

UNIT I ACCOUNTING STANDARDS

ACCOUNTING STANDARDS:

Accounting is universally accepted as “the language of business”. The language must convey the same meaning to all of its users. Accounting communicates financial results of an enterprise to various interested parties by means of ‘Financial Statements’. Financial Statements are prepared to ascertain the results of business operations and the financial position of the Firm at the end of the accounting period. They normally include Profit and Loss a/c, Balance Sheet, Cash Flow Statement etc. They are utilized by owners, lenders, suppliers etc. In order to standardize the diverse accounting practices, it is necessary to observe some principles, procedures or rules for preparing the financial statements. It is the function of “Accounting Standards” to prescribe accepted accounting principles and procedures, so that credible financial statements of the highest quality can be produced.

Need and Objectives of Accounting Standards:

Accounting standards are the written statements consisting of rules and guidelines, issued by the accounting institutions. Accounting standards lay down the terms and conditions of accounting policies and practices by way of codes, guidelines and adjustments for making the interpretation of the items appearing in the financial statements easy and even their treatment in the books of account.

Nature of accounting Standards: The accounting standards are guide, dictator, service provider and harmonizer in the field of accounting process.

1. Serve as a Guide to the Accountants: Accounting standards serve the accountants as a guide in the accounting process. They provide basis on which accounts are prepared. For example, they provide the method of valuation of inventories.

2. Act as a Dictator: accounting standards act as a dictator in the field of accounting. Like a dictator, in some area’s accountants have no choice of their own but to opt for practices those stated in the accounting standards. For example, Cash Flow Statement should be prepared in the format prescribed by accounting standard.

3. Serve as a Service Provider: Accounting standards compromise the scope of accounting by defining certain terms, presenting the accounting issues, specifying standards, explaining numerous disclosures and implementation date. Thus, accounting standards are descriptive in nature and serve as a service provider.

4. Act as a harmonizer: Accounting standards are not biased and bring uniformity in accounting methods. They remove the effect of diverse accounting practices and policies. On many occasions, accounting standards develop and provide solutions to specific accounting issues. It is thus clear that whenever there is any conflict on accounting issues, accounting standards act as harmonizer and facilitate solutions for accountants.

Objectives of Accounting Standards: In earlier days, accounting was just used for recording business transactions of financial nature. Its main emphasis now lies on providing accounting information in the process of decision making. For the following purposes, accounting standards are needed:

1. For bringing uniformity in accounting methods: Accounting standards are required to bring uniformity in accounting methods by proposing standard treatments to the accounting issue. For example, AS 6(Revised) states the methods for depreciation accounting.

2. For improving the reliability of the financial statements: Accounting is a language of business. There are many users of the information provided by accountants who take various decisions relating to their field just on the basis of information contained in financial statement. In this connection, it is necessary that the financial statements should show true and fair view of the business concern. Accounting standards when used give a sense of faith and reliability to various users.

3. Simplify the Accounting information: Accounting standards prevent the users from reaching any misleading conclusions and make the financial data simpler for everyone. For example, AS-3 (Revised) clearly classifies the flows of cash 'in terms of operating activities', 'investing activities' and 'financial activities'.

4. Prevents Frauds and Manipulations: Accounting standards prevent manipulation of data by the management and others. By codifying the accounting methods, frauds and manipulations can be minimized.

5. Helps Auditors: Accounting standards lay down the terms and conditions for accounting policies and practices by way of codes, guidelines and adjustments for making and interpreting the items appearing in the financial statements. Thus, these terms, policies and guidelines etc become the basis for auditing the books of accounts.

Indian Accounting Standards: Institute of Chartered Accountants of India [ICAI] being a premier accounting body in India, took-up the leadership role by constituting the Accounting Standard Board [ASB] on 21st April 1977. In India Accounting Standards were issued under the supervision and control of Accounting Standards Board (ASB). The ICAI issued 31 Accounting standards so far. They are given below.

Ind-AS 1- presentation of Financial Statements.

Ind-AS 2- Inventories **Ind-AS 7-** Statement of cash flow

Ind- AS 8 - Accounting policies

Ind-AS10- Events occurring after the reporting period

Ind-AS11- Accounting for Construction Contracts

Ind-AS12- Accounting for Taxes on Income

Ind- AS16- Accounting for Property, Plant and Equipment

Ind-AS17- Accounting for Leases

Ind-AS18 -Revenue Recognition

Ind-AS19 -Accounting for employee benefits

Ind-AS20- Accounting for Government Grants

Ind-AS21- Accounting for the effects changes in foreign exchange rates

Ind-AS23- Borrowing costs

IndAS24- Related party disclosures

Ind-As27-Consolidated Financial Statements

Ind-AS28-Investments in Associates

Ind-AS29-Financial reporting of Hyperinflationary Economies

Ind-AS32-Financial Instruments presentation

Ind-AS33-Earning per Share

Ind-AS34-Interim Financial Reporting

Ind-AS36-Impairments of Assets

Ind-AS37-Provisions, Contingent Liabilities

Ind-AS38-Intangible Assets

Ind-AS40-Investment Property

Applicability of International Accounting Standards:

International Accounting Standards have only a persuasive value. Though member countries of IASC have agreed to support the standards in their own countries, Members by virtue of the legal status they may enjoy, reissue, any of the International Accounting Standards as their own and impose penalty on a member for noncompliance with the Standard. There is no statutory obligation on any member country to adopt the standards.

Pronouncements of Accounting Policies: The International Accounting Standards Committee so far, published the following 26 statements of Standards.

IAS 1 Disclosure of Accounting Policies

IAS 2 Valuation and Presentation of Inventories (in the context of the Historical Cost System)

IAS 3 Consolidated Financial Statements

IAS 4 Depreciation Accounting

IAS 5 Information to be disclosed in Financial Statements

IAS 6 Accounting responses to Changing Prices

IAS 7 Statement of Changes in Financial Position

IAS 8 Unusual and Prior Period items and changes in accounting policies

IAS 9 Accounting for Research and Developmental Activities

IAS10 Contingencies and events occurring after the Balance Sheet

IAS11 Accounting for Construction Contracts

IAS12 Accounting for Taxes on Income

IAS13 Presentation of Current Assets and Current Liabilities

IAS14 Reporting Financial Information by Segments

IAS15 Information reflecting the effects of changing prices

IAS16 Accounting for Property, Plant and Equipment

IAS17 Accounting for Leases

IAS18 Revenue Recognition

IAS19 Accounting for Retirement benefits in the Financial Statements of Employers

IAS20 Accounting for Government Grants and disclosure of Government Assistance

IAS21 Accounting for the effects changes in foreign exchange rates

IAS22 Accounting for business combinations

IAS23 Capitalization of borrowing costs

IAS24 Related party disclosures

IAS25 Investment for Accounting

Benefits of Accounting Standards:

The Accounting Standards are regarded a major component in the frame work of accounting and reporting practices. Standards exist to help to help the accounting practitioners to apply those accounting practices regarded as the most suitable for the circumstances covered. The benefits of Accounting Standards are as follows:

1. To improve the credibility and reliability of financial statements:

The financial statements of a business are used by a diverse group of users for making sound economic decisions such as shareholders, suppliers, trade creditors, customers', employees, taxation authorities and other interested parties. The financial statements should reflect fair and reliable information, needed by the users.

2. Benefits to Accountants and Auditors:

Accountants and Auditors with the passage of time and a changing climate of opinion, have to work in an environment where they face the threat of stern sanctions and bad name to their profession. These result partly from changed penalties and remedies available under the company law and partly from the greater willingness of aggrieved parties and to take their causes before the courts. Thus, accounting standards are benefited to the business organizations as well as accountants and auditors.

3. Determining Management Accountability:

Accounting Standards facilitate in determining specific corporate accountability and regulation of the company and thus help in measuring the effectiveness of management's stewardship (supervision or care). They help in assessing managerial skill in maintaining and improving the profitability of the company, they depict the progress of the company its solvency and liquidity and generally they are important factors increasing the effectiveness of management's performance of its duties and of its leadership.

4. Reform in Accounting Theory and practice:

Financial accounting has lacked especially in the past, a coherent logical conceptual framework and structure for accounting measurements, financial reporting objectives and evidence on accounting practices and usefulness of accounting data.

Unit II – AMALGAMATION

Amalgamation: Sometimes, the companies carrying a similar business combine with each other to obtain economies of a large scale production or to avoid completion, it is bring down by the amalgamation, absorption or reconstruction. The term 'Amalgamation' is used when two or more companies carrying on similar business go into liquidation and new company is formed to take over their business. For example, when Rama Company and Krishna Company, already carrying business in the market go into liquidation and their business are purchased by Ramakrishna Company Ltd., which is a newly formed for this purpose, it is called Amalgamation of Rama Company and Krishna Company.

The minimum number of companies required for Amalgamation is two. The essence of amalgamation is 'Two liquidations and a formation'. The amalgamation companies are called 'vendor companies' and the amalgamated company as the purchasing company. In the above example Rama Company & Krishna Company are vendor companies, Ramakrishna Company Ltd. is purchasing Company.

Types of Amalgamation:

Amalgamation is of two types. They are:

1. Amalgamation in the nature of merger
2. Amalgamation in the nature of purchase.
1. Amalgamation in the nature of merger (pooling of Interest method):

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

1. All the assets and liabilities of the transferor (vendor) company become the assets and liabilities of the transferee (purchase) company after amalgamation.
2. At least 90% of equity Shareholders of Vendor Company should become equity shareholders of purchasing company.
3. Entire purchase consideration is paid in the form of equity shares.
4. Purchasing company should carry on same type of business of vendor companies.
5. No adjustments are intended to be made to the book value of the assets and liabilities of the transferor company.

2. Amalgamation in the nature of merger:

It is an amalgamation when all the conditions specified for amalgamation in the nature of merger are not satisfied.

Accounting methods:

There are two methods for amalgamation of companies. They are: 1

- a. pooling Interest method
- b. Purchase method.

a. pooling Interest method:

Under this method, all the assets and liabilities and reserves of the transferor companies will be recorded in the books of the transferee company at book values unless any adjustment is required due to different accounting policies followed by these companies.

b. Purchase method:

under this method, all the assets and liabilities of vendor company which are taken over will be recorded in the books of purchasing company at their agreed values. In this case, only statutory reserves will be recorded in the books of purchasing company.

Purchase Consideration

The price payable by the purchasing company to the vendor companies for the acquisition of the business is called Purchase consideration. In other words, consideration for amalgamation means the aggregate of the shares and other securities issued and payment in cash to the shareholders of the transferor company. It should not include the amount of liabilities taken over by the transferee company.

Methods of computing purchase consideration:

It is the amount, which is paid by the purchasing company for the purchase of the business from Vendor Company. The consideration will be paid directly to the transferor company by way of cash, shares and debentures. The purchase consideration should be calculated in the following ways:

1. Lumpsum Payment Method: when a transferee company agrees to pay a fixed sum to the transferor company, it is called a lumpsum payment of purchase consideration. Goodwill or capital reserve is arrived on the basis of this lump sum figure.
2. Net Assets Methods: Under this method, the purchase consideration is determined by calculating the net worth of the assets taken over by the purchasing company, it means the total assets taken over by the company minus agreed value of liabilities to be assumed by the transferee company. In other words, the purchase consideration is determined as follows:

particulars	Rs	Amount
Agreed values of assets taken over		<u>Xxxx 2</u>
LESS: Agreed values of liabilities taken over		<u>Xx</u>
Net assets		Xxxx

ADD: Liquidation expenses agreed to be paid by the Purchasing company		<u>Xx</u>
PURCHASE CONSIDERATION		<u>XXXX</u>

NOTE:a). ALL ASSETS TAKEN OVER BY PURCHASING COMPANY: It includes all assets such as cash in hand and cash at bank and excluding all fictitious assets such as preliminary expenses, debit balance of profit and loss account, discount on issue shares and debentures.

b) LIABILITIES TAKEN OVER BY PURCHASING COMPANY: It includes all liabilities to third parties such as bills payable, sundry creditors, bank overdraft, profit sharing fund, provident fund etc.

c) THE LIABILITIES DOES NOT INCLUDE THE FOLLOWING:

Credit balance of profit and loss account, Reserve fund, sinking fund, Dividend equalization fund, Share premium, Capital reserve, Insurance fund, Accident compensation fund, contingency fund etc.,

3).NET PAYMENT METHOD: Under this method all the payments made by the purchasing company to the vendor's company are to be added to arrive the purchase consideration. It is very important to note that while calculating purchase consideration under this method nothing is to be deducted under any circumstances. The payment of purchase consideration is usually made partly by issuing shares, partly by issuing debentures and partly in cash. The sum-total of these will be purchase consideration.

In this case, the value of assets and liabilities taken over by the purchasing company need not be taken into account. **ONLY PAYMENTS ARE TO BE ADDED TO ARRIVE AT THE PURCHASE CONSIDERATION.**

NOTE: While calculating the purchase consideration, the following should be remembered.

Add all the payments, whether in cash, shares or debentures.

Add all the payments made whether made for shareholders, debenture holders and liquidation expenses.

Leave the payments made by the purchasing company to some other party on behalf of vendor company and

Do not deduct the liabilities taken over by the purchasing company.

ACCOUNTING PROCEDURE

The accounting treatment is divided into parts namely

Books of Vendor company and

Books of purchasing company

BOOKS OF VENDOR COMPANY: To close the books of the company going into liquidation. Realisation account should be opened. The following entries should be passed in the books of vendor.

(Being the expenses paid)

7. FOR ASSETS SOLD NOT TAKEN OVER BY THE PURCHASING COMPANY AND PROFIT EARNED THEREON:

Bank Account Dr.

To Asset Account

To Realisation Account

(Being the asset sold not taken over by purchasing company and profit earned thereon)

8. FOR PAYMENT OF OTHER LIABILITIES NOT TAKEN OVER BY THE PURCHASING COMPANY:

Liabilities Account Dr. (Individually)

To Bank Account

(Being the liabilities not taken over by purchasing company Paid)

9. FOR TRANSFER OF DEBENTURES TO DEBENTURE HOLDERS:

Debentures Account Dr.

To Debenture Holders Account

(Being the transfer of debentures to Debenture Holders Account)

10. FOR REDEMPTION OF DEBENTURES:

Debenture Holders Account Dr.

To Bank Account

To Debentures in Purchasing Company Account

(Being the Debentures holders paid off)

11. IF ANY PREMIUM IS PAID TO DEBENTURE HOLDERS IN DISCHARGING OF DEBENTURES:

Realisation Account Dr.

To Debenture Holders Account

(Being the premium paid on debentures transferred to realization account)

12. FOR TRANSFER OF EQUITY SHARE CAPITAL AND ACCUMULATED PROFITS TO SHAREHOLDERS:

Equity Share Capital Account Dr.

Profit and Loss Account Dr.

General Reserve Account Dr.

Dividend Redemption Reserve Account Dr.

Debenture Redemption fund Account Dr.

Accident compensation fund Account Dr.

(to the extent not denote liability)

Share premium Account Dr.

Workmen compensation Account Dr.

Investment fluctuation fund Account Dr.

Any other Accumulated profit Account Dr. 5

To Shareholders Account
(Being the share capital and accumulated profits and reserves transferred to Shareholders)

13. FOR TRANSFER OF ACCUMULATED LOSSES AND EXPENSES NOT WRITTEN OFF TO SHAREHOLDERS:

Equity Shareholders Account Dr.
 To Profit and Loss Account (Dr balance)
 To Preliminary expenses Account
 To Discount on issue of Shares Account
 To Discount on issue of Debentures Account

(Being accumulated losses and expenses transferred to equity shareholders)

14. FOR TRANSFER OF PROFIT ON REALISATION TO EQUITY SHAREHOLDERS:

Realisation Account Dr.
 To Equity shareholders Account

(Being the profit on realization transferred to shareholders)

IF THE REALISATION ACCOUNT SHOWS LOSS

Equity shareholders Account Dr.
 To Realisation Account

(Being the loss on realization transferred to equity shareholders)

15. FOR PAYING EQUITY SHAREHOLDERS:

Equity Shareholders Account Dr.
 To Bank Account
 To Shares in purchasing Company A/c
 To Debentures in purchasing Company A/c

(Being equity shareholders paid)

BOOKS OF PURCHASING COMPANY

THE FOLLOWING ENTRIES SHOULD BE PASSED IN THE BOOKS OF PURCHASING COMPANY

1. FOR PURCHASE OF BUSINESS.

Business Purchase Account Dr.
 To Liquidator of Vendor Company, A/c
(Being the purchase of business)

2. FOR RECORDING ASSETS AND LIABILITIES TAKEN OVER.

Various Assets Account Dr. (Individually with agreed value
To Liabilities Account (")
To Business purchase Account (With purchase consideration)

(Being the assets and liabilities taken over from Vendor Company recorded).

3. FOR PAYMENT OF PURCHASE CONSIDERATION TO THE LIQUIDATOR OF VENDOR COMPANY:

Liquidator of Vendor Company Account Dr.
 To Share Capital Account
 To Debentures Account 6

To Bank Account
(Being purchase consideration paid)

4. For payment of liquidation expenses of Vendor Company:

i) If it is included in purchase consideration no entry is required.

ii) If it is not included in purchase consideration the following entry is to be passed.

	Goodwill A/c.	Dr.
	To Bank A/c.	

(Being the liquidation expenses of Vendor Company paid)

FORMATION EXPENSES: In the case of external reconstruction or amalgamation by formation of a New Company, the purchasing company may have its own formation expenses. On payment of such expenses the following entry is to be passed.

	Preliminary expenses A/c.	Dr.
	To Bank A/c.	

(Being for formation expenses paid)

PROBLEMS-- I. NET ASSETS METHOD

1. A Ltd and B Ltd agreed to amalgamate. A new company AB Ltd has been formed to take over the combined concern as on 31st March 2021. Balance sheets are given below:

Liabilities	A Ltd	B Ltd	Assets	A Ltd	B Ltd
E. Shares of 10/-	10,00,000	5,00,000	Land & Building	5,00,000	3,00,000
Reserve fund	-----	50,000	Machinery	2,00,000	2,50,000
Profit & loss a/c	50,000	50,000	Goodwill	--	50,000
Sundry creditors	80,000	50,000	Stock	1,50,000	20,000
			Debtors	1,20,000	20,000
			Bank	50,000	10,000
			patents	1,10,000	--
	11,30,000	6,50,000		11,30,000	6,50,000

Show how the amount payable to each company is arrived at and prepare the amalgamated balance sheet of the new company.

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Goodwill	56,000	55,800
total	12,62,000	8,95,800
less: Liabilities:		
creditors	<u>1,52,000</u>	<u>2,02,000</u>
Purchase consideration	11,10,000	6,93,800

Journal entries in the books of Muralikrishna Ltd

Date	particulars	If no.	Debit	Credit
	Business purchase a/c Dr		18,03,800	
	To Liquidator of Murali Ltd a/c			12,62,000
	To Liquidator of Krishna Ltd a/c			8,95,800
	<u>(being businesses purchased)</u>			
	Fixed Assets a/c Dr		8,53,000	
	Goodwill a/c Dr		1,11,800	
	Stock a/c Dr		5,26,400	
	Book debts a/c Dr		4,18,200	
	Investments a/c Dr		92,000	
	Bank a/c Dr		56,400	
	To Creditors a/c			3,54,000
	To Business purchase a/c			18,03,800
	<u>(being incorporation of assets and liabilities)</u>			
	Liquidator of Murali Ltd a/c Dr		12,62,000	
	Liquidator of Krishna Ltd a/c Dr		8,95,800	
	To Share capital a/c			18,03,800
	<u>(being purchase consideration paid)</u>			

Balance Sheet of Muralikrishna Ltd as on 31.03.2021

Equity and liabilities	Note No	Amount Rs.
I. Shareholder's Funds:		
a. Share Capital		18,03,800
b. Reserves and Surplus		<u> </u>
total		<u>18,03,800</u>
II. Non-current liabilities:		
III. Current Liabilities:		
Sundry Creditors		<u>3,54,000</u>
total		<u>21,57,800</u>
Assets		
I. Non-Current Assets:	10	

a. Tangible Assets		8,53,000
b. Intangible Assets		<u>1,11,800</u>
	total	<u>9,64,800</u>
II. Current Assets:		
Stock a/c		5,26,400
Book debts a/c		4,18,200
Investments a/c		92,000
Bank a/c		<u>56,400</u>
	total	<u>10,92,000</u>
	Grand total I+II+III	<u>21,57,800</u>

II. LUMP SUM PAYMENT METHOD:

3. Ajay Limited and Vijay Limited having common interest decided to amalgamate and form a new company Andhra Limited. The position of the companies was as follows:

	Ajay liabilities	Ajay Assets	Vijay liabilities	Vijay Assets
<u>Assets:</u>				
Debtors		36,000		40,000
Stock		40,000		20,000
Goodwill		10,000		--
<u>Liabilities:</u>				
Equity share capital	60,000		40,000	
Debenture	10,000		--	
Profit and loss a/c	6,000		4,000	
Sundry creditors	10,000		16,000	
	86,000	86,000	60,000	60,000

The average profits of Ajay Limited and Vijay Limited have been Rs.6,000 and Rs.4,000/- respectively. Andhra Limited agreed to take over both the concerns for a sum of Rs.120000/- and in addition to discharge all liabilities. Rs.20000 to be paid in cash and balance in shares. The profit on conversion is to be divided between Ajay Limited & Vijay Limited in proportion to average Profits earned.

Show Balance Sheet of Andhra Limited and state how much Mr.Anil holding 5000 shares in Ajay Limited, 4,000 shares in Vijay Limited would get from Andhra Limited.

4. Two companies, Abad Ltd. and Nabad Ltd. amalgamate and form a new company Kamyab Ltd. The position of these companies is as under: 11

Liabilities			Assets		
	Abad Ltd	Nabad Ltd		Abad Ltd	Nabad Ltd
Issued Capital:			Goodwill	70,000	--
Shares of Rs.10 each	3,00,000	2,00,000	Stock	1,80,000	80,000
P&L A/c.	50,000	42,000	Debtors	2,00,000	2,20,000
Creditors	30,000	58,000			
Debentures	70,000	■			
	4,50,000	3,00,000		4,50,000	3,00,000

The average profits of Abad Ltd. and Nabad Ltd. have been Rs.30,000 and Rs.20,000 respectively. Kamyab Ltd. agrees with the companies to take over both the concerns for the sum of Rs.6,00,000 and in addition to discharge all liabilities, Rs.1,00,000 to be paid in cash and the balance in shares at face value

It is agreed that the debtors of Abad Ltd. and Nabad Ltd. before being taken over by Kamyab Ltd., will be written off to the extent of 10% of their respective book figures.

The profit on conversion is to be divided between the shareholders of Abad Ltd. and Nabad Ltd. in the same proportion as to the profits previously earned by them.

Draw up Business Purchase Account on the completion of transfer in the books of Kamyab Ltd. Also show how the share capital account in Abad Ltd and Nabad Ltd. should be closed.

III. NET PAYMENT METHOD:

5. M/s. Rama & Co. and Krishna & Co. agree to amalgamate and a new company under the name and style Ramakrishna and Co. is formed for this purpose with a Nominal capital of Rs.60,00,000 divided into 3,00,000 shares of Rs.20 each. The new company takes over all the assets and all the liabilities of the companies and in exchange pays to Rama & Co. Rs.40,00,000 in shares of Rs.20 each and to Krishna & Co. Rs.15,00,000/- in shares of shares of Rs.20 each plus Rs.1,50,000 in cash. Ramakrishna & Co. also pays liquidation 13 expenses of Rama and Co. Rs.18,000 and Krishna and Co. Rs.12,000 and also its formation expenses Rs.36,000. The following is the list of assets and liabilities of the two companies going into liquidation at the date of liquidation.

Liabilities			Assets		
	Rama & Co.	Krishna & Co.		X Ltd.	Y Ltd.
Issued Capital:			Goodwill	5,00,000	2,00,000
Shares of Rs.10 each	30,00,000	15,00,000	Freehold property	19,12,000	9,05,600
Reserve	10,00,000	1,00,000	Machinery & Plant	7,05,000	4,31,200
P&L A/c.	1,25,000	70,000	Stock	3,75,200	2,53,700
Mortgage loan	--	2,00,000	Debtors	2,53,100	1,30,500
		1,13,600			

Creditors	1,72,400		Cash at Bank	5,52,100	62,600
	42,97,400	19,83,600		42,97,400	19,83,600

The amalgamation was duly affected. The new company paid off the mortgage loan immediately after amalgamation. You are required to prepare accounts in the books of Rama & Company, Krishna & Company & Rama Krishna & Company. Also set out the Balance Sheet of Rama Krishna and Co. after amalgamation.

Prepared by

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UNIT IV INTERNAL RECONSTRUCTION

Meaning: Reconstruction refers to reorganization of the capital structure of a company. It may result in the reduction of claims of both the shareholders and creditors against the company. Reconstruction may be necessary for those companies whose financial position is bad. Such reconstruction can be 'External or Internal'.

External Reconstruction: When a company is suffering losses for the past several years and facing financial crisis, the company can sell its business to another newly formed company. Actually, the new company is formed to take over the assets and liabilities of the old company. This process is called External reconstruction. In other words, the External reconstruction refers to the sale of the business of existing company is liquidated and another new company is formed. The liquidated company is called "vendor company" and the new company is called "purchasing company". Shareholders of vendor company becomes the shareholders of purchasing company.

Internal Reconstruction: It refers to the internal re-organization of the financial structure of a company. It is also termed as re-organization which permits the existing company to be continued. Generally, share capital is reduced to write off the past accumulated losses of the company. Internal reconstruction is effected by entering into an agreement with debenture holders, creditors and members of the company, so their rights and privileges are suitably altered. It may also include a scheme of capital reduction by writing off the accumulated losses and fictitious assets. The accounting procedure of internal reconstruction is distinct from that that of amalgamation, absorption and external reconstruction.

Accounting entries on Internal reconstruction:

1. When the face value of the share is reduced;
Share capital ac (old) Dr xxxx
 To share capital ac xx
 To capital reduction ac xx
2. If any sacrifice is made by debenture-holder and creditors;
Debentures ac Dr
Creditors ac Dr
 To capital reduction ac
3. When any contingent liability arises;
Capital reduction ac Dr
 To bank ac
4. If the value of any asset is appreciated;
Asset ac Dr
 To capital reduction ac
5. When amount of capital reduction is utilized for writing off fictitious assets, past losses and excess value of other assets;
Capital reduction ac Dr
 To profit and loss ac
 To goodwill ac
 To preliminary expenses ac
 To discount on share or debentures ac
 To patents, trade-marks ac
 To plant and machinery ac
 To other assets ac
 To unrecorded liabilities (if given in adjustments)
 To capital Reserve ac (if any balance)

1. Following is the balances sheet of Tirumala Ltd on 31-3-2012.

Liabilities	Amount	Assets	Amount
Share capital: 20,000 EShares of 10each	2,00,000	Goodwill	20,000
10%cum prf shares of 100each	1,00,000	Patents	10,000
Bank overdraft	70,000	Land and buildings	1,50,000
Sundry creditors	50,000	Plant and machinery	1,00,000
		Stock	40,000
		Debtors	30,000
		Preliminary expenses	10,000
		Surplus ac Dr	60,000
	4,20,000		4,20,000

A scheme for the reduction of capital was approved on the following terms:

1. The preference shareholders agree that their shares be reduced to a fully paid value of Rs.50 each.
 2. The equity shareholders agree that their shares be reduced to a fully paid value of Rs.5 each.
 3. All the intangible assets are to be eliminated and bad debts of Rs.5,000 are to be written off.
- Give journal entries and draw up a new Balance sheet.

2. The following is the Balance Sheet of C Ltd. as on 31.3.2008.

Liabilities	Rs.	Assets	Rs.
Authorized Capital:		Goodwill	20000
50000 preference shares of Rs.10 each	500000	Premises	107000
50000 equity shares of Rs.10 each	500000	Plant & Machinery	60000
	1000000	Patents	173900
Issued & Paid up Capital:		Stock	34000
25000P.sharesof Rs.10 each	250000	Debtors	56000
25000E shares of Rs.10 each	250000	Cash	100
Current Liabilities:		Preliminary expenses	2000
Creditors	40000	P&L A/c.	123000
Bank O.D.	36000		
	576000		576000

The company proved unsuccessful and the following scheme of reconstruction was sanctioned by the court:

- 1) That the preference shares be reduced to an equal number of fully paid up shares of Rs.5 each.
- 2) That the equity shares to be reduced to an equal number of fully paid up shares of Rs.2.50 each.
- 3) That the amount so available be utilized towards wiping out losses and reduction of assets as follows:

Preliminary expenses, Goodwill and P&L A/c. to be written off. Rs.27000 to be written off on Premises, Rs.14000 on Stock, Rs.6000 to be provided for doubtful debts, 20% should be written off Plant & Machinery and the balance be written off Patents.

Make journal entries in the books of the Company and prepare the Balance Sheet giving effect to the above scheme. (capital reduction Rs.3,12,500; BS 2,63,500)

3. The following is the Balance Sheet of Don Ltd. as on 31.3.2008.

Liabilities	Rs.	Assets	Rs.
200,000 equity shares of Rs.100 each	2000000	Goodwill	25000
12% Debentures	500000	Land & Buildings	150000
O/s Debenture Interest	120000	Plant & Machinery	300000
Creditors	300000	Furniture	80000
		Stock	270000
		Debtors	60000
		Bank	35000
		Preliminary expenses	20000
		P&L A/c.	1980000
	2920000		2920000

The following scheme of reconstruction is sanctioned.

- 1) Equity shares are reduced by Rs.95 per share. They are then consolidated into 10000 equity shares of Rs.10 each.
- 2) Debenture holders agreed to forego O/s debenture interest. As a compensation, 12% debentures are converted into 14% debentures, the amount remaining Rs.400,000.
- 3) Creditors are given an option to either accept 50% of their claim in cash in full settlement or to convert their claims into equity shares of Rs.10 each. Creditors for Rs.200,000 opt for shares in satisfaction of their claims.

- 4) To make payment to Creditors opting for cash payment and to augment working capital, the company issued Rs.50000 equity shares of Rs.10 each at par, the entire amount being payable along with applications.
- 5) Land & Buildings were revalued at Rs.200,000 whereas Plant is written down to Rs.210,000. A provision amounting to Rs.5000 is to be made for doubtful debts.

Pass journal entries and prepare the reconstructed Balance Sheet.

4. Following is the Balance Sheet of XY Ltd. before reconstruction:

Liabilities	Rs.	Assets	Rs.
Issued & Paid up Capital:		Buildings	400000
12000, 7% Preference shares of Rs.50 each	600000	Plant	268000
15000 equity shares of Rs.50 each	750000	Trade Marks & Goodwill	318000
Loan	573000	Stock	400000
Creditors	207000	Debtors	328000
Liabilities	35000	Preliminary exp.	11000
		P&L(surplus) A/c.	440000
	2165000		2165000

The company is now earning profit but a short of working capital and a scheme of reconstruction had been approved by both the classes of shareholders and sanctioned by the court. The scheme is:

- 1) The equity shareholders have agreed that their Rs.50 share is reduced to Rs.2.50 per share.
- 2) They have also agreed to subscribe in cash for the 3 new equity shares of Rs.2.50 each for each share held by them
- 3) The preference shareholders have agreed to cancel the arrears of dividends and to accept 4 new 5% preference shares of Rs.10 each for every preference share they held and each shareholder to buy 6 new equity shares of Rs.2.50 each fully paid for each preference share.
- 4) Loan Creditors of Rs.150,000 have agreed to convert their loan into 12000 preference shares of Rs.10 each and 12000 equity shares of Rs.2.50 each.
- 5) The directors have agreed to subscribe in cash for additional 40000 new equity shares of Rs.2.50 fully paid.
- 6) Of the cash received by the issue of new shares Rs.200,000 is to be used to reduce the loan due by the company.

The amount available is to be applied to write off Preliminary expenses, P&L A/c. and to write off Plant & Machinery by Rs.35000 and the balance is used to write off the Trademarks and Goodwill.

Pass journal entries and prepare the Balance Sheet after reconstruction.

Capital reduction:8,32,500. New BS:15,53,500

5. The following is the Balance Sheet of Sick Ltd. as on 31.3.09:

Liabilities	Rs.	Assets	Rs.
13% Cumulative Preference shares of Rs.100 each	100000	Fixed Assets	1500000
Equity shares of Rs.10 each	700000	Current Assets	3500000
8% Debentures	300000	Surplus ac (Dr Bal)	300000
Current Liabilities	3900000		
Provision for tax	300000		
	5300000		5300000

The following scheme of reorganization is sanctioned:

- 1) All the existing equity shares are reduced to Rs.5 each.
- 2) All the preference shares are reduced to Rs.75 each. Preference shareholders decided to forego their right to arrears of dividend which are in arrears for 3 years.
- 3) The rate of interest on Debentures is increased to 11%. The debenture holders surrendered their existing debentures of Rs.100 each and exchange the same for fresh debentures of Rs.75 each.
- 4) One of the creditors of the company to whom the company owes Rs.25,00,000 decides to forego 50% of his claim. He is allotted 100,000 equity shares of Rs.5 each in part satisfaction of the balance of his claim.
- 5) The taxation liability of the company is settled at Rs.400,000.
- 6) Fixed assets are to be written down by 33 1/3%.
- 7) Current assets are to be revalued at Rs.27,00,000.

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

(capital reduction Rs.17,00,000;BS 37,00,000)

6. The Balance Sheet of Fortunate Ltd. as on 31.3.08 was as under:

Liabilities	Rs.	Assets	Rs.
Share Capital:		Fixed Assets	390000
6000 equity shares of Rs.60 each, Rs.30 paid up	180000	Bank	270000
5% First Debentures	300000	P&L A/c.	870000
6% Second Debentures	600000		
Unsecured Creditors	450000		
	1530000		1530000

Sri Ranjit holds the First Debentures for Rs.300,000 and Second Debentures for Rs.300,000. He is also an unsecured creditor for Rs.90,000.

Sri Vasanth holds the Second Debentures for Rs.300,000 and he is an unsecured creditor for Rs.60,000.

The following scheme of reconstruction is proposed:

- 1) Sri Ranjit is to cancel Rs.210,000 of total debt owing to him, to advance Rs.30,000 of cash and to take new First Debentures (in cancellation of the old) for Rs.510,000 in satisfaction of all his claims.
 - 2) Sri Vasanth to accept Rs.90,000 in cash in satisfaction of all his claims.
 - 3) Unsecured Creditors (other than Ranjit and Vasanth) are to accept the allotment of 20,000 fully paid equity shares of Rs.7.50 each in satisfaction of 75% of their claims and the balance of 25% is to be postponed and to be payable at the end of 4 years.
 - 4) The nominal share capital is increased accordingly. Uncalled capital is to be called up in full and Rs.52.50 per share cancelled, thus making the shares of Rs.7.50 each.
- Pass journal entries and prepare Balance Sheet of reconstructed firm.

7. The Balance Sheet of Trading Company as on 31.12.07 was as follows:

Liabilities	Rs.	Assets	Rs.
Authorized Capital:		Goodwill	25000
3000 P.S. of Rs.100 each	300000	Freehold Property	175000
5000 E.S. of Rs.100 each	<u>500000</u>	Machinery	300000
Issued & Paid up Capital:		Stock	105000
2000 P.S. of Rs.100 each	200000	Debtors	85000
4000 E.S. of Rs.100 each	400000	P&L A/c.	190000
6% Debentures	120000		
Bank O.D.	55000		
Current Liabilities	105000		
	880000		880000

The following scheme of Capital reduction was approved by the court:

- 1) The Preference shares and Equity shares were reduced to Rs.80 and Rs.50 per share fully paid respectively.
- 2) Debenture holders agreed to receive 1000 Preference shares in full satisfaction of dues.
- 3) Goodwill and P&L A/c. to be written off.
- 4) Freehold Property and Machinery were depreciated by 20% & 10% respectively.

Draft Journal entries and prepare the Revised Balance Sheet. **(BS. 6,00,000)**

8. The Balance Sheet of Balaji Ltd. as on 31.12.2002 was given below:

Liabilities	Rs.	Assets	Rs.
4000 Preference Shares of Rs.100 each	400000	Goodwill	30000
8000 Equity Shares of Rs.100 each	800000	Freehold Premises	400000
5% Debentures	200000	Plant & Machinery	600000
Bank O.D.	100000	Stock	80000
Creditors	200000	Debtors	100000
		P&L A/c.	490000
	1700000		1700000

The Company adopted the following scheme of capital reduction which was duly approved by the court:

- a) The Preference Share be reduced to Rs.75 per share and Equity shares to Rs.37.50.
- b) The Debenture holders had taken over Stock and Debtors in full satisfaction of their claims.
- c) Goodwill A/c. is to be written off.
- d) Freehold Premises should be depreciated by 50%.
- e) The value of Plant & Machinery to be increased by Rs.1,00,000.

Give journal entries and prepare Balance Sheet. **(BS 9,00,000)**

9. The Balance Sheet of a Company as on 31.12.01 stood as follows:

Liabilities	Rs.	Assets	Rs.
Authorized Capital:		Land & Buildings	95000
5000 shares of Rs.100 each	500000	Machinery	150000
Paid up Capital:		Stock	45000
4000 shares of Rs.100 each	400000	Debtors	40000
Loan from Reddy	100000	Goodwill	25000
Creditors	100000	Cash	5000
	600000	P&L A/c.	240000
			600000

The following scheme has been agreed upon:

- 1) Rs.100 shares are to be reduced to Rs.50 each.
- 2) 1000 shares unissued are now to be issued as fully paid (at Rs.50 each) to Reddy in full settlement of his loan.
- 3) Creditors accept Rs.75000 in fully paid debentures in full settlement of their debts.
- 4) The amount thus available is utilized in writing off Goodwill, P&L A/c. and the balance to be written off to the Machinery.

Give Journal entries and prepare Balance Sheet.

10. The following is the Balance Sheet of Siva Ltd. as on 31.12.03.

Liabilities	Rs.	Assets	Rs.
Authorized Capital:		Leasehold Premises	130800
10000 P.S. of Rs.100Each	1000000	Plant & Machinery	42200
10000 E.S. of Rs.100each	1000000	Patents at cost	850000
	2000000	Sundry Debtors	76500
Issued Capital:		Stock	55000
7500 E.S Rs.100each	750000	Discount on issue of	
5000 P.S Rs.100each	500000	Shares	18000
Sundry Creditors	30000	Preliminary expenses	12000
Bank O.D.	20000	P&L A/c.	115000
		Cash	500
	1300000		1300000

The company proved unsuccessful and the following scheme of reconstruction is passed:

- a) Rs.100 Preference shares to be reduced to an equal number of fully paid shares of Rs.50 each.
- b) Rs.100 Equity shares to be reduced to an equal number of fully paid shares of Rs.25 each.
- c) That the amount thus rendered available for the reduction of the assets is apportioned as follows: Preliminary expenses, P&L A/c. and Discount on issue of shares to be written off entirely.
- d) Rs.30800 of Leasehold Premises, Rs.15000 of Stock, 20% of Machinery & Debtors and balance available to be written off to Patents.

Pass journal entries and prepare Balance Sheet. (Capital Reduction **Rs.7,50,000**; **BS 5,85,460**)

11. The Balance Sheet of God Bowell as on 31.8.01:

Liabilities	Rs.	Assets	Rs.
3000, 5% Preference shares of Rs.100 each	300000	Goodwill	22500
6000 Equity shares of Rs.100 each	600000	Land & Buildings	300000
6% Debentures	150000	Machinery	450000
Bank O.D.	150000	Stock	65000
Creditors	75000	Debtors	70000
		Cash	7500
		P&L A/c.	350000
		Preliminary expenses	10000
	1275000		1275000

The following scheme of reconstruction was sanctioned:

- 1) The value of Preference share is reduced to Rs.75 and Equity share to Rs.40.
- 2) Debenture holders take over Stock and Debtors in full settlement of their claims.
- 3) It is decided to write off Intangible assets and Fictitious assets.
- 4) Land & Buildings appreciated by 30% and Machinery depreciated by 33 1/3%.
- 5) Reconstruction expenses came to Rs.4500.

Pass necessary journal entries and prepare reconstructed Balance Sheet.

(capital reduction:**5,40,000**; capital reserve **Rs.3,000**; **BS Rs.6,93,000**)

12. XY Ltd. decided to reconstruct its Company by reducing Share Capital. Its Balance Sheet was as follows:

Liabilities	Rs.	Assets	Rs.
6000,6% Preference shares of Rs.100 each	600000	Buildings	800000
15000 Equity shares of Rs.100 each	1500000	Machinery	1000000
Capital Reserve	100000	Stock	250000
3000,10% Debentures of Rs.100 each	300000	Debtors	50000
Creditors	25000	Cash	25000
	2520000	P&L A/c.	400000
			2520000

The material points of the scheme:

- Each 10% Debentures is exchanged for 1)Rs.50, 12% debenture 1, 2)Rs.10, 8% debentures 3, 3)Rs.5 equity shares 4.
- Each Rs.60 Preference share of exchange for 1)Rs.10, 8% Preference shares 5, 2)Rs.5 equity shares 5.
- Each equity share is exchanged for 5 equity shares 10.
- Available amount be utilized to write off P&L A/c. and the balance to reduce Rs.100,000 from Buildings, Rs.300,000 from Machinery and Rs.100,000 from Stock.

Pass necessary journal entries and Prepare Balance Sheet.

Reorganization through Surrender of Shares

1. The Balance Sheet of Z Ltd. as on 31.3.08 was as under:

Liabilities	Rs.	Assets	Rs.
30000 Equity shares of Rs.100 each	3000000	Goodwill	500000
10000, 11% Preference shares of Rs.100 each	1000000	Fixed Assets	3000000
15% Debentures	1000000	Current Assets	1090000
Interest due on Debentures	300000	P&L A/c.	1550000
Sundry Creditors	840000		
	6140000		6140000

Following scheme of reconstruction has been passed and approved by the court:

- The Equity shares are subdivided into shares of Rs.10 each and each shareholder will surrender 70% of his holdings.
 - Out of the surrendered shares, 50000 shares shall be issued to Preference shareholders in full settlement of their claims.
 - Debenture holders' total claim shall be reduced to Rs.700,000 and shall be satisfied by issue of 70,000 equity shares out of the surrendered shares.
 - Creditors' claims are to be reduced by 50% and in consideration the creditors shall receive 20,000 equity shares out of the surrendered shares.
 - Goodwill and P&L A/c. are to be written off and Fixed Assets are to be depreciated at Rs.10,00,000.
 - The remaining surrendered shares shall be cancelled.
- Pass journal entries and give the Balance Sheet.

Prepared by D. SHANKAR MCom; M.Phil; NET Lec. In Commerce.

EXTERNAL RECONSTRUCTION

1. The Balance Sheet of A Ltd. was as follows as on 31.12.2001.

Liabilities	Rs.	Assets	Rs.
Share Capital:		Machinery	40000
15000 shares of Rs.10 each	150000	Goodwill	15500
Sundry Creditors	54000	Buildings	85000
		Stock	27000
		Debtors	22500
		P&L A/c.	14000
	204000		204000

The committee of shareholders and creditors resolved as follows:

- a) That the Company be taken into voluntary liquidation and a new company formed with a nominal capital of Rs.200,000 in shares of Rs.10 each to take over the assets and liabilities of the existing company,
- b) That the amount of Goodwill be eliminated, Machinery be valued at 20% less in the books of new company,
- c) That 15000 shares of Rs.10 each be issued to shareholders in the old company at Rs.7 per share paid up,
- d) the shareholders to pay up the balance of Rs.3 per share in cash,
- e) The creditors of the company to be satisfied by the payment half the amount in cash and the remaining half by issuing 6% debentures.

Pass journal entries in the books of A Ltd. and also show the opening Balance Sheet of the new Company.

2. Panic Ltd. which was sustaining losses decided to dissolve and form a new company called New Face Ltd. on 31.12.2006. The Balance Sheet of the Company is as follows:

Liabilities	Rs.	Assets	Rs.
40000 shares of Rs.20 each	1000000	Machinery	300000
9% Debentures	400000	Stock	500000
Debenture Interest	72000	P&L A/c.	872000
Creditors	200000		
	1672000		1672000

- a) The shareholders of Panic Ltd. agreed to take for every 5 shares, 1 share for Rs.10 in New Face Ltd. at a premium of Rs.5 per share but treated as Rs.8 paid up by share. They agreed to pay immediately the balance of Rs.2 per share and also share premium to New Face Ltd.
- b) The Debenture holders of Panic Ltd. to be issued at 5000 debentures of Rs.100 each in New Face Ltd. in full satisfaction of their claims.

Prepare necessary Accounts in the books of Panic Ltd. and also write opening entries in New Face Ltd.

3. The following is the Balance Sheet of X Ltd. as on 31.12.2008.

Liabilities	Rs.	Assets	Rs.
Issued and Subscribed Capital: 10000 shares of Rs.100 each		Land & Buildings	450000
6% Debentures	1000000	Plant & Machinery	200000
Sundry Creditors	200000	Furniture	50000
	30000	Stock	250000
		Book Debts	250000
		Cash	10000
		P&L A/c.	120000
	1230000		1230000

It was decided to reconstruct the Company and for this purpose a new Company was formed with a nominal capital of Rs.10,00,000 divided into 5000 preference shares of Rs.100 each and 5000 equity shares of Rs.100 each to take over the assets and liabilities of X Ltd. on the following basis:

- a) that debenture holders of X Ltd. are to accept 2000 preference shares fully paid,
- b) the shareholders of X Ltd. are to receive 1 equity share in new company for every 2 shares held by them in the old company,
- c) that the cost of liquidation of Rs.15000 is paid by the new company.

Assuming that the balance of preference shares issued for cash are fully subscribed.

You are required to 1)pass journal entries and 2)give the initial Balance Sheet of the new company.

4. On 31.3.2004 the position of M Ltd. was as follows:

Liabilities	Rs.	Assets	Rs.
100,000 equity shares of Rs.10 each	1000000	Land & Buildings	450000
Sundry Creditors	30000	Plant & Machinery	240000
Bills Payable	20000	Sundry Debtors	100000
		Stock	50000
		Bank	10000
		P&L A/c.	200000
	1050000		1050000

The following scheme of reconstruction was approved on the above date:

- The Company to go into voluntary liquidation and a new Company called N Company Ltd. to be formed to take over the business of the Company.
- The Capital of the new Company was to be Rs.15,00,000 in 150,000 shares of Rs.10 each.
- The new Company should take all the assets of the old company but not liabilities.
- The purchase consideration was to be Rs.800,000 payable as Rs.700,00 by issue of 140,000 equity shares of Rs.10 each with Rs.5 per share paid up and Rs.100,000 in cash.
- The members of the new Company were to pay the balance of Rs.5 per share as Rs.2.25 on first call and Rs.2.25 on final call.

The expenses of reconstruction amounted to Rs.5000. No further shares were issued. Pass necessary entries in the books of N Ltd. and prepare the Opening Balance Sheet.

5. On 1.7.2009 the Balance Sheet of A Ltd. was as follows:

Liabilities	Rs.	Assets	Rs.
Authorized & Issued Capital:		Goodwill	100000
3000,6% Cumulative Preference shares of Rs.25 each	750000	Sundry Assets	250000
8000 equity shares of Rs.50 each	400000	Cash	10000
6% Debentures	50000	P&L A/c.	190000
Creditors	25000		
	550000		550000

Preference dividends are in arrears for 2 years. A scheme of reconstruction was agreed upon as under:

- A new company was to be formed, named B Ltd. with an authorized capital of Rs.500,000 all in equity shares of Rs.100 each.
- For every 3 preference shares, one equity share of Rs.100 each exchanged.
- One equity share of Rs.100 each in the new company to be exchanged for every 4 equity shares in the old company.
- Arrears of dividend to be cancelled.
- Debenture holders to be received 500 equity shares in the new company.
- Creditors to be taken over by the new company and immediately paid off.
- The new company to issue remaining equity shares.
- The new company to take over the old company's assets subject to revaluation on Sundry Assets at Rs.265,000.

Prepare necessary accounts in the books of A Ltd. and open the books of new company by means of journal.

6. On 1.4.2005 the Balance Sheet of Prosperous Ltd. was as follows:

Liabilities	Rs.	Assets	Rs.
5000, 6% Preference Shares	50000	Goodwill	40000
1500 equity shares	150000	Patents	15000
6% Debentures	30000	Sundry Assets	164500
Creditors	20000	Cash	500
Preference dividend is in Arrears for 4 years	-	P&L A/c.	28000
		Preliminary exp.	2000
	250000		250000

A scheme of reconstruction was agreed upon:

- A new company to be formed called Vijay Ltd. with a capital of Rs.325,000 all equity shares of Rs.10 each.
 - One equity share of Rs.5 paid in Vijay Ltd. to be issued for each equity share in Prosperous Ltd.
 - 2 equity shares Rs.5 paid in Vijay Ltd. to be issued for each preference share in Prosperous Ltd.
 - Arrears to be cancelled.
 - Debenture holders to receive 3000 equity shares in Vijay Ltd. credited as fully paid up.
 - Creditors to be taken up by Vijay Ltd.
 - The remaining unissued shares to be taken up and paid for in full by the directors.
 - Vijay Ltd. to take over all assets except Patents (which realized Rs.1000) subject to writing down of Sundry Assets by Rs.35000.
- Give journal entries in Vijay Ltd. and its Balance Sheet.

7. The following is the Balance Sheet of Sundar Ltd. as on 31.12.2008.

Liabilities	Rs.	Assets	Rs.
Share Capital:		Land & Buildings	60000
2000 shares of Rs.50 each	100000	Plant & Machinery	25000
6% Debentures	20000	Furniture	5000
Creditors	10000	Stock	25000
B/P	20000	Debtors	14000
		Cash	1000
		P&L A/c.	20000
	150000		150000

It was decided to reconstruct the company and for that purpose a new company was formed known as Vasundhara Ltd. with an authorized capital of Rs.200,000 divided into equity shares of Rs.100 each. The new company is to take over the assets and liabilities on the following basis:

- Debenture holders in Sundar Ltd. are to accept 8% debentures for an equal amount.

b) The shareholders are to receive one equity share in the new company for 2 shares held by them.

c) The cost of liquidation amounting to Rs.1000 is paid by the new company.

Assuming that the balance of shares is received to public and full amount of cash is received. You are required to close the books of Sundar Ltd. and to give the opening B/S.

8. X Ltd. was voluntarily liquidated on 31.12.2003 for the purpose of reconstruction and Balance Sheet on that date was as follows:

Liabilities	Rs.	Assets	Rs.
Share Capital:		Goodwill	400000
25000 shares of Rs.100		Buildings	950000
each	2500000	Plant	1050000
15% Debentures	1000000	Stock	500000
Trade Creditors	400000	Debtors	600000
R.B.D.D.	70000	Bank	20000
Depreciation Fund	200000	P&L A/c.	650000
	4170000		4170000

A new company is formed i.e., X Ltd.(2004) with a nominal capital of 50000 shares of Rs.100 each to take over the old company. The new company takes over the old company as follows:

1) Stock & Debtors are reduced by 20%, Buildings at Rs.770,000 and Plant Rs.10,00,000.

2) 15% Mortgage debentures of Rs.15,00,000 are issued in full settlement of whole debenture holders at claim.

3) Creditors agreed to take Rs.350,000 in full settlement.

4) Shareholders agreed to take 25000 shares of Rs.100 at Rs.50 paid up and they pay immediately Rs.25 of first call.

5) Bank balance is used for reconstruction expenses.

Pass journal entries in the books of X Ltd.(1994) and prepare the reconstructed Balance Sheet

UNIT IV LIQUIDATION

Liquidation: A company is created by law and carries out its affairs according to law throughout its life. Similarly it comes to an end only through some procedure of law. In order to dissolve a company, its assets will have to be realized, its creditors paid off and balance of the proceeds distributed among shareholders on some equitable basis. This process of realization of assets and payment to creditors and distribution of shareholdings with a view to dissolve the firm is called 'Winding up' or 'Liquidation' of company.

Winding up of company was defined in the companies Act 1956 as "the process where by its life is ended and its property is administered for the benefit of its members and creditors". An administrator, called liquidator, was appointed for sale of assets and pays the debts and finally distribute the surplus among shareholders.

Modes of Winding up:

There are 3 different modes in which a company may be wound up:

1. Winding up by court (a compulsory winding up)
2. Voluntary winding up (by members or creditors) and
3. Voluntary winding up but subject to supervision of court.

Exam questions

Q. What are the lists to be attached to the statement of affairs? Explain. (2021)

Ans. According to Sec 454 of the companies Act, the directors of the company have to submit 'a statement of affairs and deficiency account within 21 days of passing of winding up order. It has to be submitted to the liquidator stating the assets of the company, its liabilities, names of its creditors etc.

The following lists of assets and liabilities are attached to the statement of affairs.

List A: It gives a complete list of assets not specifically pledged to the secured creditors. Creditors having floating charge on the assets are considered as having assets not specifically pledged with them so such assets are included in this list.

List B: It gives the list of assets which are specifically pledged in favour of fully secured creditors and partly secured creditors.

List C: it gives the list of preferential creditors.

List D: It gives the list of debenture holders and other creditors having a floating charge on the assets.

List E: It gives the names, addresses and occupations of secured creditors and the amount due.

List F: It gives the names and number and value of shares held by various preference shareholders.

List G: It gives the names and number and value of shares held by various equity shareholders.

List H: It shows how Deficiency or Surplus in the statement of Affairs has been arrived at, i.e. it explains the reasons for Deficiency or Surplus. According to the law, the period covered by deficiency must commence on the date not less than 3 years before the winding up order.

: Q. Explain the procedure for the preparation of liquidator's final statement of account? (2017, 2019)

Liquidator's final statement of account:

In case of compulsory winding, the official liquidator attached to the High Court will become the liquidator of the company when winding up order is passed. In case of voluntary winding up, the liquidator is appointed by resolution in the general meeting of the company. The liquidator is required to realize the assets of the company and distribute the proceeds among the parties having claims against the company. He has to prepare a statement called Liquidator's final statement of account showing how much amount be realized and how the amount was distributed.

The following is the order in which disbursements will be made by the liquidator:-

1. **Secured creditors up to their claim** or up to the amount realised by sale of securities held by them, whichever is less.

The creditors themselves may sell the securities, they will pay to the liquidator any surplus after meeting their claims.

Only the surplus is shown as a receipt, the payment to secured creditors is not shown in the liquidator's final statement of account.

The balance left unsatisfied – that is when the claims of the creditors are more than the amount realised by sale of securities – will be added to unsecured creditors. Workmen's dues will rank with the secured creditors. These are called overriding preferential payments.

1

2. **Legal charges.**

3. **Remuneration to liquidator.**

4. **Costs of winding up.**

5. **Preferential Creditors.**

6. Debenture holders or other creditors having a floating charge on the assets of the company.
7. Unsecured creditors (this may include liability in respect of dividend or amount due to shareholders on account of profits. In this case, the amount in respect of dividends etc. shall be paid only after the outsiders are satisfied).
8. Preference shareholders
9. Equity shareholders.

Liquidator's Remuneration:

In case of compulsory winding up, the remuneration is fixed by the Court. In case of voluntary winding up, the remuneration is fixed by the appointing authority.

Usually, the remuneration consists of a commission on assets realised plus a commission on the amount paid to unsecured creditors. Unsecured creditors include preferential creditors unless otherwise stated. The commission on unsecured creditors is on the amount paid and hence care should be exercised in calculating the commission.

a. If the available amount is more than the amount payable to creditors:

$$\text{Liquidator's remuneration} = \text{amount of creditors} \times \% \text{of remuneration} / 100$$

b. If the available amount is less than the amount payable to creditors:

$$\text{Liquidator's remuneration} = \text{amount available to creditors} \times \% \text{of remuneration} / 100 + \% \text{ of remuneration}$$

Liquidators Final Statement of Account is a summary of cash book after the commencement of liquidation. On the left hand side he records the receipts and on the right hand side the payments.

The format of Liquidators Final Statement of Account is given below:

Receipts	Amount	Payments	amount
1. Amount realised on assets		1. Legal charges	
2. Surplus from securities if any		2. Liquidator's remuneration	
3. Calls in arrears realised		3. Liquidation exps	2
4. Amount received from contributories		4. Debenture holders	
		5. Preferential Creditors	
		6. Unsecured creditors	
		7. Preference shareholders	

		8. Equity shareholders	

Explanation of some terms :

1. **Secured Creditors** : The Secured Creditors have to depend on the security held by them. They can sell the security themselves and from its sale proceeds they may satisfy their principal and also interest to the date of realisation. If there is any surplus, it should be handed over to the liquidator. If the sale proceeds of securities are not sufficient to meet their claims, they cannot claim the balance from liquidator. They have to satisfy with the amount realised from the security.

Some times when the creditors feel that their securities may not realise sufficient amount, they may relinquish the securities held by them and place their whole debt before the liquidator. In this they will rank only as ordinary creditors of the company. The Secured Creditors rank first not only for their principal but also interest till the date of commencement of winding up.

2. Cost of liquidation: The cost of liquidation ranks for payment next to Secured Creditors. In the case of voluntary liquidation, the following order of priority is usually followed

1. All expenses incurred by liquidator.
2. Remuneration of solicitor, income tax on income accruing after the winding up order.
3. Remuneration of liquidator.

3. Preferential Creditors: The following are the preferential creditors which are paid after meeting the cost of winding up including the liquidator's remuneration but in priority to all other debts.

a) All revenues, taxes, cesses and rates, whether payable to the Govt. or local authority, due and payable by the company within 12 months before the commencement of winding up.

b) All wages or salaries of any employee in respect of service rendered to the company and due for the period not exceeding 4 months within 12 months before the commencement of the winding up and any compensation payable to any workman will not exceed Rs.1,000.

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c) All accrued holiday remuneration becoming payable to any employee or in the case of his death to any other person in his right, on the termination of his employment before or on account of winding up.

d) Compensation payable under the Workmen's Compensation Act in respect of the death or disablement of any officer or employee of the company.

All the above preferential creditors must be paid in full unless the assets are not sufficient to meet their claims

4. Debentures having floating charge on the assets: Debenture holders or other creditors having a floating charge on the assets of the company rank next to the Preferential Creditors.

5. Unsecured Creditors : This may include all creditors whose debts were not secured Unsecured Creditors include all liabilities in respect of dividends or any amount due to shareholders on account of profits.

6. Preference Shareholders: After discharge of outside liabilities as per details given above, if any surplus remains, it will be used for the payment of Preference Shareholders

7. Equity Shareholders: The whole of the amount left after payment to Preference Shareholders will go to the Equity Shareholders.

Problems

1. The Usha Ltd went into voluntary liquidation. Its assets realised Rs.3,50,000; excluding amount realized by sale of securities held by the secured creditors. Following is the position of the company.

Share capital, 1000shares of Rs.100 each	1,00,000
Secured creditors (securities realised Rs. 40,000)	35,000
Preferential creditors	6,000
Unsecured creditors	1,40,000
Debentures having floating charge on the assets of the company	2,50,000
Liquidation expenses	5,000
Liquidator's remuneration	7,500

Prepare the liquidator's final statement of account.

2. A limited company went into voluntary liquidation on 31-3-2020. You are required to prepare a liquidator's final statement of account from the following

1. The amount realised on Machinery, debtors, stock Rs 79,000
2. Cash balance Rs1,000
3. Creditors Rs 40,000
4. 6% Debentures (having floating charge) Rs. 50,000

The debentures paid with interest on 1st Oct 2020. The creditors includes Rs. 5,000 preferential creditors. Liquidation expenses Rs. 500 and liquidators remuneration is 3% on sale of assets and 2% on amount distributed to unsecured creditors. (Ans.80,000)

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3. A limited company went into voluntary liquidation. You are required to prepare a liquidator's final statement of account from the following.

Liquidator's remuneration is 2% on the amounts realized on assets and 2% on the amount distributed to unsecured creditors other than preferential creditors.

Unsecured creditors - Rs.2,24,000

Preferential creditors - 70,000

Debentures 75,000

The assets realised the following:

Cash in hand 20,000

Land and buildings 1,30,000

Plant and machinery 1,10,500

Fixtures and fittings 7,500

The liquidation expenses amount to Rs. 2,000. A call of Rs. 2 per share on the partly paid 10,000 equity shares was made and duly paid except in case of one shareholder owning 500 shares. (2.87,000)

4. The following particulars related to a Limited company which has gone into voluntary liquidation. You are required to prepare the liquidator's final statement of account allowing for this remuneration at 2% on the amount realised and 2% on the amount distributed to Unsecured Creditors.

Preferential Creditors	20000
Unsecured Creditors	64000
Debentures	20000
The assets realised the following sums:	
Land & Buildings	40000
Plant & Machinery	37300
Fixtures & Fittings	2000
The liquidation expenses amounted to Rs.2,000.	

5. ABC Ltd. went into voluntary liquidation. Its assets realised Rs.7,00,000.

The following was the position.

Share Capital (1,000 shares of Rs.100 each) 100000

Secured Creditors (Securities realised Rs.80,000)70000

Preferential Creditors 12000

Unsecured Creditors 280000

Debentures having floating charge 500000

Liquidation expenses 10000

Liquidator's remuneration 15000

Prepare the liquidation's final statement of account.

5

6. From the following particulars, prepare the liquidator's final statement of account to be placed before the shareholders. The financial position of the company on 01.01.21 was as follows.

Liabilities	Rs.	Assets	Rs.
40,000 Equity shares of Rs.100, each, Rs.80 per share called and paid	3,20,000	Fixes Assets	4,00,000
1,000 Preference shares of Rs.100 each, Rs.70 per shares paid	70,000	Sundry Debtors	3,00,000
Loan from Bank (on the mortgage of Land and Buildings)	1,50,000	Profit and loss a/c	1,00,000
Trade Creditors	2,60,000		
	8,00,000		8,00,000

The assets realised as follows on 01.04.21 :

Sundry Debtors Rs.1,00,000 ; Expenses paid Rs.4,000

On 01.06.21 :- Fixed assets (final Rs.3,00,000); Sundry Debtors Rs.1,00,000.

On 01.08.21 : Debtors Rs.50,000. Liquidator's remuneration on the amount collected from debtors @ 5% and 2% on the amount paid to equity shareholders. Assuming that liquidator paid the amounts as and when amounts collected. Prepare the liquidator's final statement of account.

7. A Limited Company went in liquidation with the following liabilities.

Creditors Rs. 1,20,000

Bank Overdraft 2,00,000

Capital : 10,000 preference shares of Rs.100 each, Rs.70 per share called up		7,00,000
10,000 equity shares of Rs.100 each, Rs. 90 called up less calls in arrears	9,00,000	
	<u>20,000</u>	<u>8,80,000</u>
Calls in advance :		
On Preference Shares	2,40,000	
Equity Shares	40,000	
		<u>2,80,000</u>

Amount realised on the sale of assets Rs.20,00,000, cost of liquidation is Rs.20,000. Preference shareholders have no prior rights as to Capital. Prepare liquidator's final statement of account.

8. The Urban Builders Ltd. went into voluntary liquidation with liabilities amounting to Rs.3,00,000. The assets realised Rs.17,80,000. 6
The capital of the Company consisted of 1,00,000 preference shares of Rs.10 each, Rs.7 per share called up and paid up. The holders of 80,000 shares had however paid the full Rs.10 in advance of calls. There were also 1,00,000 ordinary shares of Rs.10 each on which Rs.9 per share had been

called Holders of 20,000 shares had, however paid only Rs.8 per share, while holders of 40,000 shares had paid the fully Rs.10 in advance of calls. The preference shares have no prior rights as to Capital. The cost of winding up amounts to Rs.20,000. The calls in arrears are fully collected. Prepare the liquidator's final statement of account.

9. The Sunny Valley Mining Company Ltd. went into voluntary liquidation on 31.12.2021. The liquidator whose remuneration is 3% on assets realised and 2% on the amount distributed to shareholders, realised all the assets.

The following is the position of the Company on 31st December, 2021.

Assets realised	5,00,000
Expenses of liquidation	9,000
Unsecured Creditors	68,000
10,000 equity shares of Rs.10 each, Rs.9 per share called up and paid up	90,000
5,000 , 6% preference shares of Rs.30 each fully paid	1,50,000
General Reserve	1,20,000
Profit and Loss A/c.	20,000

Under the Articles of Association, the preference shareholders have the right to receive 1/3rd of the surplus remaining after paying the Equity Share Capital.

10. X Ltd. went into voluntary liquidation on 31.12.20. The balances in its books on that day were :

Share Capital: Authorised & Subscribed: 5,000 , 6% cumulative preference shares of Rs.100 each fully paid		Land & Buildings	2,50,000
2,500 equity shares of Rs.100 each, Rs.75 paid	5,00,000	Machinery & Plant	6,25,000
7,500 equity shares of Rs.100 each, Rs.60 paid	1,87,500	Patents	1,00,000
5% Mortgaged Debentures	4,50,000	Stock	1,37,500
Interest outstanding	2,50,000	Sundry Debtors	2,75,000
Creditors	12,500	Cash at Bank	75,000
	3,62,500	P&L A/c.	3,00,000
	17,62,500		17,62,500
			7

The liquidator is entitled to a commission of 3% on all assets realised except cash and 2% on amounts distributed among Unsecured Creditors other than the Preferential Creditors. Creditors include Preferential Creditors Rs.37,500 and a

loan of Rs.1,25,000 secured by a mortgage on Land and Buildings. The preference dividends were in arrears for two years.

The assets realised as follows:

Land & Buildings	3,00,000	Machinery & Plant	5,00,000
Patents	75,000	Stock	1,50,000
Sundry Debtors	2,00,000		

The expenses of liquidation amounted to Rs.27,250. Prepare the Liquidator's final statement of account. (amount distributed to ES 31,750)

11. ABC Ltd. went into voluntary liquidation on 31.12.16 and it has the following Balance Sheet as on that date.

Liabilities	Rs.	Assets	Rs
Paid up Capital (Rs.10 shares)	97,500	Goodwill	25,000
Creditors	49,895	Buildings	24,000
Preferential Creditors	12,100	Machinery	32,750
Partly secured Creditors	27,655	Stock	28,400
Bank Overdraft	6,000	Debtors	32,410
		Cash	1,250
		P&L A/c.	49,340
	1,93,150		1,93,150

Liquidator sold the assets and realised cash as follows:

Rs.

Buildings (to pay pro-rata to Partly secured Creditors) 17,500

Machinery 25,500

Stock 19,500

Debtors 29,500

Cash 1,250

Liquidator's expenses were Rs.500. Liquidator is to be given 2 1/2% commission on cash realised including cash balance and 2% commission on the amount paid to Unsecured Creditors.

Prepare Liquidator's statement of account.

12. The following is the Balance Sheet of M/s. Unfortunate Limited as on 31st December, 20:

Liabilities	Rs.	Assets	Rs.
Share Capital:		Land & Buildings	2,00,000

Authorized & Subscribed: 4000, 6% Preference shares of Rs.100	4,00,000	Plant & Machinery	5,00,000
2000 Equity shares of Rs.100 each, Rs.75 per share paid up	1,50,000	Patents	80,000
6000 Equity shares of Rs.100 each, Rs.60 per share paid up	3,60,000	Stock at cost	1,10,000
5% Debentures (having a floating charge on all assets)	2,00,000	Sundry Debtors	2,20,000
Interest Outstanding on Debentures (also secured as above)	10,000	Cash at Bank	60,000
Creditors	2,90,000	P&L A/c	2,40,000
	14,10,000		14,10,000

On that date, the Company went into liquidation. The dividends on Preference shares were in arrear for two years. The arrears are payable on liquidation as per the Articles of the Company. Creditors include a loan of Rs.100,000 on Mortgage on Land and Buildings. The assets realised as under:

Land & Buildings	2,40,000	Plant & Machinery	4,00,000
Patents	60,000	Stock	1,20,000
Sundry Debtors	1,60,000		

The expenses of liquidation amounted to Rs.21,800. The liquidator is entitled to a commission of 3% on all assets realised (except cash at bank) and a commission of 2% on amount distributed among unsecured creditors. Preferential creditors amount to Rs.30,000. All payments were made on 30th June, 2021. Prepare the Liquidator's Statement of Account. (remuneration on assets 9,80,000 x 3%; total 9,40,000 and E S. 32,000)

Model: II

1. Shri Chopra is appointed liquidator of Moon Company Limited in voluntary liquidation on 1st July, 21. Following balances are extracted from the books on that date: 9

Liabilities	Rs.	Assets	Rs.
Capital:		Machinery	45,000
24000 shares of Rs.5 each	1,20,000	Leasehold Property	60,000
Reserve for Bad Debts	15,000	Stock in trade	1,500
		Book Debts	90,000

Debtures	75,000	Investments	9,000
Bank Overdraft	27,000	Calls in arrear	7,500
Liabilities for Purchases	30,000	Cash in hand	1,500
		P&L A/c	52,500
	2,67,000		2,67,000

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

Machinery 90000; Leasehold Property 109000;

Investments 6000 ; Stock in trade 3000

Bad debts are Rs.3000 and the doubtful debts are Rs.6000 which are estimated to realise Rs.3000. The bank overdraft is secured by deposit of title deeds of leasehold property. Preferential Creditors are Rs.1500.

Telephone rent outstanding is Rs.120.

2. On January 31, 2021 a compulsory order for winding up was made against X Company Limited, the following particulars being disclosed:

particulars	Book Value Rs.	Estimated to produce Rs.
Cash in hand	100	100
Debtors	4,000	3,600
Land & Buildings	60,000	48,000
Furniture & Fixtures	20,000	20,000
Unsecured Creditors	20,000	
Debtures:		
Secured on Land & Buildings	42,000	
Secured on floating charge	10,000	
Preferential Creditors	6,000	
Share Capital (3200 shares of Rs.100 each)	3,20,000	

Estimated liability for bills discounted was Rs.6000 estimated to rank at Rs.6,000. Other contingent liabilities were Rs.12,000 – estimated to rank at Rs.12,000.

The Company was formed on the 1st January, 15 and has made losses of Rs.313,900.

Prepare Statement of Affairs and Deficiency Account.

UNIT V HOLDING COMPANY ACCOUNTS

A Holding Company is a form of business combination. It is brought into existence by rival business firms to eliminate competition and secure the benefits of large scale production. In other words Holding Company operates mainly for the purpose of controlling companies which are engaged in a similar line of business. In this system one company purchases majority shares of another company and exercise control over it. But both the companies will retain their separate identities in the market. Further, they do business on their own.

Meaning and definition of Holding company:

A Holding company is one that holds either the whole of the share capital or majority of shares in one or more companies so as to have a controlling interest in such companies.

A Holding company may be defined as one which:

‘Holds more than 50% of the equity shares of another company and thereby secures a controlling interest in such a company, exercise more than 50% voting rights of the company’.

Meaning of Subsidiary company:

The company which is controlled by the holding company is known as subsidiary company.

Accounting procedure: According to As-21, holding company will have to prepare a combined profit and loss account and combined balance sheet of both holding company and subsidiary company. They are called consolidated Profit and loss a/c and consolidated Balance Sheet.

Consolidated Balance Sheet:

A consolidated Balance Sheet is the Balance Sheet of both holding company and its subsidiary or subsidiaries which is prepared in order to show the assets and liabilities in a consolidated form. The main purpose is to show the financial position of a group consisting of a holding and one or more subsidiary companies. In the consolidated Balance Sheet the assets and liabilities of the holding company and its subsidiary companies are integrated just like a head office incorporating the assets and liabilities of its branches.

Important points to be noted in the preparation of the consolidated Balance Sheet:

1. Capital Profits or Pre-acquisition Profit:

1

Profits accumulated by Subsidiary Company up to the date of acquisition of shares by the Holding Company are Capital Profits, for the Holding Company. The Holding Company is entitled to its proportionate share of capital profits. Capital profits will be shown either as capital reserve on the Liabilities side of Balance Sheet or deducted from Goodwill on the Assets side of Balance Sheet. Capital profit is also known as Pre-acquisition Profit.

2. Revenue Profits or post acquisition profits:

Profits earned subsequent to the date of purchase of shares by Holding Company are treated as Revenue Profits. While preparing the Consolidated Balance Sheet, Revenue Profits should be merged with the balance in the Profit and Loss Account/surplus a/c of the Holding Company.

3. Minority Interest:

It may be possible that Holding Company may not hold 100% shares of the Subsidiary Company. A part of the share capital of the Subsidiary Company may be held by outsiders. In such a case the outsiders also have right on the net assets of the Subsidiary Company.

For example, if a Holding Company acquires 80% shares in the Subsidiary Company, the shareholders who hold the remaining 20% shares are known as outside shareholders. While preparing the Consolidated Balance Sheet, the interest of minority shareholders should be protected. The interest of Minority shareholders or outside shareholders is shown as a separate item on the liabilities side of the Balance Sheet. Minority interest represents the claim of the outsiders in the net assets (Assets - Liabilities) of the Subsidiary Company. It is nothing but the amount payable to the outsiders in respect of share capital and accumulated profits to the extent of their holdings. The interest of Minority shareholders consists of the following:

- a) The face value of the shares held by Minority shareholders
- b) A proportionate share in the Company's profit and reserves

4. Revaluation of Assets and Liabilities:

At the time of acquiring shares in a Subsidiary Company, it is usual for the Holding Company to revalue the assets and liabilities of the former in order to arrive at a price to be paid for its share. Any profit/loss on such a revaluation is a capital profit or capital loss while preparing Consolidated Balance Sheet, necessary adjustments should be made.

If there is any profit due to revaluation of assets, the share of Minority shareholders in it, should be added to the minority interest. If there is any loss due to the revaluation of assets and liabilities, the share of minority shareholders in it should be deducted from the minority interest.

5. Inter-Company Transactions:

Transactions between the Holding Company and the Subsidiary Company are known as Inter-company transactions. While preparing the Consolidated Balance Sheet, the following inter-company transactions should be eliminated.

i) Inter-company borrowings:-

Loans advanced by the Holding Company to the Subsidiary Company or vice-versa appear as an asset in the Balance Sheet of lending company and as a liability in the Balance Sheet of the borrowing company. Inter-company borrowings should be eliminated from Consolidated Balance Sheet (from total debtors as well as from total creditors).

ii) Bills of Exchange:-

Bills of exchange given by one company to another company appears as Bills Payable in the Balance Sheet of accepting company and as Bills Receivable in the Balance Sheet of the drawer company. While preparing Consolidated Balance Sheet, these items should be eliminated (deduct from Bills Receivable and Bills Payable). It should be remembered that Bills discounted or endorsed should not be eliminated as they represent claims of outsiders as against the group.

6. Unrealised Profit:

Unrealised Profits may occur when there are inter-company transactions. When a Holding Company sells goods to its Subsidiary company or vice-versa, the selling company is supposed to have earned a profit in that transaction. If the buying company is not able to sell the goods and they remain unsold at the time of preparing the Balance Sheet, the profit earned by the selling company cannot be treated as a real profit because the transaction becomes a mere transfer of goods from one company to another company of the same group. While preparing consolidated Balance Sheet such unrealised profit on inter-company sales should be deducted from the stock-in-trade of the buying company and profit balance of selling company. (It should be remembered that out of total unrealised profit, minority interest must be deducted).

7. Elimination of Investment in shares of Subsidiary Account: When a holding company acquires equity shares of a subsidiary company, such acquisition is treated as an investment in the books of the holding company as Shares in Subsidiary Company Account. This is an item of asset to the holding company. Where a holding company holds all the shares of a subsidiary, all its assets belong to the holding company, which is also liable for all its debts. In other words, investments by the holding company in the shares of its subsidiary represents excess of assets over liabilities or its capital. All assets and liabilities of subsidiary are added to the assets and liabilities of Holding Company that is why it is called Consolidated Balance Sheet. But it should be remembered that the item Investment in Subsidiary Company appearing in the Balance Sheet of a Holding Company is not recorded in the Consolidated Balance Sheet.

1. The Balance Sheets of H Ltd. and S Ltd. on 31.12.2020 were as under:

Liabilities	H Ltd	S Ltd	Assets	H Ltd	S Ltd
E.Shares of 10/-	1,00,000	25,000	Land & Building	30,000	---
Reserve	15,000	5,000	Plant&Machinery	1,00,000	---
<u>Profit & loss a/c</u>			Stock	20,000	42,500
On1-1-2020	20,000	10,000	Debtors	5,000	15,000
For the yr 2020	25,000	12,500	Bank	5,000	5,000
Sundry creditors	25,000	15,000	1,500shares in		--
Bills payable	7,500	----	S ltd	32,500	--
			B/R	--	5,000
	1,92,500	67,500		1,92,500	67,500

H Ltd acquired Shares on 01.07.2020. Bills Receivable held by S Ltd. are all accepted by H Ltd. Debtors of S Ltd. included Rs.30,000 owing by H Ltd. in respect of goods supplied. Prepare Consolidated Balance Sheet.

2. The following are the two B/S of H Co. Ltd. and S Co. Ltd. as on 31.12.21.

Liabilities	H Ltd	S Ltd	Assets	H Ltd	S Ltd
E.Shares of 100/-	50,00,000	15,00,000	Land & Building	20,00,000	9,00,000
Reserve	4,00,000	1,50,000	Plant,Machinery	11,00,000	7,00,000
<u>Profit & loss a/c</u>			Vehicles	8,00,000	--
On1-1-2021	2,00,000	1,00,000	furniture	1,00,000	--
For the yr 2021	1,50,000	1,00,000	Debtors	7,40,000	2,00,000
Sundry creditors	2,50,000	3,50,000	Sundry assets		4,00,000
			<u>Investments in S Ltd:</u>		
			9,000 shares of Rs.100	12,60,000	--4
			each at Rs.140		

60,00,000 22,00,000

60,00,000 22,00,000

H Co. Ltd. bought 9,000 shares of Rs.100 each fully paid in S Ltd at Rs.140 each on 01.07.21. The debtors of S Co. Ltd. included Rs.25,000 due from H Ltd. You are required to prepare the Consolidated Balance Sheet as on 31st December, 21.

3. From the Balance Sheet and information given below, prepare consolidated Balance Sheet.

Liabilities	H Ltd	S Ltd	Assets	H Ltd	S Ltd
E.Shares of 10/-	5,00,000	1,00,000	Fixed assets	4,00,000	60,000
Reserve	60,000	30,000	Stock	3,00,000	1,20,000
Profit & loss a/c	2,00,000	60,000	Debtors	75,000	85,000
Sundry creditors	1,10,000	60,000	B/R	20,000	--
Bills payable	--	15,000	<u>Investments in S Ltd:</u> 7,500 shares at cost	75,000	
	8,70,000	2,65,000		8,70,000	2,65,000

a) The bills accepted by S Ltd. are all in favour of H Ltd.

b) The stock of H Ltd. includes Rs.25,000 bought from S Ltd. at a profit of 20% on sales.

c) All the profit of S Ltd. has been earned since the shares were acquired by H Ltd. but there was already reserve of Rs.30,000 at that date.

4. The Sun Ltd. acquired all the shares in the Moon Ltd. on 31.10.2021.

Liabilities	Sun Co.	Moon Co.	Assets	Sun Co.	Moon Co.
E.Shares of 10/-	2,50,000	2,00,000	sundry assets	1,00,000	2,70,000
General Reserve	50,000	40,000	shares in Moon	2,50,000	
Profit & loss a/c	30,000	20,000	ltd		
Sundry creditors	20,000	10,000			
	3,50,000	2,70,000		3,50,000	2,70,000

The P & L A/c. of the Moon Co. Ltd. had a credit balance of Rs.6,000 on 01.01.21. The profits of 2021 accrued evenly throughout the year. Prepare the Consolidated Balance Sheet.

5. From the following details, prepare Consolidated Balance Sheet of H Company and its subsidiary S company as on 31.12.2021.

Liabilities	H Ltd	S Ltd	Assets	H Ltd	S Ltd
E.Shares of100/-	2,00,000	60,000	Building	1,45,000	50,000
General Reserve	50,000	15,000	Plant	60,000	25,000
Profit & loss a/c	25,000	21,000	Stock	40,000	10,000
6% Debentures	70,000	--	Debtors	35,000	15,000
Sundry creditors	15,000	10,000	B/R	15,000	10,000
Bills payable	5,000	9,000	Bank	10,000	5,000
			400shares in S Ltd	60,000	--
	3,65,000	1,15,000		3,65,000	1,15,000

On the date of acquisition of shares by H Co. in S Co., the latter had undistributed profits of Rs.9,000 and reserve of Rs.6,000. The value of Buildings and Plant of S Co. were considered at Rs.65000 and Rs.16,000 respectively Debtors of H Co. include Rs.5,000 due from S Co. and Bills Payable of H Co. includes a bill of Rs.3,000 accepted in favour of S Co.

6. From the Balance Sheets and information given below, prepare a **Consolidated**

Liabilities	H Ltd	S Ltd	Assets	H Ltd	S Ltd
E.Shares of 10/-	1,00,000	20,000	sundry assets	80,000	12,000
Reserve	10,000	6,000	Stock	61,000	24,000
Profit & loss a/c	40,000	12,000	Debtors	13,000	17,000
Sundry creditors	20,000	12,000	B/R	1,000	--
Bills payable	--	3,000	shares at cost in S Ltd:	15,000	
	1,70,000	53,000		1,70,000	53,000

a) All the profits of S Ltd. have been earned since the shares were acquired by H Ltd. but there was already reserve of Rs.6,000 on that date.

b) The bills accepted by S Ltd. are all in favour of H Ltd. which had discounted Rs.2,000 of them.

c) Sundry assets of S Ltd. are undervalued by Rs.2,000.

d) The stock of H Ltd. includes Rs.5,000 bought from S Ltd. at a profit to the latter of 25% on cost.

7. The Balance Sheet of A Ltd. and B Ltd. on 31.12.2019 are given below.

Liabilities	A Ltd (Rs.000)	B Ltd (Rs.000)	Assets	A Ltd (Rs.000)	B Ltd (Rs.000)
<u>Share Capital :</u>			Land & Building	310	160
10,000E.Shares of100/- each	1,000	400	Machinery		
10% P. shares of Rs.100 each	--	100	Less 10% deprn	270	135
General Reserve	100	50	3000 shares in B	450	--
<u>Profit & loss a/c</u>			Stock	220	150
1-1-2019	40	30	Debtors	155	90
For 2019 year	200	80	Bank	85	195
Sundry creditors	150	70			
	1,490	730		1,490	730

A Ltd. acquired 3,000 equity shares in S Ltd. on 01.07.19. As on the date of acquisition, A Ltd. found that the value of Land and Buildings and Machinery of B Ltd. should be Rs.1,50,000 and Rs.1,92,500 respectively. Prepare the consolidated Balance Sheet of A Ltd. and its subsidiary B Ltd. as on 31.12.19 taking into consideration the fact that assets are to be taken at their proper values.

8. Following are the Balance Sheets A Co. and B Co. as at 31.12.21:

Liabilities	A Ltd	B Ltd	Assets	A Ltd	B Ltd
<u>Share Capital :</u>			Goodwill	60,000	20,000
E.Shares of10/- each	3,00,000	2,00,000	Land & Building	1,20,000	85,000
Reserve fund	65,000		Machinery	65,000	42,000
<u>Profit & loss a/c</u>			Investment:		
1-1-2021	10,000	--	shares in B ltd	1,50,000	--
For 2021 year	80,000	--	govt. securities	--	10,000
Debentures	1,00,000	--	Stock	85,000	40,000
Deposits	--	1,30,000	Debtors	60,000	72,000
Sundry creditors	10,000	35,000	B/R	10,000	--
B/P	--	15,000	Bank	15,000	11,000
	5,65,000	3,80,000	Surplus a/c	--	1,00,000
				5,65,000	3,80,000

From the following information prepare Consolidated Balance Sheet.

1. A Co. purchased 12,000 shares of B Co. on 01.07.21.
2. The Profit and Loss A/c. of B Co. showed a debit balance of Rs.150000 on 01.01.21.

3. Creditors of B Co. included Rs.10,000 for goods supplied by A Co. on which A Co. made a profit of Rs.2,000. Half of the goods were still in stock of B Co.
4. Bills payable of B Co. are all drawn by A Co.

9. H Ltd. Acquired 80,000 shares of Rs.10 each in S Ltd. on 1st October, 2020. The summarised Balance Sheets of H Ltd. and S Ltd. on 31st March, 2021. Prepare Consolidated Balance Sheet of H Company and its subsidiary S company as on 31.12.2021.

Liabilities	H Ltd	S Ltd	Assets	H Ltd	S Ltd
E.Shares of10/-	20,00,000	10,00,000	Good will	1,00,000	--
Reserve	1,00,000	1,50,000	Machinery	5,00,000	4,50,000
Profit & loss	50,000	45,000	furniture	20,000	40,000
a/c	--	2,00,000	shares in S ltd	8,80,000	--
9% Debentures	4,00,000	2,00,000	9% Debentures		
creditors	20,000	10,000	in S ltd	80,000	--
Bills payable			Stock	5,20,000	6,50,000
			Debtors	1,80,000	2,70,000
			B/R	10,000	15,000
			Bank	2,80,000	1,80,000
	25,70,000	16,05,000		25,70,000	16,05,000

Bills Receivable of S Ltd. include bills for Rs.8,000 accepted by H Ltd. and Creditors of S Ltd. include Rs.20,000 due to H Ltd. An amount of Rs.30,000 was transferred by S Ltd. from the current year's profits to reserves.

10. The following Balance Sheets as at 31.3.2020 are presented to you.

Liabilities	H Ltd	S Ltd	Assets	H Ltd	S Ltd
E.Shares of100/-	5,00,000	2,00,000	Fixed assets	3,50,000	1,50,000
Reserve	1,00,000	--	Stock	90,000	40,000
Profit & lossa/c	80,000	--	Debtors	60,000	30,000
6% Debentures	--	1,00,000	1,500shares in		--
creditors	75,000	45,000	S ltd at cost	1,20,000	
			6% Debentures		--
			in S ltd	60,000	--
			P & L a/c	--	1,00,000
			Bank	75,000	25,000
	7,55,000	3,45,000		7,55,000	3,45,000

H Ltd. acquired the shares on 1st August, 2019. The profit and loss account of S Ltd. showed a debit balance of Rs.150,000 on 1st April, 2019. During June, 2019 goods costing Rs.6000 were destroyed by fire against which the insurer paid only Rs.2000. 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 goods were still in stock on 31st March, 2020. Prepare a Consolidated Balance Sheet and show the complete workings.

11. The Balance Sheets of H Ltd. and its Subsidiary S Ltd. on 31st March, 2021 were as under

Liabilities	H Ltd	S Ltd	Assets	H Ltd	S Ltd
<u>Share Capital :</u>			Land & Building	6,00,000	--
E.Shares			Plant&Machinery	20,00,000	--
of10/- each	20,00,000	5,00,000	Furniture	90,000	1,00,000
Reserve on	3,00,000	1,00,000	30,000shares in S		
1/4/20			ltd	6,50,000	--
<u>Profit & loss</u>			Stock	4,00,000	7,50,000
1-4-2020	4,00,000	2,00,000	Debtors	1,00,000	2,80,000
31-3-2021 yr	5,00,000	2,50,000	Bank	10,000	20,000
creditors	3,00,000	3,00,000	B/R	--	2,00,000
B/P	1,50,000	--			
Bank O D	2,00,000	--			
	38,50,000	13,50,000		38,50,000	13,50,000

- 30,000 shares in S Ltd. were acquired by H Ltd. on 1st October, 2020.
 - Bills Receivable held by S Ltd. include bills of H Ltd. for Rs.120,000..
 - Included in Debtors of S Ltd. is a sum of Rs.60,000 owing by H Ltd. in respect of good supplied by S Ltd.
 - Stock of H Ltd. includes goods worth Rs.30,000 purchased from S Ltd. for which the later Company has charged profit at 25% on cost.
 - Contingent Liability for bills discounted by S Ltd Rs.25,000.
- You are required to prepare a Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March,2. Give all your working notes clearly.