
Policyholders'			
Assets held to cover linked liabilities			
Loans	**9**		
Fixed assets	**10**		
Current assets			
Cash and Bank Balances	**11**		
Advances and Other Assets	**12**		

Sub-Total (A)			
Current liabilities	13		
Provisions	14		
Sub-Total (B)			
Net current assets (C) = (A – B)			
Miscellaneous expenditure (to the extent no	15		
Debit balance in profit & loss account			
TOTAL			

SCHEDULE-1 PREMIUMS

Particulars	Current year (Rs.'000)	Previous year (Rs.'000)
First year premiums		
Renewal Premiums		
Single Premium		
TOTAL PREMIUM		

SCHEDULE-2 COMMISSION EXPENSES

Particulars	Current year (Rs.'000)	Previous year (Rs.'000)
Commission paid		
Direct - First year premiums		
- Renewal premiums		
- Single premiums		
Add: Commission on Re-insurance Accepted		
Less: Commission on Re-insurance Ceded		
Net commission		

SCHEDULE 3 OPERATING EXPENSES RELATED TO INSURANCE BUSINESS

Particulars	Current year	Previous Year
	Rs.	Rs.
Employees' remuneration & welfare benefits		
Travel, conveyance and vehicle running expenses		
Training expenses		
Rents, rates & taxes		
Repairs		
Printing & stationery		
Communication expenses		
Legal & professional charges		
Medical fees		
Auditors' fees, expenses etc a) as auditor b) as adviser or in any other capacity, in respect of (i) Taxation matters (ii) Insurance matters (iii) Management services c) in any other capacity		
Advertisement and publicity		
Interest & Bank Charges		
Others		
Depreciation		
Total		

SCHEDULE 4 BENEFITS PAID (NET)

Particulars	Current Year Rs	Previous Year Rs.
1. Insurance Claim:		
(a) Claims by Death,		
(b) Claims by Maturity,		
(c) Annuities / Pension payment,		
(d) Others Benefits		
2. (Amount ceded in reinsurance):		
(a) Claims by Death,		
(c) Annuities/Pension payment,		
(d) Others Benefits		
3. Amount accepted in reinsurance:		
(a) Claims by Death,		
(b) Claims by Maturity,		
(c) Annuities/Pension payment,		
(d Others Benefits		
Total		

SCHEDULE 5 SHARE CAPITAL

Particulars	Current Year Rs	Previous Year Rs.
Authorised Capital		
Equity Shares of Rs. … each		
Issued Capital		
Equity Shares of Rs. ….each		
Subscribed Capital		
Equity Shares of Rs. ….each		
Called-up Capital		
Equity Shares of Rs. … each		
Less : Calls unpaid		
Add : Shares forfeited (Amount		
Less : Par value of Equity Shares bought		
Less : Preliminary Expenses		
Less: Expenses including commission or brokerage on underwriting		
Total		

SCHEDULE 6 RESERVES AND SURPLUS

Particulars	Current Year (Rs.'000)	Previous Year (Rs.'000)
Capital Reserve		
Capital Redemption Reserve		
Share Premium		
Revaluation Reserve		
General Reserves		
Less: Debit balance in Profit and Loss		
Less: Amount utilized for Buy-back		
Catastrophe Reserve		
Other Reserves		
Balance of profit in Profit and Loss		

SCHEDULE 7 BORROWINGS

Particulars	Current Year Rs	Previous Year Rs.
Debentures/ Bonds		
Banks		
Financial Institutions		
Others		

SCHEDULE 8 INVESTMENTS

Particulars	Current Year Rs	Previous Year Rs.
Long Term Investments:		
(i) Govt. Securities		
(ii) Other approved securities		
(iii) Other Investment		
Total		
Short-term Investments		
(i) Govt. Securities		
(ii) Other approved securities		
(iii) Other Investment		
Total		

SCHEDULE 9 LOANS

Particulars	Current Year Rs	Previous Year Rs.
Security Wise Classification		
(i) Secured Loan		
(ii) Unsecured Loan		
Total		
Borrower Wise Classification		
(i) Central and state Government		
(ii) Banks and Financial Institutions		
(iii) Companies		
(iv) Others		
Total		
Performance Wise Classifications		
(i) In India		
(ii) Outside India		
Total		
Maturity Wise Classifications		
(i) Short Term		
(ii) Long Term		
Total		

SCHEDULE 10 FIXED ASSETS

PARTICULARS	GROSS BLOCK	DEORECIATION	NET BLOCK
Goodwill Intangibles (specify) Land-Freehold Leasehold Property Buildings Furnitures Others			
Total			
Work in Progress			
Grand Total			

SCHEDULE 11 CASH AND BANK BALANCE

Particulars	Current Year Rs	Previous Year Rs.
1. Cash Balance 2. Bank Balance 3. Money at Call and Short Notice 4. Others		
Total		
Balance with non schedule banks Cash and Bank Balances: (i) In India (ii) Outside India		
Total		

SCHEDULE 12 – ADVANCES AND OTHER ASSETS

Particulars	Current Year Rs	Previous Year Rs.
Advances: (i) Reserve deposits with ceding company (ii) Application Money for Investment (iii) Prepayments (iv) Advances to Directors		

(v)	Others (to be specify)		
	Total (A)		
Other Assets:			
(i)	Income accrued on investment		
(ii)	Outstanding Premium		
(iii)	Agents Balances		
(iv)	Others		
	Total (B)		
	Total (A+B)		

SCHEDULE 13 CURRENT LIABILITIES

Particulars		Current Year Rs	Previous Year Rs.
(i)	Agent balances		
(ii)	Sundry creditors		
(iii)	Claims outstanding		
(iv)	Annuities due		
(v)	Others (to be Specify)		
	Total		

SCHEDULE 14 PROVISIONS

Particulars		Current Year Rs	Previous Year Rs.
(i)	For Taxation(Less Payments & TDS)		
(ii)	For Proposed Dividend		
(iii)	For dividend distribution tax		
(iv)	Others (to be specify)		
	Total		

SCHEDULE 15 MISCELLANEOUS EXPENDITURE

Particulars		Current Year Rs	Previous Year Rs.
(i)	Discount allowed in issue of share		
(ii)	Discount allowed in debentures		
(iii)	Others (to be Specify)		
	Total		

PROBLEMS

1. A life Assurance Company prepared its Revenue A/c for the year ended 31.12.2013 and ascertained its Life Assurance fund to be Rs. 28,35,000. It was found later that the following had been omitted from the accounts.

   (a) Interest accrued on investment Rs.39,000, Income tax liable to be deducted thereon is estimated to be Rs.10,500.

   (b) Outstanding premiums Rs.32,800.

   (c) Bonus utilized for reduction of premium Rs.6,750.

   (d) Claims intimated but not admitted Rs.17,400.

   (e) Claims covered under reinsurance Rs.6,500

   What is the true Life Assurance Fund?

2. The revenue account of a life assurance company shows the Life Assurance fund on 31.12.2013 at Rs.62,21,310 before taking into account the following:

Claims covered under reinsurance	12,000
Bonus utilized in reduction of life insurance premium	4,500
Interest accrued on securities	8,260
Outstanding premiums	5,420
Claims intimated but not admitted	26,500

   Calculate Life Assurance Fund .

3. The Revenue Account of a Life Insurance Company showed a balance of Rs.4,75,000 at the end of 2013-14 before considering the following items.

   (a) Bonus in reduction of premiums Rs. 40,000

   (b) Outstanding premiums Rs.1,00,000

   (c) Interest accrued on investments Rs. 20,000

   (d) Claims intimated but not admitted Rs. 35,000

   (e) Claims covered under reinsurance Rs. 3,000

   Pass necessary journal entries and determine Life Assurance Fund.

4. The following balances are abstracted from the books of New Bharat Life Insurance Co Ltd as on 31-3-2014.

Particulars	Rs.	Particulars	Rs.
Life Assurance fund on 1.4.13	15,00,000	Claims paid during the year	64,900
Premiums	4,96,000	Annuities	2,050
Consideration for annuities granted	15,000	Bonus in reduction of premium	1,600
Interest and dividends	1,00,000	Medicals fees	2,400
Fine for revival of policies	750	Surrenders	4,000
Reinsurance Premium	20,750	Commission	18,650
Claims outstanding on 1.4.13	4,500	Management expenses	22,000
		Income tax on dividend	8,500

Prepare Revenue A/c after making the following adjustments

(i)Outstanding balances:

Claims	14,000
Premiums	4,600
(ii)Further bonus for premium	2,400
(iii)Claim under reinsurance	8,000

5. From the data set out below, Prepare the Revenue A/c of Southern India Life Insurance

Company for the year ending 31St March 2014

Particulars	Rs.	Particulars	Rs.
Life Assurance fund on 1.4.13	7,50,000	Commission	16,000
Premiums	3,72,000	Bonus in reduction of premium	500
Interest ,dividends and rent	2,26,000	Annuities paid	18,500
Consideration for annuities granted	12,500	Surrenders	25,500

Fine for revival of policies	200	Surplus on Revaluation of Reversions purchased	1,500
Claims paid	42,500	Income tax paid	32,000
Bad debts	400	Bonus in cash	18,000
Expenses of management	35,000		

6. Prepare from the following a Life Insurance Revenue A/c and Balance Sheet as on 31-3-20 14

Claims by death	16,890	Outstanding interest on Advances(31-3-2014)	1,944
Agent' salaries & Allowance	6,240	Bonus paid with claims	2,700
Surrender value paid	2,810	Endowments assurance matured	24,415
Actuarial expenses	1,520	Annuities paid	1,350
Premiums	94,836	Interest revenue	19,060
Commission to Agents	8,900	Rent, Rates & Taxes	5,475
Salaries	13,500	General charges	1,860
Medical fees	1,200	Fees received	172
Traveling expenses	1,800	Bonus paid in cash	2,825
Directors fees	900	Advertisement	726
Agents balances	750	Consideration for annuities granted	12,853
Claims expenses	1,432	Printing and Stationery	650
Premiums outstanding (1-4-13)	2,134	Claims outstanding (1-4-13)	2,376
Premiums outstanding (31-3-14)	3,143	Claims outstanding (31-3-14)	3,735
Investments	1,46,700	Loans on policies	38,480
Share capital	2,00,000	Loan on mortgages	2,90,560
Sundry creditors	9,200	Freehold premises	1,22,600
Life Assurance fund on (1.4.13)	3,53,672	Furniture and Fittings	64,100
Reserve Fund	1,46,000	Cash on hand & deposits	76,300

7. The following Trial Balance was extracted from the books of the New Bharat Life Insurance Company Ltd. as on 31-3-14

Particulars	Dr	Cr
Paid up Share capital	-	1,00,000
Life Assurance fund on 1.4.13	-	29,72,300
Dividend paid	15,000	-
Bonus to policy holder	31,500	-
Premium received	-	1,61,500
Claims paid	1,97,000	
Commission paid	9,300	-
Management expenses	32,300	-
Mortgages in India	4,92,200	-
Interest and Dividend received	-	1,72,700
Agent's balances	9,300	-
Freehold premises	40,000	-
Investments	23,05,000	-
Loan on Company's policies	1,73,600	-
Cash on deposit	27,000	-
Cash on hand	67,300	-
Surrenders	7,000	-
Total	**34,06,500**	**34,06,500**

You are required to prepare the company's Revenue A/c for the year ended 31-3-2014 and its Balance sheet as on that date after taking the following matters into consideration.

(i) Claims admitted but not paid Rs. 9,000

(ii) Management expenses due Rs. 200

(iii) Interest Accrued Rs.19,300

(iv) Premiums outstanding Rs.1,000

(v)Bonus utilized in reduction of premium Rs.2,000

(vi) Claims covered under reinsurance Rs.2,300

8. From the following particulars relating to ABC Insurance Co Ltd., prepare Fire Revenue A/c for the year ending 31-3-2014.

Particulars	**Rs.**	**Particulars**	**Rs.**
Claims paid	4,80,000	Premium received	12,00,000
Claims outstanding on 1.4.13	40,000	Reinsurance premium paid	1,20,000
Claims intimated but not accepted & paid on 31.3.14	10,000	Commission	2,00,000
Claims intimated and accepted but not paid on 31.3.14	60,000	Commission on reinsurance ceded	10,000
Commission on reinsurance accepted	5,000	Provision for unexpired risk on 1.4.13	4,00,000
Management expenses	3,05,000	Additional provision for unexpired risk on 1.4.13	20,000
Bonus in reduction of premium	12,000		

You are required to provide for additional reserve for unexpired risk at 1% of the net premium in addition to opening balance .

9. From the following particulars prepare the fire revenue account for 2014.

Particulars	**Rs.**
Claims paid	2,35,000
Legal expenses regarding claims	5,000
Premiums received	6,00,000
Reinsurance premium	60,000
Commission	1,00,000
Management expenses	1,50,000
Provision against unexpired risk on 1.1.14	2,60,000
Claims unpaid on 1.1.14	20,000
Claims unpaid on 31.12.14	35,000

10. XYZ Insurance Co. Ltd has furnished the following information for preparation of Revenue A/c for fire insurance business for the year ended 31-3-2014 and its profit and loss A/c for the year.

Claims admitted but not paid	42,376	Bad debts	2,500
Commission paid	50,000	Claims paid	15,000
Commission on reinsurance received	12,000	P & L Appn A/c	10,000
Share transfer fees	5,000	Premiums received less reinsurance	5,52,000
Expenses of management	78,000	Claims outstanding on 1.4.13	27,000
Reserve for unexpired risk on 1.4.13	2,30,000	Dividend on share capital	18,500
Additional reserve on 1-4.13	40,000		

The following information has also to be considered

(i) Premium outstanding at the end of the year Rs.40,000

(ii) Additional reserve at 10% of net premium to be maintained.

(iii) It is the policy of the company to maintained 50% of premium towards reserves for unexpired risks.

11. The following balances are extracted from the books of oriental General Insurance company. Prepare Revenue A/c of fire and marine business for the year ending 31-3-2014.

Fund on 1.4.2013 :Fire Marine	3,10,000 8,40,000	Claims paid and outstanding: : Fire Marine	 2,61,500 1,02,000
Premiums: Fire Marine	5,56,400 8,82,200	Commission: Fire Marine	21,000 54,000
Due to Reinsurers: Fire Marine	4,400 20,200	Expenses of management: : Fire Marine	 42,000 73,000

It was further noticed that premiums were outstanding: Fire Rs.1,400 and Marine Rs.1,600.

Provision is to be made for unexpired risk on fire and marine at 40% and 100% of the premium received respectively

12..From the following details, prepare the Revenue A/c, profit & loss A/c and Business Sheet Of Moon Shine Insurance Co Ltd. carrying on Marine business for the months ended 31-3-2014.

Agents balance (Dr)	1,46,400	Share capital	15,00,000
Interest accrued but not due	8,200	Balance of Marine fund 1-4-13	7,60,000
Furniture & Fixture(Cost Rs.12,600)	8,400	Unclaimed Dividends	2,400
Stock of stationery	2,500	P & L (Dr)	2,40,000
Expenses of management	2,20,000	Sundry creditors	12,600
Foreign taxes and Insurance	12,300	Due to reinsurers	60,000
Outstanding premium	21,200	Premium less re-insurance	12,40,000
Donations paid	8,600	Interest & Dividends	2,40,000
Advance Income tax payments	62,000	Transfer fees received	600
Sundry debtors	9,200		
Govt. Of India securities	9,20,000		
Debentures of public bodies	1,80,000		
Shares in limited companies	3,60,000		
State Govt securities	8,80,000		
Claims less re-insurance	10,60,000		
Commission paid	62,400		
Cash & Bank balances	94,400		

Outstanding claims on 31-3-14 were Rs.1,40,000. Depreciation on furniture to be provided at 20% per annum.

PART A

1. Define insurance
2. What do you understand by general insurance?
3. What is meant by premium?
4. What is Re-insurance?
5. State the various types of life insurance policies
6. Write a note on claims.
7. What is commission on Re-insurance accepted and ceded?
8. What is called consideration for annuities granted?
9. What is bonus in reduction of premium?
10. Why is provision for unexpired risk created?

PART B

11. Explain in detail the different types of insurance.
12. Distinguish between life insurance and general insurance.
13. Prepare a revenue account for life insurance business in prescribed form as per IRDA regulations and explain the items there in.
14. Prepare a Balance sheet for life insurance business in prescribed form as per IRDA regulations and explain the items there in.
15. Elucidate the duties powers and functions of IRDA.
16. Briefly explain the schedules prepared while finalizing the accounts of a general insurance company.
17. The following were extracted from the books of Jupiter LifeAssurance Co.Ltd.As on 31.12.2015

Debit balances	Rs.	Credit balances	Rs.
Mortgages	1400000	O/s claims (1.1.15)	22000
Buildings	145000	Premiums	3394000

Loans	15000	Considerations for annuities Granted	420000
Investments	1200000	Interest and dividend	100000
Surrenders	25000	Life assurance fund (1.1.15)	950000
Annuities	12000		
Claims by death	700000		
Claims by maturity	1000000		
Agents balances	5000		
Deposit with RBI	30000		
Outstanding Premiums	35000		
Commission	54000		
Cash at bank	50000		
Management expenses	63000		
Bonus in reduction Of premiums	5000		
Interest accrued but not Received	7000		
Total	**4886000**	**Total**	**4886000**

You are required to prepare the Revenue account for the year ended 31.12.2015 and Balance sheet as on that date after taking into account the following adjustments.

- Premium outstanding – 4500
- Interest accruing but not due – 3700
- Claims admitted but not paid – 3200
- Surrender claims not paid – 1100
- Further bonus utilized in reduction of premium – 2000

18. The following Trial balance was extracted from the books of the New Bharat life insurance company ltd as on 31.12.2015

Particulars	Dr	Cr
Paid up share capital 10000 shares of Rs.10 Each)		100000
Life assurance fund on 1.1.15		2972300
Dividend paid	15000	
Bonus to policy holders	31500	
Premium received		101500
Claims paid	197000	
Commission paid	9300	
Management expenses	32300	
Mortgages in India	492200	
Interest and dividends received		172700
Agents balance	9300	
Freehold premises	40000	
Investments	2305000	
Loan on company policies	173600	
Cash on deposits	2700	
Cash in hand	7300	
Surrenders	7000	
Total	**3346500**	**3346500**

You are required to prepare the company revenue account for the year ended 31.12.2015 and its balance sheet as on that date after taking the following matters into consideration. Claims admitted but not paid – 9300, Management expenses due – 200, Interest accrued – 19300, Premiums outstanding – 12000

TEXT / REFERENCE BOOKS

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SCHOOL OF MANAGEMENT STUDIES

UNIT – III - ADVANCED CORPORATE ACCOUNTING - SBAA1401

UNIT III FINAL ACCOUNTS OF BANKING COMPANIES

In India, banking companies are governed by the Banking Regulation Act 1949. Section 5 of the Act defines banking as "the accepting, for the purpose of lending or investment, of deposits of money from the public repayable on demand or otherwise and withdrawal by cheque, draft, and order or otherwise.

BUSINESS OF BANKING COMPANIES

In addition to the business of banking, a banking company may engage in any one or more of the following business:

i. The borrowing, raising, or taking up of money
ii. The lending or advancing of money either upon or without security
iii. The drawing, making, accepting, discounting, buying, selling, collecting and dealing in bills of exchange, hundies, promissory notes, coupons, drafts, bills of lading, railway receipts, warrants, debentures, certificates, scripts and other instruments, and securities whether transferable or negotiable or not.
iv. The granting and issuing of letter of credit, travelers cheques and circular notes
v. On receiving of all kinds of bonds, scripts or valuables on deposit or for safe custody or otherwise.
vi. The buying, selling and dealing in bullion
vii. The collecting and transmitting of money and securities
viii. Contracting for public and private loans and negotiating and issuing the same.
ix. Carrying on and transacting every kind of guarantees and indemnity business .
x. Undertaking and executing trusts, etc…

IMPORTANT PROVISIONS OF THE BANKING REGULATION ACT 1949

1. ***Prescribed form***

As per sec 29 to 33 of Banking Regulation Act , banking company has is required to prepare a balance sheet in accordance with form A and profit and loss account with form 15 set out in third schedule .

2. ***Accounting Year***

Banking company closes its accounts on 31st march every year.

3. ***Prohibition of trading***

According to sec 8 ,a banking company cannot directly or indirectly deal in business of buying and selling or bartering of goods, except realization of security given to or held by it.

4. ***Statutory Reserv*e**

As per Section 17, banking companies incorporated in India hall transfer every year at least 25% of its profit before any dividend is declared to a Statutory reserve (Reserve fund) until the amount of the reserve together with the security premium Account is equal to the paid up capital.

5. ***Non – Banking Assets***

These are the assets which are not used in the ordinary course of business of banking, but they are such immovable and movable properties which come under the possession of the banking company for recovering the amount due from customers

6. ***Cash Reserve Ratio (CRR***)

Banks are required to maintain with the Reserve Bank of India a cash reserve of at least 3% of the total of its demand and time liabilities in India.

7. ***Statutory Liquidity Ratio (SLR)***

Banks are also required to maintain at least 25% of the demand and time liabilities in the form of liquid assets like cash, gold or unencumbered. SLR may vary in a range of 25% to 40%.

8. Minimum Capital and Reserves

In case of a banking company incorporated in India, the sum of its paid up capital and reserves shall not be less than the amount mentioned below:

(a) If it has places of business in more than one state Rs.500000, and if any such place of business is situated in Mumbai or Kolkata or in both, Rs.1000000.

(b) If it has all its places of business in one state, none of which is Mumbai or Kolkata,Rs.100000 in respect of its principal place of business plus Rs.10000 for each additional place of business in the same district plus Rs.25000 for each place of business elsewhere in the state(the maximum amount required being Rs.500000).

9. Payment of dividend

Section 15 prohibits payment of dividend by any banking company until all its capitalization expenses are written off .Capitalization expenses include preliminary expenses, share selling expenses, brokerage etc.

10. Payment of commission , brokerage etc

As per Section 13, banking companies cannot pay directly or indirectly any commission, brokerage or remuneration in any form exceeding 2.5% of paid up value of shares.

11. Loans And Advances

Section 20 of the banking regulation act , imposes certain restrictions on loans granted by banking company No banking company shall

(a) grant any loans or advances on the security of its own shares, or

(b) enter into any commitment for granting any loan or advance to or on behalf of-

(i) Any of its Directors,

(ii) Any firm in which any of its Directors is interested as Partner, Manager, Employee or Guarantor, or

(iii) Any company in which directors of the banking company is a Director, Managing Agent, Manager, Employee or Guarantor or in which he holds substantial interest, or

(iv) Any individual with whom any of its Directors is a partner or guarantor.

The accounting system of a banking company is different from that of a trading or manufacturing company. **The main features of a bank's accounting system are as follows:**

1. Entries in the personal ledgers are made directly from the vouchers
2. From such entries in the personal ledgers each day summary sheets in total are prepared which are posted to the control accounts in the general ledger.3. The general ledger's trial balance is extracted and agreed every day.
4. All entries in the personal ledgers and summary sheets are checked by persons other than those who have recorded entries. It helps in detection of mistakes.
5. A trial balance of detailed personal ledgers is prepared periodically and gets agreed with the general ledger control accounts.
6. Two vouchers are prepared for every transaction not involving cash.

BOOKS MAINTAINED BY BANKS

1. Receiving Cashier's Counter Cash Book.
2. Paying Cashier's Counter Cash Book.
3. Current Accounts Ledger.
4. Saving Bank Accounts Ledger.
5. Fixed Deposit Accounts Ledger.
6. Investment ledger.
7. Bills Discounted and Purchased Ledger.
8. Loan Ledger.
9. Cash Credit Ledger.
10. Customers' Acceptances, endorsements and Guarantee Ledger.
11. Recurring Deposits Accounts Ledger, etc.

The Slip System

This is not a system of book keeping, but a method of rapidly posting entries to books kept on double entry system. In this system, posting is made from slips prepared inside the organization itself or from slips filled in by its customers.

Advantages of Slip system

1. It makes accounts reliable.
2. Slips are the basis of auditing.
3. The bank saves a lot of clerical labour as most of the slips are filled in by its customers.
4. There is no need for keeping subsidiary books.

Disadvantages of Slip system

1. Slips may be lost, destroyed or misappropriated as these are loose.
2. In the absence of subsidiary books, books cannot be verified.
3. It is very difficult and expensive to keep date wise record of a large number of slips.
4. Customers feel difficulty on account of slip system.

Final Accounts of Banks

As per Section 29, a banking comp[any incorporated in India, is required to prepare, at the end of each accounting year, a Balance sheet and profit and Loss Account as on the last working day of the year.

Profit and Loss Account

A banking company is required to prepare its Profit and Loss Account according to Form B in the Third Schedule to the Banking Regulation Act, 1949. Form B is given as follows:

PROFIT & LOSS A/C (FORM "B")

Particulars	Schedule No.	Current Year Rs.	Previous year Rs.
I. Income:			
Interest earned	13		
Other income	14		
Total			
II. Expenditure :			
Interest expended	15		
Operating expenses	16		
Provisions and contingencies			
Total			
III Profit /Loss :			
Net Profit/ Loss For the year			
Profit/ Loss brought forward			
Total			
Iv. Appropriations:			
Transfer to statutory reserves			
Transfer to other reserves			
Transfer to government/ Propose Dividend			
Balance carried over to Balance Sheet			
Total			

SCHEDULE 13 – INTEREST EARNED

Particulars	Current year Rs.	Previous year Rs.
I. Interest/ discount on advances/bills		
II. Income on Investments		
III. Interest on balances with RBI and other Inter bank fund.		
IV. Others		
Total		

SCHEDULE 14- OTHER INCOME

Particulars	Current year Rs.	Previous year Rs.
I. Comission, Exchange and Brokerage		
II. Profit on sale of investment		
Less: Loss on sale of investment		
III. Profit on revaluation of investment		
Less: Loss on sale of revaluation		
IV. Profit on sale of other Assets		
Less: Loss on sale of other assets		
V. Income earned by way of dividend		
VI. Miscellaneous income		
Total		

SCHEDULE 15- INTEREST EXPENDED

Particulars	Current year Rs.	Previous year Rs.
I. Interest on deposits		
II. Interest on Reserve Bank of India/ inter bank borrowings		
III. Others		
Total		

SCHEDULE 16- OPERATING EXPENSES

Particulars	Current year Rs.	Previous year Rs.
I. Payments to and provisions for employees		
II. Rent, taxes and lighting		
III. Printing and stationary		
IV. Advertisement and publicity		
V. Depreciation on bank's property		
VI. Directors' fees, allowances and expenses		
VII. Auditor's fees, allowances and expenses		
VIII. Law charges		
IX. Postages, telegrams, telephones, etc		
X. Repairs and maintenance		
XI. Insurance		
XII. Other expenditure		
Total		

BALANCE SHEET (FORM 'A')

Particulars	Schedule No.	Current Year Rs.	Previous year Rs.
Capital and Liabilities:			
Capital	**1**		
Reserve and Surplus	**2**		
Deposits	**3**		
Borrowings	**4**		
Other liabilities and Provision	**5**		
Total			
Assets:			
Cash and balance with RBI	**6**		
Balance with banks and Money at call short notice	**7**		
Investments	**8**		
Advances	**9**		
Fixed Assets	**10**		
Other Assets	**11**		
Total			
Contingent Liabilities	**12**		
Bills for collection			

SCHEDULE 1- CAPITAL

Particulars	Current year Rs.	Previous year Rs.
I. For Nationalized banks capital		
II. For banks incorporated outside India capital		
III. For other banks capital		
Less: Calls unpaid		
Total		

SCHEDULE 2- RESERVE AND SURPLUS

Particulars	Current year Rs.	Previous year Rs.
I. Statutory Reserves Opening Balance Additions during the year Deductions during the year **II. Capital Reserves** Opening Balance Additions during the year Deductions during the year **III. Share Premium** Opening Balance Additions during the year Deductions during the year **IV. Revenue & Other Reserves** Opening Balance Additions during the year Deductions during the year **V . Balance in Profit and Loss Account**		
Total (I+II+III+IV+V)		

SCHEDULE 3- DEPOSITES

Particulars	Current year Rs.	Previous year Rs.
Demand Deposits (i) From Banks (ii) From Others **II. Saving Bank Deposits** **III. Term Deposits** **B.** (i) Deposits of branches in India (ii) Deposits of branches outside India		
Total		

SCHEDULE 4-BORROWINGS

Particulars	Current year Rs.	Previous year Rs.
I. Borrowings in India (i) Reserve Bank of India (ii) Other banks (iii) Other institutions and agencies **II. Borrowings outside India**		
Total		

SCHEDULE 5-LIABILITIES AND PROVISION

Particulars	Current year Rs.	Previous year Rs.
I. Bills payable II. Inter-office adjustments (net) III. Interest accrued IV. Others		
Total		

SCHEDULE 6- CASH AND BALANCES WITH RBI

Particulars	Current year Rs.	Previous year Rs.
I. Cash in hand (including foreign currency notes) II. Balances with Reserve Bank of India (i) In current accounts (ii) In other deposit accounts		
Total		

SCHEDULE 7 BALANCES WITH BANK AND MONEY AT CALL SHORT NOTICE

Particulars	Current year Rs.	Previous year Rs.
I. In India		
(i) Balances with banks		
(a) In current accounts		
(b) In other deposit accounts		
(ii) Money at call and short notice		
(a)With banks		
(b) With other institutions		
Total (i) and (ii)		
II. Outside India		
(i) In Current assets		
(ii) In other deposit accounts		
Total (I & II)		

SCHEDULE 8- INVESTMENTS

Particulars	Current year Rs.	Previous year Rs.
I. Investments in India in		
(i) Government securities		
(ii) Other approved securities		
(iii) Shares		
(iv) Debentures and bonds		
(v) Subsidiaries and/or joint ventures		
(vi) Others (to be specified) Total		
II. Investments outside India		
(i) Government securities & Others		
Total		

SCHEDULE 9 - ADVANCES

Particulars	Current year Rs.	Previous year Rs.
A. (i) Bills purchased and discounted		
(ii) cash credits, overdrafts and loans repayable		
(iii) Term loans		
B.(i)Secured by tangible assets		
(ii) covered by bank/Government guarantees		
(iii) unsecuredTotal		
C. Advances in India		
(i)priority sectors		
(ii)public sector		
(iii) banks		
D. Advance outside India		
Total		

SCHEDULE 10 –FIXED ASSETS

Particulars	Current year Rs.	Previous year Rs.
I. Premises		
At cost on 31st march of the year		
Addition during the year		
Deductions during the year		
Depreciation to date		
II. Other fixed Assets (including furniture's)		
At cost on 31st March of the Year		
Additions during the year		
Deductions during the year		
Depreciation to date **Total**		

SCHEDULE 11 – OTHER ASSETS

Particulars	Current year Rs.	Previous year Rs.
I. Inter-office adjustments (net)		
II. Interest accrued		
III. Tax p[aid in advance/ tax deducted at source		
IV. Stationery and stamps		
V. Non-banking assets acquired in satisfaction of claims		
VI. Others		
TOTAL		

SCHEDULE 12 - CONTINGENTLIABILITIES

Particulars	Current year Rs.	Previous year Rs.
I. Claims against the bank not acknowledged as Debts		
II. Liability for partly paid investments		
III. Liability on account of outstanding forward exchange contracts		
IV. Guarantees given on behalf of constituents		
(i) In India		
(ii) Outside India		
Total		

Question Bank

1. From the following particulars, prepare a profit and loss a/c of ABC Ltd., for the year ended 31.3.2014

Particulars	Rs .(in '000)	Particulars	Rs. (in '000)
Interest on loans	260	Interest on cash credits	225
Interest on fixed deposits	280	Rent and taxes	20
Rebate on bills discounted	50	Interest on overdrafts	56
Commission charged to customers	9	Directors' and auditor's fees	4
Establishment expenses	56	Interest on savings bank accounts	70
Discount on bills discounted	200	Postage and telegrams	2
Interest on current accounts	45	Sundry charges	2
Printing and advertisements	3		

2. From the following information relating to Vilas bank Ltd., prepare the profit & loss A/C for the year ended 31st March ,2013

Particulars	Rs .(in '000)	Particulars	Rs. (in '000)
Rent received	72,000	Salaries and allowances	2,18,800
Exchange and commission	32,800	Postage	5,600
Interest on fixed deposits	11,00,000	Sundry charges	4,000
Interest on savings bank A/Cs	2,72,000	Director's & Auditor's fees	16,800
Interest on overdrafts	2,16,000	Printing	8,000
Discount on bills discounted	7,80,000	Law charges	3,600
Interest on current accounts	1,68,000	Locker rent	1,400
Interest on cash credits	8,92,000	Transfer fees	2,800
Depreciation on bank property	20,000	Interest on loans	10,36,000

3. Prepare the profit & loss A/C of Sriram bank Ltd., for the year ended 31st March ,2013

Particulars	Rs.
Interest and discount received	36,95,738
Commission, exchange and brokerage	2,00,000
Directors' fees and allowances	55,000
Postage and telegrams	62,313
Stationery	17,625
Preliminary expenses	15,000
Interest paid on deposits	20,32,542
Rent received	55,000
Salaries and allowances	1,75,000
Rent and taxes paid	87,973
Profit on sale of investments	2,00,000
Depreciation on building	27,375
Audit fees	5,000

Additional information:

1) A customer to whom a sum of Rs.10,00,000 has been advanced has become insolvent. It is expected that only 50% can be recovered from his private estate.
2) For the remaining debts, a provision of Rs.1,50,000 was necessary.
3) Rebate on bills discounted as on 31.12.12 Rs.12,000 and on 31.3.2013 Rs. 16,000.
4) Provide Rs.6,50,000 for taxation.
5) Write of all preliminary expenses.

4. From the following information, prepare profit & loss Account of Swadesh bank Ltd., for the year ended 31st March ,2014

Particulars	Rs. in '000'	Particulars	Rs. in '000'
Interest on fixed deposits	430	Transfer fees	2
Interest on loans	650	Provident fund contribution	12
Discount on bills discounted	415	Local committee fees and allowance	10
Interest on over drafts	210	Audit fees	12
Interest on cash credits	410	Printing and stationery	4
Interest on savings bank deposits	125	Loss on sale of government securities	5
Salaries and allowances	140	Loss on sale of furniture	2
Rent, taxes, insurance and lighting	40	Postage and telegrams	2
Locker rent	5	Depreciation	10
Repairs to bank property	2	Advertisement	4
Commission and brokerage	24	Legal charges	3
Director's fees and allowances	25		

Additional information:

1) Rebate on bills discounted on 31st March ,2013Rs.19,000.
2) Rebate on bills discounted on 31st March ,2014Rs. 26,000.
3) Bad debts to be written off Rs.40,000.
4) Provide for taxation Rs.50,000.

5. From the following information prepare the profit and loss account of ABC Bank Ltd. for the year ended on 31st March ,2014 in the prescribed form.

Bad debts to be written off amounted to Rs.40,000. Provision for taxation may be made @ 55%. Balance of profit from last year was Rs.1,20,000. The directors have recommended a dividend of Rs.20,000 for the shareholders.

Particulars	Rs.
Interest on loan	2,59,000
Interest on fixed deposits	2,75,000
Commission	8,200
Establishment	54,000
Discount on bills discounted	1,95,000
Interest on cash credit	2,23,000
Interest on current account	42,000
Rent and taxes	18,000
Interest on over draft	1,54,000
Director's fees	3,000
Auditor's fees	1,200
Interest on savings bank deposits	68,000
Postage and telegrams	1,400
Printing and stationery	2,900
Sundry charges	1,700

6. From the following , you are required to prepare the profit and loss Account and the balance sheet of New Bank ltd., as on 31st march 2014.

Particulars	Rs. In '000	Rs. In '000
Issued capital:		
20,000 shares of Rs.100 each	-	2000
Money at call and short notice	800	-
Reserve fund	-	700
Cash in hand	650	-
Deposits	-	2500
Cash at bank	950	-

Borrowing from SBI	-	500
Investments in government securities	900	-
Secured loans	1500	-
Cash credits	500	-
Premises less depreciation	580	-
Furniture less depreciation	120	-
Rent	5	60
Interest and discount	-	800
Commission and brokerage	-	70
Interest paid on deposits	300	-
Salary and allowances paid to staff	150	-
Interest paid on borrowings	50	-
Audit fees	10	-
Directors' fees	8	-
Non-banking assets	80	-
Depreciation on bank property	13	-
Printing	3	-
advertisement	1	-
Stationery	5	-
Postage and telegrams	2	-
Other Expenses	3	-

Adjusments:

1. Provide Rs.20,000 for doubtful debts.
2. Provide Rs.10,000 on bills discounted but not matured on 31.3.2014
3. Acceptances and endorsements on behalf of customers amounting to Rs.4,00,000.
4. Provide Rs.60,000 for taxes.

7. The following is the trail balance of Roy Bank Ltd., as on 31.3.2014

Particulars	**Debit Rs.**	**Credit Rs.**
Share capital:7,500 shares of Rs.100 each	-	7,50,000
Loans and advances	80,20,000	-
Bank premises	5,32,500	-
Government securities	15,30,000	-
General reserve	-	4,50,000
Deposits	-	96,46,000
Interest and discounts	-	8,00,000
Interest on deposits and borrowings	2,00,000	-
Balance with other Banks	1,00,500	-
Money at call and short notice	85,500	-
General expenses	82,500	-
Rent ,rates and taxes	6,900	-
Director's fees	4,200	-
Auditor's fees	1,200	-
Bills discounted	90,000	-
Furniture (Depn. Upto 1.1.2014 Rs.20,000)	80,000	-
Borrowings from other banks	-	1,05,000
Salaries and allowances	85,500	-
Computer	35,000	-
Profit &Loss A/c 1.1.14	-	37,500
Miscellaneous income	-	300
Commission	-	10,000
Interim dividend	30,000	-
Cash in hand and with RBI	9,15,000	-
	1,17,98,800	**1,17,98,800**

Considering the following information furnished, prepare profit and loss Account for the year ended and balance sheet as on that date in the proper forth.

1. Bills worth Rs.50,000 were received for collection.
2. Interest accrued on investment Rs.12,000.
3. Rebate on bills discounted Rs.15,000.
4. Debts amounting to Rs.65,000 were doubtful and provision is to be made for the same.

8. The following are the balances of ABN Bank Ltd., for the year ended 31.3.2014

Particulars	**(Rs. in '000)**
Interest on loans	518
Interest on fixed deposits	550
Commission received	16
Salaries and allowances	108
Discount on bills discounted	292
Rebate on bills discounted	98
Interest on cash credits	446
Interest on current accounts	84
Rent and taxes	36
Interest on overdrafts	308
Director's fees	6
Auditor's fees	2
Interest on saving bank deposits	136
Postage and telegrams	3
Printing and stationery	6
Locker rent	2
Transfer fees	1
Depreciation on banks properties	10
Sundry charges	4

Adjustments:

1) Provision for bad debts to be made Rs.80,000.
2) Provision for income tax required Rs.3,00,000.

From the above information, prepare the profit and loss Account of the bank for the year ended 31.3.14.

9. From the following balance of Saraswathi Bank Ltd., as on 31.3.2014, prepare its balance sheet in the prescribed form.

Particulars	**(Rs. In '000)**
Paid up share capital (shares of Rs.100 each fully paid)	2,000
Bills discounted	1,800
Reserve fund	770
Cash credits	2,000
Overdrafts	800
Unclaimed dividends	10
Loans	4,600
Current deposits	3,800
Furniture	40
Profit and loss A/c (Cr)	220
Stamps and stationery	10
Cash in hand	500
Cash with reserve bank	1,300
Branch adjustment (Dr)	170
Investment	950
Loan (cr)	1,200
Recurring Deposits	1,000
Fixed Deposits	2,000
Cash Certificates	1,000
	170

Adjustments:

1) Rebate on bills discounted Rs.10,000.
2) Provide Rs.80,000 for doubtful debts.
3) Banks acceptance on behalf of customers were Rs.6,59,000.

QUESTIONS
PARTA

1. Define Banking.
2. What is statutory reserve? How is it created?
3. What are non banking assets?
4. Define Balance sheet
5. What is cash reserve ratio?
6. What is statutory liquidity ratio?
7. State the different items shown under "other Liabilities and provisions".
8. Mention the major kinds of deposits accepted by bank under schedule 3.
9. What do you mean by contingent liabilities?
10. What is rebate on bills discounted?

PART B

11. Define banking and briefly discuss the provisions of banking regulations act.
12. Draft profit and loss account of a banking company in prescribed form as per format of banking companies Act and give various schedules.
13. Explain the various schedules prepared by a commercial bank.
14. Draft balance sheet of a banking company in prescribed form as per schedule 3 of banking companies Act and give various schedules.
15. From the following particulars relating to the Punjab bank Ltd. Ascertain the profit balance carried over to the balance sheet:

Particulars	Rs.
Net Profit for the year	1,28,000
Profit brought forward from the previous year	1,20,000
Transfer to Statutory Reserve	25 %
Transfer to Other reserve	10 %
Transfer to proposed dividend	20,000

16. From the following balances prepare profit and loss account of Adarsh bank Ltd for the year ending 31.3.15

Particulars	Rs.
Interest on loan	5,00,000
Interest on cash credit	6,00,000
Interest on overdrafts	3,00,000
Discount on bills discounted	7,25,000
Interest on fixed deposit	8,00,000
Interest on savings deposits	1,10,000
Interest on current accounts	70,000
Income on investments	15,000
Interest balance with RBI	25,000
Commission, exchange and brokerage	40,000
Miscellaneous income	30,000
Rent, taxes and lighting	25,000
Printing and stationery	15,000
Advertisement and publicity	60,000
Depreciation on bank's property	10,000
Salaries to staff	1,40,000
Director fees	30,000
Audtior fees	10,000
Law charges	7,000
Postage and telegram	3,000
Repairs and maintenance	5,000
Insurance	12,000
Other expenditure	5,000

Prepare the necessary schedules.

17. From the following particulars, prepare the profit and loss account of Chennai Bank Ltd, for the year ending 31st march 2015

Particulars	(Rs. In 000)
Interest on deposits	3,200
Commission(Cr)	100
Interest on loans	2,490
Sundry charges	100
Rent and taxes	200
Establishment	500
Discount on bill discounted	1,490
Interest on overdrafts	1,600
Interest on cash credits	2,320
Auditor's fees	35
Director fees	16
Bad debts to be written off	300

18. From the following Leger balance of peoples bank Ltd., Prepare profit and Loss A/c

Particulars	Rs.
Interest paid on deposits	1,60,520
Commission exchange and brokerage	44,240
Interest received	5,32,260
Discount on bills discounted	2,43,760
Salary and provident fund	40,000
Profit on sale of fixed assets	30,000
Printing and stationary	10,000
Postage and telephone	20,000

Note Provide for taxation Rs. 20,000 and rebate on bills discounted was Rs.14,380

19. The following balances are extracted from the books of World Bank Ltd for the year ending 31.3.15

Particulars	Rs.
Interest received	15,50,730
Commission, exchange and brokerage	1,46,500
Issued and subscribed capital	20,00,000
Statutory reserve fund	5,00,000
Retained profit as on 1.4.96	3,00,000
Income on investments	2,50,000
Discount on bills discounted	5,00,270
Profit on revaluation of investments	1,40,000
Miscellaneous income	25,000
Income earned by way of dividends	50,000
Profit on sale of investments	15,000
Interest on deposits	10,85,090
Interest on bank borrowings	1,42,360
Salary	2,40,000
Rents and taxes paid	15,000
Depreciation on bank properties	1,10,000
Insurance	60,000
Other expenditure	40,000
Printing and stationary	20,000
Law charges	15,000
Audit fees	10,000
Advertising and publicity	42,000

Additional information:

- Rebate on bills discounted on 31.3.96 was Rs.50000 and on 31.3.97 was Rs.60000
- Provision for taxation may be made at 505
- The proposed dividend is 10% on paid up capital
- The total debts from a customer is Rs.1500000 and the amount realized is only Rs.1200000
- The auditors recommended for further bad debts of Rs.200000

You are required to prepare profit and loss account and the required schedules.

20. From the following Trial balance, prepare a Balance sheet of Indian Bank Ltd as on 31.3.15

Particulars	**Rs. In Lakhs**	**Rs in Lakhs**
Land and building	25	-
Plant and machinery	30	-
Furniture	12	-
Cash in hand	10	-
Cash with RBI	5	-
Cash With other banks	8	-
Money at call	200	-
Gold	15	-
Government securities	25	-
Term loan	60	-
Cash credits	80	-
Share capital	-	120
Statutory reserve	-	15
Net profit before appropriation	-	60
P&L A/c	-	40
Fixed deposit	-	60
Savings deposit	-	70
Current accounts	15	80
Bills payable	-	10

Borrowings from other banks	-	30
Total	**485**	**485**

Additional information: Acceptances and endorsements Rs.215000, Bills for collection Rs.125000, Claims against the bank not acknowledged as debts Rs.75000

21. The following are the balances of City Bank Ltd., you are required to prepare the Profit & Loss A/c. & the Balance Sheet as at 31.03.15

Particulars	Debit	Credit
Share capital: 2000 Equity shares of Rs.500 each Rs.150	-	3,00,000
Bad debts written off	12,500	-
Reserve fund investments	2,00,000	-
General expenses	69,500	-
Current Accounts	-	20,00,000
Interest paid on deposits	16,000	-
Deposit accounts	-	7,00,000
Profit & Loss A/c.	-	25,000
Acceptances for customers	1,50,000	-
Discount received	-	58,000
Endorsement and Guarantee	7,500	-
Commission & Exchange	-	5,000
Cash on hand	25,000	-
Interest Received	-	25,000
Cash in RBI	2,00,000	-
Endorsement and Guarantee	-	7,500
Owings by foreign correspondents	20,000	-
Customers liability for acceptances	-	1,50,000
Borrowings from banks	-	6,50,000
Loans and Advances	15,50,000	-
Investments	10,00,000	-
Bills discounted	6,50,000	-
Premises	2,20,000	-
Statutory Reserve	-	2,00,000
Total	**41,20,500**	**41,20,500**

<u>Other Information:</u>

i. Interim dividend paid during the year Rs.20000

ii. Provide for rebate on bills discounted Rs.6000 and for income tax reserve Rs.15000.

22. From the following Trial Balance of Canara Bank Ltd., prepare the Profit & Loss A/c. for the year ending 31.03.15 & Balance Sheet as on that date

Particulars	Debit	Credit
Paid capital	-	10,00,000
Money at call and short notice	4,00,000	-
Reserve fund	-	2,50,000
Cash on hand	5,00,000	-
Cash with RBI	2,00,000	-
Fixed deposits	-	12,00,000
Loans, cash creditors etc	15,00,000	-
Investments	2,00,000	-
Borrowings from City Bank	-	3,00,000
Pension fund	-	1,00,000
Unclaimed Dividend	-	50,000
Furniture less depreciation	80,000	-
Premises less depreciation	3,20,000	-
Rent	-	10,000
Interest & discounts	-	6,00,000
Commission received	-	60,000
Salaries and allowances	90,000	-
Interest on deposits and borrowings	3,10,000	-
Audit fees	8,000	-
Directors fees	7,000	-
Depreciation on Bank property	9,000	-
Printing & stationery	4,000	-
Other expenses	2,000	-
Profit & loss A/c. 01.04.14	-	60,000
Total	**36,30,000**	**36,30,000**

Other Information:

i. Provide Rs.5000 for rebate on bills discounted

ii. Provide Rs.22000 for bad debts

iii. Bills for collection on behalf of customers Rs.50000

iv. Provide for taxation Rs.4000.

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SCHOOL OF MANAGEMENT STUDIES

UNIT – IV - ADVANCED CORPORATE ACCOUNTING - SBAA1401

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.**
<u>Share capital:</u>		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 Rs.100 each fully paid	15,00,000	Plant & machinery	18,75,000
7500 equity shares of Rs.100 each, Rs.75 paid	5,62,500	Patents	3,00,000
22500 equity shares of Rs.100 each, Rs.60 paid	13,50,000	Stock	4,02,500
15% debenture secured by a floating charge	7,50,000	Sundry debtors	8,25,000
Interest outstanding on debentures	1,12,500	Cash at bank	2,25,000
Creditors	9,56,250	Profit & loss A/c	8,53,750
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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SCHOOL OF MANAGEMENT STUDIES

UNIT – V - ADVANCED CORPORATE ACCOUNTING- SBAA1401

UNIT V

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 1St 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.

<u>Disadvantages Of Holding Companies</u>

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	60,000	-
General Reserve	50,000	20,000	ltd.	35,000	25,000
P&L A/c on1.1.2013	30,000	7,500	Debtors	60,000	12,500
Profit for the year	50,000	20,000	Other current		
2013	20,000	10,000	assets		
Creditors	**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	15,000	-
Bills payable	-	3,000	cost(15,000 shares)		
	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			Fixed assts	5,00,000	1,70,000
each	5,00,000	1,00,000	8000 shares in S	1,40,000	-
General reserve	80,000	30,000	ltd		
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

11. When a company does become holding company?
12. Explain the legal requirements relating to presentation of accounts by holding companies.
13. Elucidate the methods of consolidating the balance sheets of a holding company.
14. 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
15. Briefly describe the steps for preparing consolidated balance Sheet of the holding company and its subsidiary company.
16. Distinguish between Holding Company and Subsidiary Company.

17. 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**

18. 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.

19. 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.

20. 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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