RANI CHANNAMMA UNIVERSITY

B.Com – 4th Semester **Corporate Accounting – II**

UNIT – 4: FORENSIC AND CREATIVE ACCOUNTING

Meaning of Forensic Accounting:
Forensic Accounting means the use of accounting skills to investigate the fraud and to analyze the financial information to prove or disprove the financial fraud in the court of law.

Definition of Forensic Accounting:
- According to American Institute of Certified Public Accountants (AICPA), "Forensic Accounting is the application of accounting principles, theories and discipline to facts or hypothesis at issues in a legal dispute and encompasses every branch of accounting knowledge".
- According to George A. Mannie, "Forensic Accounting is the science of gathering and presenting financial information in a form that will be accepted by a court against perpetrators of economic crimes".

Meaning of Forensic Accountants:
Forensic Accountants specialize in forensic analytics which is the procurement and analysis of electronic data to reconstruct, defect or otherwise support claim of financial brand. In other words, Forensic Accountant is a person who is engaged in the forensic accounting.

Significance or Importance of Forensic Accounting:
1. The following are the important points which reveal the importance of Forensic Accounting: 1. It helps in investigating and analyzing financial evidence.
2. it helps in developing computerized applications which could be used in analysis and presentation of financial evidence.
3. Helps in communicating their findings in the form of reports and collection of documents.
4. Helps in assisting in legal proceedings, and also preparing visual aids to support trial evidence.
5. It also helps in reducing the transaction processing risk by performing routine-based audit procedures.

Requisites of a Successful Forensic Accountant:
The Forensic Accountant requires high degree of both personal and professional skills. They are:
1. Forensic Accountant should possess the knowledge of accounting and financial system.
2. He should well know the different frauds like misappropriation, money laundering, bribe, embezzlement etc.
3. He should have knowledge of computers and network systems.

4. He should have the knowledge of human psychology to understand the criminal human behavior.
5. He should have excellent communication skills.
6. He should also possess personal traits like patience, good listening, analytical mind etc.

Duties of Forensic Accountant:

The following are the duties of Forensic Accountant:

1. He calculates economic damages whether suffered from fraud or breach of contract.
2. He assists in post-acquisition disputes.
3. He provides guidance for business valuation and computer forensics.
4. He provides assistance in criminal investigation proceedings.
5. He helps in determining security fraud, tax fraud and money laundering.
6. He assists for ascertainment of bankruptcy insolvency and reorganization.

Need for Forensic Accountant:

1. Forensic Accounting helps in assessment and settlement of insurance claims relating to loss of property or loss due to any other risk incurred.
2. Forensic accountant provides information to detect the frauds committed by employees relating to loss of property.
3. The services of forensic accountant are most useful in preparing evidence for settlement of criminal cases.
4. The services of forensic accountant are also used in settlement of dispute through arbitration.
5. The services of forensic accountant are also used in disputes like:
   a) Settlement of dues of an outgoing partner
   b) Construction delays
   c) sole trade practices
   d) Malpractice cases etc.

Methods used in Forensic Accounting:

1. Critical Point Auditing (CPA):
   In CPA, symptoms of fraud are filtered out from regular transactions where they may be concealed. It involves:
   a. Trend Analysis
   b. Checking usual debits/credits in the accounts
   c. Discrepancies in receivables, payables, inventory balances
   d. Any false credits to boost sales with corresponding debit entry
2. Propriety Audit (PA):
   a. PA is conducted by supreme government whether accounts are prepared in order, in terms of approvals and sanction of expenditures incurred are need based and that revenue have been realized in time or not.
   b. The analogy of "Value of Money Audit" is applied to forensic audits.

Meaning of Creative Accounting:

Creative Accounting is a term which is used as a systematic misrepresentation of true and fair income, liabilities and assets of corporations or organizations.

Definition of Creative Accounting:

- According to Kamal Naser, "Creative Accounting is the transformation of financial accounting figures from what they actually are to what preparer desires by taking advantage of the existing rules and ignoring some or all of the rules".
- According to Blake, Amat and Dowds, "Creative Accounting is a process whereby accountants use knowledge of accounting rules to manipulate figures reported in the accounts of a business".

Reasons for Creative Accounting:

1. To cook the books for meeting the internal targets with respect to sales, profitability and share prices.
2. To meet the external expectations of the employees and customers so as to have long term relationships with the customers, suppliers and company.
3. To impress the investors and to keep the share prices stable, companies want to provide income smoothing through creative accounting.
4. To have window dressing before corporate events like IPO, acquisition or before taking a loan.
5. The creative accounting may also result in some tax benefit.
6. Creative accounting has another tendency of new managers to show losses due to poor management.

Types for Creative Accounting:

1. Big Bath Charges: This technique implies that instead of showing losses for couple of years, a big loss is shown for one single year by charging all expenses in that year and thus starts showing better profits in the followings years.
2. Cookie Jar Reserves: Excess provisioning for accrued expenses when revenues are high, helps to bring down profits to a level that is safe to maintain the future. In other words, these accruals are hidden in 'Cookie Jars' during good times and used in bad times.
3. Materiality: This occurs when a company intentionally records errors within a defined percentage and when they are questioned, they simply argue that the profits are too small to matter.
4. Revenue Recognition: this type of technique applied when companies increase their earnings by recognizing a sale prior to the completion of the sale or before the product is delivered to the customer.
5. Other Techniques: Changes in deprecation policy, capitalization of costs, off balance sheet finance, brand accounting and pre-acquisitions write downs.

UNIT – 5: ACCOUNTS OF HOLDING COMPANIES

Meaning of Holding Company

A Holding Company is one which, directly or indirectly acquires controlling interest in full or to the extent of majority (i, e, more than 50%) in the affairs of another company.

In other words, when any company acquires or holds more than 50% of shares in another company, the company that acquires the shares is known as 'Holding Company'.

Definition of Subsidiary Company

According to Section 4 of the Companies Act, the company is said to be subsidiary of another company, if the other company:

a) controls the composition of its board of directors
b) holds more than half of the shares
c) is a subsidiary of any other company which is the subsidiary of that other company.

Definitions according to AS- 21

1. Parent Company: It is an enterprise that has one or more subsidiaries.
2. Subsidiary Company: It is an enterprise controlled by another enterprise.
3. Group: A group is a parent and all its subsidiaries.

Types of Subsidiary Company

There are two types of Subsidiary Companies:

1. Wholly Owned Company – Wholly owned subsidiary is one in which all the shares (100% shares) are owned by the holding company.
2. Partially Owned Company – The partially owned subsidiary is one in which more than half of the shares are owned by the holding company and the remaining shares are held by the subsidiary company.

Terms in Accounts of Holding Company

1. Cost of Acquisition of Shares: The amount of shares purchased by the holding company in its subsidiary company is called cost of acquisition.
2. Cost of Control: The difference between cost of acquisition and the nominal value of shares is treated as Cost of Control also known as Goodwill.
3. Minority Interest: It is the aggregate amount of share capital, reserves, profits, losses, increases and decreases in the value of assets which belongs to the minority holders.
4. Date of Acquisition: The day or date on which the shares are acquired by the holding company in its subsidiary company, is called date of acquisition.
5. Pre-Acquisition Profits: These are the profits earned by the subsidiary company **before** the date of acquisition of shares by the holding company in the subsidiary company.
6. Post- Acquisition Profits: These are the profits earned by the subsidiary company **after** the date of acquisition of shares by the holding company in the subsidiary company.

7. Pre- Acquisition Loss: These are the losses incurred by the subsidiary company **before** the date of acquisition of shares by the holding company in the subsidiary company.
8. Post- Acquisition Loss: These are the losses incurred by the subsidiary company **after** the date of acquisition of shares by the holding company in the subsidiary company.
9. Pre-Acquisition Reserve: These are the reserves created by the subsidiary company **before** the date of acquisition of shares by the holding company in the subsidiary company.
10. Post- Acquisition Reserve: These are the reserves created by the subsidiary company **after** the date of acquisition of shares by the holding company in the subsidiary company.
11. Inter- Company Eliminations: It means eliminations of amount payable by holding company to its subsidiary or by subsidiary to its holding company including the elimination of unrealized profit.

    Types of Inter- Company Eliminations:

    a) Inter- Company Debtors & Creditors: It means the amount due by holding company to subsidiary company or vice-versa on the date of preparation of consolidated balance sheet on account of credit sales or credit purchases.
    b) Inter- Company Loans & Advances: It is the amount of loans and advances due by one company to another on the date of preparation of consolidated balance sheet.
    c) Inter- Company Debentures: When the debentures issued by the holding company to subsidiary company or vice- versa may be due on the date of preparation of consolidated balance sheet, are called inter - company debentures.
    d) Inter- Company Bills: It is the amount of bills due from one company to other company on the date of preparation of consolidated balance sheet.
    e) Unrealized Profit (URP): If there remains any unsold goods (closing stock) on the date of preparation of consolidated balance sheet, the profit so included is called as “unrealized profit”.
12. Consolidated Statements: A consolidated statement of assets and liabilities is the statement of both holding company and its subsidiary which is prepared in order to show the assets and liabilities in consolidated form.
13. Undervaluation of Assets: If values of the assets are shown less than the actual value, it is called undervaluation of assets.
14. Overvaluation of Assets: If values of the assets are shown more than the actual value, it is called overvaluation of assets.

Effects to be given for the Inter- Company Eliminations in the Consolidated Statements

Sl.No	Name of the Adjustments	Liabilities	Assets
1	Inter Company Debtors & Creditors	Deducted from Creditors	Deducted from Debtors
2	Inter Company Loans & Advances	Deducted from Loans	Deducted from Advances
3	Inter Company Debentures	Deducted from Debentures	Deducted from Debentures
4	Inter Company Bills	Deducted from Bills Payable	Deducted from Bills Receivables
5	Unrealized Profit	Deducted from profit	Deducted from Inventories (Stock)
6	Undervaluation of Assets	1. to be added in Chart showing Majority & Minority Interest 2. to be added in calculation of capital reserve 3. to be deducted from the concerned assets in the consolidated statements	
7	Overvaluation of Assets	1. to be deducted in Chart showing Majority & Minority Interest 2. to be deducted in calculation of capital reserves 3.to be added from the concerned assets in the consolidated statements	

Steps to be followed to solve the Problems on Accounts of Holding Company

STEP 1: Preparation of Chart Showing Majority & Minority Interest

STEP 2: Calculation of Cost of Acquisition

STEP 3: Calculation of Goodwill (Cost of Control) or Capital Reserve

STEP 4: Preparation of Consolidated Statement of Assets and Liabilities

STEP 5: Preparation of Notes to the Consolidated Statements

5 Marks Problems with Solutions on Accounts of Holding Company

Format of Chart Showing Majority and Minority Interest

Chart Showing Majority and Minority Interest

Sl.No	Particulars	Total	H Co.	S Co.
1	Share Capital (in the ratio of shares acquired)	XXXX	XXX	XXX
2	Reserves: Pre- Acquisition Reserve Post-Acquisition Reserve	 XXXX XXXX	 XXX XXX	 XXX XXX
3	Profit & Loss Account (Surplus) Pre- Acquisition Profit Post- Acquisition Profit	 XXXX XXXX	 XXX XXX	 XXX XXX
4	Less: Overvaluation of Assets	XXXX	XXX	XXX
		XXXX	XXX	XXX
5	Less: Profit & Loss Account (Loss) Pre- Acquisition Loss Post- Acquisition Loss	 XXXX XXXX	 XXX XXX	 XXX XXX
		XXXX	XXX	XXX
6	Add: Undervaluation of Assets	XXXX	XXX	XXX
		XXXX	XXX	XXX
		Total	**Majority Interest**	**Minority Interest**

Formulas:

1. Calculation of Cost of Control (Goodwill)

Cost of Acquisition	
(No. of shares acquired X Cost of acquisition price per share	XXX
Less: Nominal Value of Shares	
(No. of shares acquired X Face value of per share)	XXX
Add: Existing Goodwill	XXX
Cost of Control (Goodwill)	XXX

2. Calculation of Capital Reserve

Pre-Acquisition Reserve Portion of H Co.	XXX
Pre- Acquisition Profit Portion of H Co.	XXX
Capital Reserve	XXX

Note:

- If there is Overvaluation of assets given it should be added to the capital reserve
- If there is undervaluation of assets given it should be deducted from the capital reserve

PROBLEM NO.1

Calculate Majority & Minority Interest and Goodwill from the following information:

Particulars	H Co.	S Co.
Share Capital of Rs. 10 each	10,00,000	5,00,000
Reserves on 1-4-14	40,000	40,000
Profit on 1-4-14	20,000	30,000
Total Reserve on 31-3015	60,000	1,00,000
Total Reserve on 31-3-15	30,000	80,000

H Company acquired 4/5th shares in S Company on 1-4-2014.

SOLUTION:

Given:

Financial Year	1-4-14 to 31-3-15
Date of Acquisition	1-4-14
Cost of Acquisition	-
Nominal Value of Shares	Rs. 10 per share
Ratio	4/5 H : S 4 : 1

Chart Showing Majority and Minority Interest

Sl.No	Particulars	Total	H Ltd.	S Ltd.
1	Share Capital (4:1)	5,00,000	4,00,000	1,00,000
2	Reserves (4:1) Pre- Acquisition Reserve Post- Acquisition Reserve (Total Res.-Res. on 1-4-14) (1,00,000-40,000)	 40,000 60,000	 32,000 48,000	 8,000 12,000
3	Profit & Loss A/C (4:1) Pre - Acquisition Profit Post - Acquisition Profit (Total Profit- Profit on 1-4-1-14) (80,000-30,000)	 30,000 50,000	 24,000 40,000	 6,000 10,000
		6,80,000	**5,44,000**	**1,36,000**
		Total	**Majority Interest**	**Minority Interest**

Calculation of Goodwill

Cost of Acquisition
(50,000 Shares X 4/5=40,000)
(40,000X Rs.10) 4, 00,000
Less: Nominal Value of Shares 4, 00,000
(50,000 Shares X 4/5=40,000)
(40,000X Rs.10)

NIL

Note: Since Cost of Acquisition is not given assume Nominal Value of shares as Cost of Acquisition.

PROBLEM NO.2

Calculate Majority and Minority Interest and Goodwill from the following information:

Sl.No	Particulars	H Ltd.	S Ltd.
1	Share Capital(Shares of Rs.10each)	2,00,000	50,000
2	General Reserve on 1-4-2014	30,000	20,000
3	Profit on 1-4-2014	40,000	10,000
4	Total profit for the year	50,000	25,000

H Ltd. acquired 3,000 shares of rs. 10 each in S Ltd for Rs.75, 000 on 1-10-2014.

SOLUTION: Given:

Financial Year	1-4-14 to 31-3-15
Date of Acquisition	1-10-14
Pre – Acquisition Period	1-04-14 to 30-09-14 (6 months)
Post – Acquisition Period	1-10-14 to 31-03-14 (6Months)
Cost of Acquisition	Rs. 75,000(Per Share = 75,000/3,000= Rs.25)
Nominal Value of Shares	Rs. 10 per share
Ratio Total Shares of S Ltd.(5,000)	H : S 3,000: 2,000 3 : 2

Chart Showing Majority and Minority Interest

Sl.No	Particulars	Total	H Ltd.	S Ltd.
1	Share Capital (3:2)	50,000	30,000	20,000
2	Reserves (3:2) Pre- Acquisition Reserve Post- Acquisition Reserve	 20,000 ----	 12,000 ----	 8,000 ----
3	Profit & Loss A/C (3:2) Pre - Acquisition Profit (10,000 + (25,000X6/12) (10,000+12,500) Post- Acquisition Profit (25,000X6/12= 12,500)	 22,500 12,500	 13,500 7,500	 9,000 5,000
		1,05,000	**63,000**	**42,000**
		Total	**Majority Interest**	**Minority Interest**

Calculation of Goodwill

Cost of Acquisition	75,000
Less: Nominal Value of Shares	
(3,000 shares X Rs. 10 each)	30,000
Cost of Control (Goodwill)	45,000

Note: Current year profit is given so we need to calculate pre acquisition and post acquisition profit for the current based on the no of year of divisions.

PROBLEM NO.3

SKN Ltd. purchased 4/5 of equity shares of at Rs. 15 per share of GKN Ltd. as on 1-4-14. The following data as on 31-3-15 is given below to you. You are required to calculate cost and control and prepare chart showing majority and minority interest.

Sl.No	Particulars		Amt.
1	Equity Share capital (50,000 Eq. shares of Rs. 10 each)		5,00,000
2	Reserves & Surplus: General Reserve Surplus	 1,00,000 1,50,000	 2,50,000
3	Current Liabilities		1,00,000
4	Fixed Assets		4,50,000
5	Discount on issue of shares		50,000

SOLUTION: Given:

Financial Year	1-4-14 to 31-3-15
Date of Acquisition	1-4-14 (Assumed)
Cost of Acquisition	Rs. 15 per share
Nominal Value of Shares	Rs. 10 per share
Ratio	4/5shares are acquired H : S 4 : 1

Chart Showing Majority and Minority Interest

Sl.No	Particulars	Total	H Ltd.	S Ltd.
1	Share Capital (4:1)	5,00,000	4,00,000	1,00,000
2	Reserves (4:1) Pre- Acquisition Reserve Post- Acquisition Reserve	 1,00,000 ----	 80,000 ----	 20,000 ----
3	Profit & Loss A/C (4:1) Pre - Acquisition Profit Post- Acquisition Profit	 1,50,000 ----	 1,20,000 ----	 30,000 ----
		7,50,000	**6,00,000**	**1,50,000**
4	Less: Discount on issue of shares	50,000	40,000	10,000
		7,00,000	**5,60,000**	**1,40,000**
		Total	**Majority Interest**	**Minority Interest**

Calculation of Goodwill

Cost of Acquisition (50,000X4/5=40,000X Rs. 15 per share)	 6, 00,000
Less: Nominal Value of Shares (40,000 shares X Rs. 10 each)	 4, 00,000
Cost of Control (Goodwill)	2, 00,000

PROBLEM NO.4

Calculate Goodwill (Cost of control) and prepare chart showing Majority & Minority Interest from the following information:

Sl.No	Particulars	H Ltd.	S Ltd.
1	Share Capital (shares of Rs.10 each) (H ltd acquired 4/5th of shares in S ltd. as on 1-4-14)	4,00,000	2,00,000
2	General Reserve on 1-4-14	16,000	16,000
3	Profit on 1=4=14	8,000	12,000
4	Total Reserve on 31-3-15	24,000	40,000
5	Total Profit on 31-3-15	12,000	32,000

SOLUTION: Given:

Financial Year	1-4-14 to 31-3-15
Date of Acquisition	1-4-14 (Assumed)
Cost of Acquisition	----
Nominal Value of Shares	Rs. 10 per share
Ratio Total Shares of S Ltd.(5,000)	H : S 4 : 1

Chart Showing Majority and Minority Interest

Sl.No	Particulars	Total	H Ltd.	S Ltd.
1	Share Capital (4:1)	2,00,000	1,60,000	40,000
2	Reserves (4:1) Pre- Acquisition Reserve Post- Acquisition Reserve (Total Reserve – Reserve on 1-4-14) (40,000-16,000)	 16,000 24,000	 12,800 19,200	 3,200 4,800
3	Profit & Loss A/C (4:1) Pre - Acquisition Profit Post- Acquisition Profit (Total Profit – Profit on 1-4-14) (32,000- 12,000)	 12,000 20,000	 9,600 16,000	 2,400 4,000
		2,72,000	**2,17,600**	**54,400**
		Total	**Majority Interest**	**Minority Interest**

Calculation of Goodwill (Cost of Control)

Cost of Acquisition
(20,000 shares X4/5=16,000 X Rs.10 each) 1, 60,000
Less: Nominal Value of Shares
(16,000 shares X Rs. 10 each) 1, 60,000
Cost of Control (Goodwill) NIL

Note: 1. Since Cost of Acquisition is not given assume Nominal Value of shares as Cost of Acquisition.
2. Date of Acquisition is assumed to be 1-4-14 itself.

PROBLEM NO.5

On 1-7-14 Fast ltd. purchased 8,000 shares of Rs.10 each in Slow Ltd. at Rs. 15 per share. From the following information calculate cost of control and prepare chart showing Majority & Minority Interest

Sl.No	Particulars	Amt.
1	Share Capital (10,000 shares of Rs.10 each)	1,00,000
2	General Reserve on 1-1-2013	20,000
3	Profit on 1-1-013	24,000
4	Profit for the year	16,000
5	Creditors	10,000
6	Fixed Assets	1,20,000
7	Current Assets	50,000

SOLUTION: Given:

Financial Year	1-1-13 to 31-12-13
Date of Acquisition	1-7-13
Pre – Acquisition Period	1-01-13 to 30-06-13 (6 months)
Post – Acquisition Period	1-07-13 to 31-12-13 (6Months)
Cost of Acquisition	Rs. 15 each
Nominal Value of Shares	Rs. 10 per share
Ratio Total Shares of S Ltd.(10,000)	H : S 8,000: 2,000 4 : 1

Chart Showing Majority and Minority Interest

Sl.No	Particulars	Total	H Ltd.	S Ltd.
1	Share Capital (4:1)	1,00,000	80,000	20,000
2	Reserves (3:2) Pre- Acquisition Reserve Post- Acquisition Reserve	 20,000 ----	 16,000 ----	 4,000 ----
3	Profit & Loss A/C (4:1) Pre - Acquisition Profit (Profit on 1-1-13 +Current yr. Pre Acq. Profit) (24,000+ 16,000X6/12) (24,000+8,000) Post- Acquisition Profit (16,000 X 6/12)	 32,000 8,000	 25,600 6,400	 6,400 1,600
		1,60,000	**1,28,000**	**32,000**
		Total	**Majority Interest**	**Minority Interest**

Calculation of Goodwill

Cost of Acquisition
(8,000 shares X Rs.15 per share) 1, 20,000
Less: Nominal Value of Shares
(8,000 shares X Rs. 10 each) 80,000
Cost of Control (Goodwill) 40,000

15 Marks Problems with Solutions on Accounts of Holding Company

Format of Consolidated Statement of Assets & Liabilities

AS – 21: CONSOLIDATED BALANCE SHEET OR STATEMENT OF ASSETS & LIABILITIES

Sl.No	Particulars	Note No.	Amt.
I	Equity & Liabilities:		
	Shareholders Fund		
	Share Capital	1	XXX
	Reserves & Surplus	2	XXX
	Minority Interest	--	XXX
	Non-Current Liabilities	3	XXX
	Current Liabilities		
	Trade payables	4	XXX
	Short-Term Borrowings	5	XXX
	Other Current liabilities	6	XXX
	Total Liabilities		**XXXX**
II	Assets:		
	Non- Current Assets:		
	Tangible Fixed Assets	7	XXX
	Intangible Fixed Assets	8	XXX
	Non- Current Investments	9	XXX
	Current Assets:		
	Inventories	10	XXX
	Trade Receivables	11	XXX
	Cash & Cash Equivalents	12	XXX
	Total Assets		**XXXX**

Notes to Balance Sheet:

Note No.1: Share Capital		
Authorized Capital		
------shares of Rs.---Each		XXX
Issued & Subscribed Capital		XXX
------shares of Rs.---Each		
	Total	XXX
Note No.2: Reserves & Surplus		
Capital Reserve (as per Working Note)		XXX
General Reserve		
	H Ltd. XXX	
Add: Post Acquisition Reserve (of H ltd. in S ltd.)	S Ltd. XXX	XXX
Surplus (Credit Balance of P&L A/C)		
P&L A/C		
	H Ltd. XXX	
Add: Post Acquisition Profit (of H ltd. in S ltd.)	S Ltd. XXX	XXX
Less: Unrealized Profit		XXX
	Total	XXX
Note No.3: Non- Current Liabilities		

Long – Term borrowings		
	H Ltd.XXX	
	S Ltd. XXX	
	XXX	
Less: Inter- Company borrowings	XXX	XXX
Debentures		
	H Ltd.XXX	
	S Ltd. XXX	
	XXX	
Less: Inter- Company debentures	XXX	XXX
	Total	XXX
Note No.4: Current Liabilities (Trade Payables)		
Sundry Creditors		
	H Ltd.XXX	
	S Ltd. XXX	
	XXX	
Less: Inter- Company dues	XXX	XXX
Bills Payable		
	H Ltd.XXX	
	S Ltd. XXX	
	XXX	
Less: Inter- Company bills	XXX	XXX
	Total	XXX
Note No.5: Short Term Borrowings and Provisions		
Loans from banks & other companies		
	H Ltd.XXX	
	S Ltd. XXX	
	XXX	
Less: Inter- Company borrowings	XXX	XXX
Proposed Dividend		
	H Ltd.XXX	
	S Ltd. XXX	XXX
	Total	XXX
Note No.6: Other Current Liabilities		
Bank Over Draft		
	H Ltd.XXX	
	S Ltd. XXX	XXX
	Total	XXX
Note No.7: Tangible Fixed Assets		
Land & Buildings		
	H Ltd.XXX	
	S Ltd. XXX	
	XXX	
Add: Increase in the value	XXX	XXX
Plant & Machinery		
	H Ltd.XXX	

		S Ltd. XXX	
Less: Decrease in the value	XXX		XXX
Furniture & Fixtures			
		H Ltd.XXX	
		S Ltd. XXX	
			XXX
			XXX
		Total	
Note No.8: Intangible Fixed Assets			
Goodwill (as per working note)			XXX
Patents, Copy Rights etc			
		H Ltd.XXX	
		S Ltd. XXX	XXX
		Total	XXX
Note No.9: Non- Current Investments			
Investments in Govt. Securities			
		H Ltd.XXX	
		S Ltd. XXX	XXX
Investment in debentures			
		H Ltd.XXX	
		S Ltd. XXX	
		XXX	
Less: Inter- Company debentures		XXX	XXX
Other Investments			
		H Ltd.XXX	
		S Ltd. XXX	XXX
		Total	XXX
Note No.10: Inventories			
Stock-In-Trade			
		H Ltd.XXX	
		S Ltd. XXX	
		XXX	
Less: Unrealized Profit		XXX	
			XXX
		Total	XXX
Note No.11: Trade Receivables			XXX
Sundry Debtors			
		H Ltd.XXX	
		S Ltd. XXX	
		XXX	
Less: Inter- Company debts		XXX	XXX
Bills Receivables			
		H Ltd.XXX	
		S Ltd. XXX	
		XXX	
Less: Inter- Company bills		XXX	
		Total	XXX
			XXX
Note No.12: Cash & Cash Equivalents			
Cash in hand			

Cash with banks	H Ltd.XXX S Ltd. XXX	XXX
	H Ltd.XXX S Ltd. XXX	XXX
	Total	XXX

PROBLEM NO.1:-

The Balance Sheet of H Ltd., and S Ltd., as on 31.03.2015 was as follows.

Sl.No.	Particulars	Note	H Ltd.,	S Ltd.,
I	**Equity and Liabilities**			
	Shareholders Fund:-			
	Share Capital	1	2,00,000	1,00,000
	Reserves and Surplus	2	1,00,000	50,000
	Current Liabilities			
	Trade payables (Creditors)	-	80,000	10,000
	Total		**3,80,000**	**1,60,000**
II	**Assets:-**			
	Sundry Assets	**-**	2,90,000	1,60,000
	Non Current Investment	**3**	90,000	-
	Total		**3,80,000**	**1,60,000**

- **Notes to Balance Sheet:-**

		H Ltd.,		S Ltd.,
1)	Share Capital			
	Shares of Rs.10 each	2,00,000		1,00,000
2)	Reserves and Surplus			
	General Reserve	60,000	30,000	
	P & L A/c	40,000	20,000	
		1,00,000		50,000
3)	Non Current Investments	90,000		-
	6,000 Shares in S Ltd.			

H Ltd., acquired 6,000 shares in S Ltd., on 1.10.2014. Interest was a Credit Balance. Balance of Rs.20,000 to General Reserve and Rs.10,000 to P & L A/c on 1.10.2014. Prepare Consolidated Balance Sheet of H Ltd., and its subsidiary S Ltd.,

SOLUTION:-

Given:

1) Financial Year 1.04.2014 to 31.03.2015
2) Date of Acquisition 1.10.2014
3) Pre-Acquired Period 1.04.2014 to 31.09.2014 (6 months)
4) Post-Acquired Period 1.10.2014 to 31.03.2015 (6 months)
5) Cost of Acquisition Rs.90,000 $\frac{90,000}{6000}$
   Rs.15 per share
6) Nominal value Rs.10 per share
7) Ratio H : S
   Total shares= 1,00,000 6000 : 4000
   $\frac{1,00,000}{10}$ = Rs.10,000 3 : 2

<u>Chart Showing Majority and Minority Interest</u>

Sl.No.	Particulars	Total	H. Co.	S. Co.
1.	**Share Capital (3:2)**	1,00,000	60,000	40,000
2.	**Reserves (3:2)**			
	Pre Acquisition Reserve	20,000	12,000	8,000
	Post Acquisition Reserve	10,000	6,000	4,000
	(30,000 – 20,000)			
3.	**Profit/Loss (3:2)**			
	Pre Acquisition Reserve	10,000	6,000	4,000
	Post Acquisition Reserve	10,000	6,000	4,000
	(20,000 – 10,000)			
		1,50,000	**90,000**	**60,000**
			Majority Interest	**Minority Interest**

- ## Working Note:

a) Calculation of Pre-Acquisition Reserve:-

1.10.2014 20,000 Pre-Acquisition
31.03.2015 30,000
10,000 Post-Acquisition

b) Calculation of Pre-Acquisition Profit:-

1.10.2014 10,000 Pre-Acquisition
31.03.2015 20,000
10,000 Post-Acquisition

- ## Calculation of Goodwill or Capital Reserve:-

a) <u>Calculation of Goodwill:-</u>

Cost of Acquisition 90,000
Less:- Nominal value of Shares 60,000
(6000 x Rs.10 each)
Therefore Goodwill Rs.30,000

b) <u>Calculation of Capital Reserve:-</u>

Pre-Acq Reserve of H Ltd., 12,000
Add:- Pre-Aqui Profit of H Ltd., 6,000
Therefore Capital Reserve 18,000

- **<u>Condition:-</u>** Goodwill > Capital Reserve
Therefore Goodwill = 30,000 – 18,000
= Rs.12,000/-

CONSOLIDATED BALANCE SHEET OF 'H' COMPANY AND 'S' COMPANY AS ON 31.03.2015

Sl.No.	Particulars	Note No.	Amount
I	**Equity and Liabilities:-**		
1.	Shareholders Fund:-	1	2,00,000
	Reserves and Surplus	2	1,12,000
2.	Minority Interest	-	60,000
3.	Non-Current Investment	3	-
4.	Current-Liabilities:-		
	Trade payable	4	90,000
	Short Term Borrowings	5	-
	Other Liabilities	6	-
	Total Liabilities		**9,62,000**
II	**Assets:-**		
1.	**Non-Current Assets:-**		
	Tangible Fixed Assets	7	4,50,000
	Intangible Fixed Assets	8	12,000
2.	**Non-Current Investment**	9	-
3.	**Current Assets:-**		
	Inventories	10	-
	Trade Receivables	11	-
	Cash and Cash Equivalents	12	-
	Total Assets		**4,62,000**

- **Notes to Consolidated Balance Sheet:-**

Note 1:- Share Capital			
Sl. No.	**Particulars**		**Amount/Rs.**
1.	**Authorized Capital**		
	_____ Shares of Rs. Each		xxx
2.	**Issued and Subscribed Capital**		2,00,000
	20,000 shares of Rs.10 each		
	Total		**2,00,000**

Note 2:- Reserves & Surplus			
Sl. No.	**Particulars**		**Amount/Rs.**
1.	**Capital Reserve (Step 2)**		Nil
2.	**Reserves:-**		
	General Reserve H Co.	60,000	
	Add:- Post Acquisition Reserve of H in S Co. S Co.	6,000	**66,000**
3.	**Profit/Loss:-**		
	Profit H Co.	40,000	
	Add:- Post Acquisition Profit of H in S Co. S Co.	6,000	**46,000**
	Total		**1,12,000**

Note 3:- Non-Current Liabilities			
Sl. No.	**Particulars**		**Amount/Rs.**
	Nil		Nil

Note 4:- Trade Payables:-			
Sl. No.	**Particulars**		**Amount/Rs.**
1.	**Sundry Creditors** H Co.	80,000	
	S Co.	10,000	90,000
	Total		**90,000**

Note 5:- Short Term Borrowings and Provisions:-			
Sl. No.	**Particulars**		**Amount/Rs.**
	Nil		Nil

Note 6:- Other Current Liabilities:-			
Sl. No.	**Particulars**		**Amount/Rs.**
	Nil		Nil

Note 7:- Tangible Fixed Assets:-			
Sl. No.	**Particulars**		**Amount/Rs.**
1.	**Sundry Assets** H Co.	2,90,000	
	S Co.	1,60,000	4,50,000
	Total		**4,50,000**

PROBLEM NO.2:-

The following were the Balance Sheet of Vedant Ltd. And Avani Ltd. As on 31.03.2015.

Sl.No.	Particulars	Note No.	Vedant Ltd.	Avani Ltd.
I	**Equity and Liabilities**			
1.	Shareholders Fund:-			
	Share Capital	01	5,00,000	2,50,000
	Reserves and Surplus	02	90,000	90,000
2.	Current Liabilities			
	Trade payables	03	30,000	40,000
	Total		**6,20,000**	**3,80,000**
II	**Assets:-**			
	Non-Current Assets			
	Tangible Fixed Assets	-	2,00,000	1,50,000
	Non-Current Investment	04	2,50,000	80,000
	Current Assets			
	Inventories (Stock)	-	70,000	75,000
	Trade Receivables	05	55,000	50,000

	Cash and Cash Equivalents (Bank)	-	45,000	25,000
	Total		**6,20,000**	**3,80,000**

Notes:-

Note 1:- Share Capital

Shares of Rs.10 each	5,00,000	2,50,000

Note 2:- Reserves and Surplus

General Reserve	60,000	50,000
P & L A/c	30,000	40,000
	90,000	90,000

Note 3:- Trade Payables

Creditors	20,000	15,000
Bills Payable	10,000	25,000
	30,000	40,000

Note 4:- Non-Current Investment

20,000 Shares in Avani Ltd. @ Cost	2,50,000	-
Govt. Securities	-	80,000
	2,50,000	80,000

Note 5:- Trade Receivables

Debtors	40,000	35,000
Bills Receivables	15,000	15,000
	55,000	50,000

Adjustments:

a) When Vedant Ltd. Acquired the Shares in Avani Ltd. The later had Rs.20,000/- and Rs.15,000/- to the Credit of General Reserve and P & L A/c respectively (Pre).

b) Bills payable of Avani Ltd. Include Rs.5,000/- accepted in favour of Vedant Ltd.

c) The debtors of Vedant Ltd. Include Rs.2,500/- due from Avani Ltd.

d) The Stock of Avani Ltd. Included Rs,12,000/- supplied by Vedant Ltd. At cost plus 20%.

Prepare Consolidated Balance Sheet of Vedant Ltd. with its subsidiary Avani Ltd.

SOLUTION:-

Step 1:- Given:-

Financial Year	1.04.2014 to 31.03.2015
Date of Acquisition	1.04.2014 (assume)
Pre-Acquisition Period	-
Post-Acquisition Period	-
Cost of Acquisition	2,50,000
Nominal Value Share	Rs.10 each
Ratio $\frac{2,50,000}{10}$ = 25,000	V : A
	20,000 : 5,000
	4 : 1

Chart Showing Majority and Minority Interest

Sl.No.	Particulars	Total	H. Co.	S. Co.
1.	**Share Capital (4:1)**	2,50,000	2,00,000	50,000
2.	**Reserves (4:1)**			
	Pre Acquisition Reserve	20,000	16,000	4,000
	Post Acquisition Reserve	30,000	24,000	6,000
3.	**Profit/Loss (4:1)**			
	Pre Acquisition Profit	15,000	12,000	3,000
	Post Acquisition Profit	25,000	20,000	5,000
	(40,000 – 15,000)			
		3,40,000	**2,72,000**	**68,000**
			Majority Interest	**Minority Interest**

- **Working Note:**

c) Calculation of Pre-Acquisition Reserve- 20,000
Post Acquisition Reserve (50,000-20,000) = 30,000

Step 2:- Calculation of Goodwill and Capital Reserve:-

c) Calculation of Goodwill:-

Cost of Acquisition 2,50,000
Less:- Nominal value of Shares 2,00,000
(2,00,000 shares x Rs.1.0 each)
Therefore Goodwill Rs.50,000

d) Calculation of Capital Reserve:-

Pre-Acq Reserve 16,000
Add:- Pre-Aqui Profit 12,000
Therefore Capital Reserve 28,000

e) **Condition:-** Goodwill > Capital Reserve
Therefore Goodwill = 50,000 – 28,000
Goodwill = Rs.22,000/-

Step 3:-

CONSOLIDATED BALANCE SHEET OF VEDANT & AVANI LTD.
AS ON 31.03.2015

Sl.No.	Particulars	Note No.	Amount
I	**Equity and Liabilities:-**		
1.	Shareholders Fund:-		
	Share Capital	01	5,00,000
	Reserves and Surplus	02	1,32,000
2.	Minority Interest	-	68,000
3.	Non-Current liabilities	03	-
4.	Current-Liabilities:-		

	Trade payables	04	62,500
	Short Term Borrowings	05	-
	Other Liabilities	06	-
	Total Liabilities		**7,62,500**
II	**Assets:-**		
1.	**Non-Current Assets:-**		
	Tangible Fixed Assets	07	3,50,000
	Intangible Fixed Assets	08	22,000
2.	**Non-Current Investment**	09	80,000
3.	**Current Assets:-**		
	Inventories	10	1,43,000
	Trade Receivables	11	97,500
	Cash and Cash Equivalents	12	70,000
	Total Assets		**7,62,500**

Step 4:-

Notes to Consolidated Balance Sheet:-

Note 1:- Share Capital			
Sl. No.	**Particulars**		**Amount/Rs.**
1.	**Authorized Capital**		
	_____ Shares of Rs.___Each		xxx
2.	**Issued and Subscribed Capital**		
	50,000 shares of Rs.10 each		5,00,000
	Total		**5,00,000**

Note 2:- Reserves & Surplus			
Sl. No.	**Particulars**		**Amount/Rs.**
1.	**Capital Reserve**		Nil
2.	**Reserves:-**		
	General Reserve	60,000	
	Add:- Post Acquisition Reserve Vedant to Avani	24,000	**84,000**
3.	**Surplus**		
	Profit & Loss Account	30,000	
	Add:- Post Acquisition Profit	20,000	**50,000**
	Total		**1,34,000**
	Less: Unrealised Profit		**2,000**
	Total		**1,32,000**

Note 3:- Trade Payables:-			
Sl. No.	**Particulars**		**Amount/Rs.**
1.	**Sundry Creditors** Vedant Co.	20,000	
	Avani Co.	15,000	35,000
	Less: Inter Company Dues		2,500
	Total		**32,500**

2.	**Bills Payables** Vedant Co.	10,000	
	Avani Co.	25,000	**35,000**
	Less: Inter Company Bill		**5,000**
	Total		**30,000**
	Therefore Total (32,500 + 30,000)		**62,500**

- **<u>Working Note:-</u>**
- **Calculation of Unrealized Profit**

Goods Stock supplied by Vedant Ltd. to Avani Ltd. worth Rs.12,000 at cost plus 20% (G/P)

Cost = 100 Profit = 20

Cost = 12,000 x

$$X = \frac{12{,}000 \times 20}{120}$$

Unrealized Profit : x = 2000

Note 7:- Tangible Fixed Assets:-			
Sl. No.	**Particulars**	**Amount/Rs.**	**Amount/Rs.**
1.	Sundry Assets Vedant Ltd.	2,00,000	-
	Avani Ltd.	1,50,000	
	Total		**3,50,000**

Note 8:- Intangible Fixed Assets:-			
Sl. No.	**Particulars**	**Amount/Rs.**	**Amount/Rs.**
1.	Goodwill (step 2)		22,000
	Total		**22,000**

Note 9:- Non-Current Investment:-			
Sl. No.	**Particulars**		**Amount/Rs.**
1.	Investment in Govt. Securities Vedant	-	
	Avani	80,000	-
	Total		**80,000**

Note 10:- Investments:-			
Sl. No.	**Particulars**		**Amount/Rs.**
1.	Stock Vedant	70,000	-
	Avani	75,000	1,45,000
	Less: Unrealized Profit		2,000
	Total		**1,43,000**

Note 11:- Trade Receivables:-			
Sl. No.	**Particulars**	**Amount/Rs.**	**Amount/Rs.**
1.	Sundry Debtors Vedant Co.	40,000	-

	Avani Co.	35,000	75,000
	Less: Inter Company Dues		2,500
	Total		**72,500**
2.	Bills Receivables Vedant Co.	15,000	-
	Avani Co.	15,000	**30,000**
	Less: Inter Company Bills		5,000
	Total		**25,000**
	Therefore Total (72,500 + 25,000)		**97,500**

Note 12:- Cash and Cash Equivalents:-			
Sl. No.	**Particulars**	**Amount/Rs.**	**Amount/Rs.**
1.	Cash Vedant Ltd.	45,000	-
	Avani Ltd.	25,000	70,000
	Total		**70,000**

PROBLEM NO.3:-

The following were the Balance Sheet of Large Ltd. and Little Ltd. as on 31.03.2017.

Sl.No.	Particulars	Note No.	Large Ltd.	Little Ltd.
I	**Equity and Liabilities**			
1.	Shareholders Fund:-			
	Share Capital	01	1,00,000	20,000
	Reserves and Surplus	02	70,000	Nil
2.	Current Liabilities			
	Trade payables: Creditors		20,000	7,000
	Total Equity and Liabilities		**1,90,000**	**27,000**
II	**Assets:-**			
1.	Non-Current Assets:			
	Tangible Fixed Assets: Building	-	90,000	10,000
	Non-Current Investments	03	28,000	-
2.	Current Assets:			
	Inventories: (Stock)	-	25,000	8,000
	Trade Receivables: Debtors		35,000	7,000
	Cash and Cash Equivalents: (Bank)	-	12,000	2,000
	Total Assets		**1,90,000**	**27,000**

Notes to balance Sheet as at 31.03.2017

	Large Ltd.	**Little Ltd.**
Note 1:- Share Capital		
Shares of Rs.10 each fully paid-up	1,00,000	20,000
Share Capital	**1,00,000**	**20,000**

Note 2:- Reserves and Surplus

General Reserve	40,000	3,000
Surplus: Balance in P & L A/c	30,000	(-)3,000
Reserves and Surplus	**70,000**	**Nil**

Note 3:- Non-Current Investments

Shares in Little Ltd. (at cost)	28,000	-
Non-Current Investments	**28,000**	**-**

When the Large Ltd. acquired 80% of the shares in Little Ltd., the latter had a credit balance to P & L A/c Rs.2,000 and to general reserve Rs.3,000. The buildings of Little Ltd., were found to be overvalued by Rs.1,000 at the time of purchase of shares.

Prepare the consolidated Balance Sheet.

SOLUTION:-

Step 1:- Given:-

Financial Year 1.04.2016 to 31.03.2017

Date of Acquisition 1.04.2016

Pre-Acquisition Period -

Post-Acquisition Period -

Cost of Acquisition of Shares Rs.28,000

Nominal Value of Shares Rs.10 per share

Ratio Large : Little 4 : 1

(80%)

80 : 20

4 : 1

Step 2: Chart Showing Majority and Minority Interest

Sl.No.	Particulars	Total	H. Co.	S. Co.
1.	**Share Capital (4:1)**	20,000	16,000	4,000
2.	**Reserves & Surplus (4:1)**			
	Pre Acquisition Reserve	3,000	2,400	600
	Post Acquisition Reserve	Nil	-	-
	(3000-3000)			
3.	**Surplus (4:1)**			
	Pre Acquisition Profit	2,000	1,600	400
		25,000	20,000	5,000
4.	Less: Post Acquisition Loss	5,000	4,000	1,000
	(-3000-2000)			
		20,000	16,000	4,000
5.	Less: Overvaluation of Buildings	1,000	800	200
		19,000	**15,200**	**3,800**
			Majority Interest	**Minority Interest**

Step 3:- Calculation of Goodwill and Capital Reserve:-

a) Calculation of Goodwill:-

Cost of Acquisition 28,000

Less:- Nominal value of Shares	16,000	
(2,000x80/100=1600x10)		
Therefore Goodwill	**Rs.12,000**	

b) <u>Calculation of Capital Reserve:-</u>

Pre-Acq Reserve of Large Ltd.		2,400
Add:- Pre-Aqui Profit of Large Ltd.	1,600	
	4,000	
Less: Our valuation of Building	800	
Therefore Capital Reserve		**3,200**

c) **<u>Condition:-</u>** Goodwill > Capital Reserve

Therefore Goodwill = 12,000 – 3,200

Goodwill = Rs.8,800/-

Step 4:- **CONSOLIDATED BALANCE SHEET OF LARGE & LITTLE LTD. AS ON 31.03.2017**

Sl.No.	Particulars	Note No.	Amount
I	**Equity and Liabilities:-**		
1.	Shareholders Fund:-		
	Share Capital	01	1,00,000
	Reserves and Surplus	02	66,000
2.	Minority Interest	-	3,800
3.	Non-Current liabilities	03	-
4.	Current-Liabilities:-		
	Trade payables	04	27,000
	Short Term Borrowings	05	-
	Other Current Liabilities	06	-
	Total Liabilities		**1,96,800**
II	**Assets:-**		
1.	**Non-Current Assets:-**		
	Tangible Fixed Assets	07	99,000
	Intangible Fixed Assets	08	8,800
2.	**Non-Current Investment**	09	-
3.	**Current Assets:-**		
	Inventories	10	33,000
	Trade Receivables	11	42,000
	Cash	12	14,000
	Total Assets		**1,96,800**

Step 5:-

Notes to Consolidated Balance Sheet:-

Note 1:- Share Capital			
Sl. No.	**Particulars**		**Amount/Rs.**
1.	**Authorized Capital**		
	_____ Shares of Rs.___Each		xxx

2.	**Issued and Subscribed Capital**		
	10,000 shares of Rs.10 each (Large Ltd. only)		1,00,000
	Total		**1,00,000**

Note 2:- Reserves & Surplus			
Sl. No.	**Particulars**		**Amount/Rs.**
1.	**Capital Reserve (Step 3)**		Nil
2.	**Reserves:-**		
	General Reserve of Large Ltd.	40,000	
	Add:- Post Acquisition Reserve Large in Little Little Ltd.	-	**40,000**
3.	**Surplus**		
	Profit	30,000	
	Less:- Post Acquisition Loss of Large in Little Ltd.	4,000	**26,000**
	Total		**66,000**

Note 4:- Trade Payables:-			
Sl. No.	**Particulars**		**Amount/Rs.**
1.	**Sundry Creditors** Large Ltd.	20,000	
	Little Ltd.	7,000	27,000
	Total		**27,000**

Note 7:- Tangible Fixed Assets:-			
Sl. No.	**Particulars**	**Amount/Rs.**	**Amount/Rs.**
1.	Buildings Large Ltd.	90,000	-
	Little Ltd.	10,000	1,00,000
	Less: Overvaluation		1,000
	Total		**99,000**

Note 8:- Intangible Fixed Assets:-			
Sl. No.	**Particulars**	**Amount/Rs.**	**Amount/Rs.**
1.	Goodwill (step 3)		8,800
	Total		**8,800**

Note 10:- Inventories:-			
Sl. No.	**Particulars**		**Amount/Rs.**
1.	Stock Large Ltd.	25,000	-
	Little Ltd.	8,000	33,000
	Total		**33,000**

Note 11:- Trade Receivables:-			
Sl. No.	**Particulars**	**Amount/Rs.**	**Amount/Rs.**
1.	Sundry Debtors Large Ltd.	35,000	-

	Little Ltd.	7,000	42,000
	Total		**42,000**

Note 12:- Cash:-			
Sl. No.	**Particulars**	**Amount/Rs.**	**Amount/Rs.**
1.	Cash Large Ltd.	12,000	-
	Little Ltd.	2,000	14,000
	Total		**14,000**

PROBLEM NO.4

The following is the balance sheet of H Ltd. and S Ltd. as on 31-3-2015

Sl.No	Particulars	Note. No	H Ltd.	S Ltd.
I	Equity & Liabilities			
	Shareholders Fund			
	Share Capital	1	3,60,000	2,00,000
	Reserves & Surplus	2	(-)20,000	5,000
	Non-Current Liabilities (Debentures)	-	40,000	-
	Current Liabilities (Trade Payables)	3	90,000	55,000
	Total Liabilities		4,70,000	2,60,000
II	Assets			
	Tangible Fixed Assets	-	2,40,000	1,70,000
	Intangible Fixed Assets (Goodwill)	-	20,000	10,000
	Non-Current Investments	4	60,000	20,000
	Current Assets			
	Inventories (Stock)	-	60,000	20,000
	Trade Receivables	5	50,000	35,000
	Total Assets		4,70,000	2,60,000

Notes to Balance Sheet

Sl. NO	Particulars	H Ltd.	S Ltd.
1	Share Capital : Shares of Rs. 10 each	3,60,000	2,00,000
2	Reserves & Surplus: P&L A/C	(-)20,000	5,000
3	Trade Payables: Creditors	80,000	50,000
	Bills Payable	10,000	5,000
		90,000	55,000
4	Non Current Investments		
	12,000 shares in S Ltd. at cost	1,00,000	-
	Debentures in H Ltd. at par	-	25,000
		1,00,000	25,000
5	Trade Receivables		
	Debtors	50,000	30,000
	Bills Receivables	-	5,000
		50,000	35,000

Other Information:

1. Shares in S Ltd. were acquired by H Ltd on 1-10-14
2. The Profit & Loss Account of S Ltd on 1-4-14 showed a credit balance of Rs. 50,000
3. Fixed Assets of S Ltd were undervalued by Rs 10,000
4. Bills Payable of S Ltd was all in favour of H Ltd.
5. The stock of H ltd. includes goods worth Rs. 12,000 sold by S Ltd at cost plus 20%
   Prepare the consolidated balance sheet.

SOLUTION: Given:

Financial Year	1-4-14 to 31-3-15
Date of Acquisition	1-10-14
Pre – Acquisition Period	1-04-14 to 30-09-14 (6 months)
Post – Acquisition Period	1-10-14 to 31-03-14 (6Months)
Cost of Acquisition	Rs.12,000
Nominal Value of Shares	Rs. 10 per share
Ratio Total Shares of S Ltd.(20,000)	H : S 12,000: 8,000 3 : 2

STEP 1: Chart Showing Majority and Minority Interest

Sl.No	Particulars	Total	H Ltd.	S Ltd.
1	Share Capital (3:2)	2,00,000	1,20,000	80,000
2	Reserves (3:2) Pre- Acquisition Reserve Post- Acquisition Reserve	 ---- ----	 ---- ----	 ---- ----
3	Profit & Loss A/C (3:2) Pre - Acquisition Profit	 27,500	 16,500	 11,000
		2,27,500	1,36,500	91,000
	Less: Post- Acquisition Loss	22,500	13,500	9,000
		2,05,000	1,23,000	82,000
4	Add: Undervaluation of fixed assets (3:2)	10,000	6,000	4,000
		2,15,000	**1,29,000**	**86,000**
		Total	**Majority Interest**	**Minority Interest**

❖ Working Note

Calculation of Pre- Acquisition Profit and Post Acquisition Profit /Loss

Profit on 1-4-2014		50,000(Pre-Acq.)
Profit on 31-3-15	5,000	
Less: Profit on 1-4-14	50,000	
Current Year Loss	45,000	

Pre Post
6M 6M

Pre-Acquisition loss for Current Year = 45,000X6/12	-22,500
Pre-Acquisition Profit	27,500
Post Acquisition Loss = 45,000X6/12	22,500

Calculation of Unrealized Profit

Goods Supplied by H Ltd. to S Ltd. worth Rs.12, 000 at Cost + 20%

Cost = 100 Profit = 20

Cost = 12,000 Profit =?

12,000X20/120 = Rs. 2, 000/-

STEP 2: Calculation of Goodwill (Cost of Control) or Capital Reserve

a. Goodwill (Cost of Control)

Cost of Acquisition (Given)	1, 00,000
Less: Nominal Value of Shares	
(12,000X Rs.10 per share)	1, 20,000
	-20,000
Add: Existing Goodwill (as per B/S)	
(H: 20,000+S: 10,000)	30,000
Goodwill	10,000

b. Capital Reserve

Pre-Acquisition Reserve of H Ltd	NIL
Pre- Acquisition Profit of H Ltd	16,500
	16,500
Add: Undervaluation of Fixed Assets of H Ltd.	6,000
Capital Reserve	22,500

c. Apply Condition

Goodwill < Capital Reserve

10,000 < 22,500

Thus, Capital is more therefore Capital Reserve= Rs. 12,500

Note: In consolidated B/S there can be either Capital Reserve or Goodwill. So we need to apply the condition. If Goodwill is more and Capital Reserve less then we will have Goodwill, and if Capital Reserve is more and Goodwill is less then will have Capital Reserve.

STEP 3: In the books of H Ltd. & S Ltd.

AS – 21: CONSOLIDATED BALANCE SHEET OR STATEMENT OF ASSETS & LIABILITIES

As on 31-3-15

Sl.No	Particulars	Note No.	Amt.
I	Equity & Liabilities:		
	Shareholders Fund		
	Share Capital	1	3,60,000
	Reserves & Surplus	2	-23,000
	Minority Interest	--	86,000
	Non-Current Liabilities	3	15,000

	Current Liabilities Trade payables Short-Term Borrowings Other Current liabilities	 4 5 6	 1,45,000 - -
	Total Liabilities		**5,83,000**
II	Assets: Non- Current Assets: Tangible Fixed Assets Intangible Fixed Assets Non- Current Investments Current Assets: Inventories Trade Receivables Cash & Cash Equivalents	 7 8 9 10 11 12	 4,20,000 - - 78,000 85,000 -
	Total Assets		**5,83,000**

STEP 4: Notes to Balance Sheet:

Note No.1: Share Capital Authorized Capital ------shares of Rs.---Each Issued & Subscribed Capital 36,000 shares of Rs. 10 Each (Only H Ltd.)	 Total	 XXX 3,60,000 **3,60,000**
Note No.2: Reserves & Surplus Capital Reserve (as per Step 2) General Reserve Add: Post Acquisition Reserve (of H ltd. in S ltd.) Surplus (Credit Balance of P&L A/C) P&L A/C Add: Post Acquisition Profit (of H ltd. in S ltd.) Less: Unrealized Profit 2,000	 H Ltd. XXX S Ltd. XXX H Ltd. -20,000 S Ltd. -13,500 -33,500 Total	 12,500 NIL -35,500 **-23,000**
Note No.3: Non- Current Liabilities Debentures Less: Inter- Company debentures	 H Ltd.40,000 25,000 Total	 **15,000**
Note No.4: Current Liabilities (Trade Payables) Sundry Creditors	 H Ltd.80,000 S Ltd. 50,000	 1,30,000

Bills Payable		
	H Ltd.10,000	15,000
	S Ltd. 5,000	**1,45,000**
	Total	
Note No.7: Tangible Fixed Assets		
Tangible Fixed Assets		
	H Ltd.2,40,000	
	S Ltd. 1,70,000	
	4,10,000	
Add: Increase in the value	10,000	4,20,000
		4,20,000
	Total	
Note No.8: Intangible Fixed Assets		
Goodwill (as per step)		NIL
Note No.9: Non- Current Investments		
Investment in debentures		
	S Ltd. 25,000	
Less: Inter- Company debentures	25,000	NIL
	Total	NIL
Note No.10: Inventories		
Stock-In-Trade		
	H Ltd.60,000	
	S Ltd. 20,000	
	80,000	
Less: Unrealized Profit	2,000	78,000
		78,000
	Total	
Note No.11: Trade Receivables		
Sundry Debtors		
	H Ltd,50,000	
	S Ltd. 30,000	80,000
Bills Receivables		
	S Ltd. 5,000	5,000
		85,000
	Total	

Note: Bills of Rs. 5,000 should not be eliminated since H Ltd. has discounted all the bills

PROBLEM NO. 5

The following is the balance sheet of Fast Ltd. and Slow Ltd. as on 31-3-2015

Sl.No	Particulars	Note. No	H Ltd.	S Ltd.
I	Equity & Liabilities			
	Shareholders Fund			
	Share Capital	1	10,00,000	1,50,000
	Reserves & Surplus	2	3,00,000	1,35,000
	Non-Current Liabilities	-	-	-
	Current Liabilities (Trade Payables)	3	2,25,000	1,90,000
	Total Liabilities		15,25,000	4,25,000
II	Assets			
	Tangible Fixed Assets	4	7,50,000	2,10,000
	Intangible Fixed Assets (Goodwill)	-	75,000	40,000
	Non-Current Investments	5	1,90,000	-
	Current Assets			
	Inventories (Stock)	-	2,40,000	75,000
	Trade Receivables	6	1,75,000	90,000
	Cash	-	95,000	10,000
	Total Assets		15,25,000	4,25,000

Notes to Balance Sheet

Sl. NO	Particulars	Fast Ltd.	Slow Ltd.
1	Share Capital :		
	Equity Shares of Rs. 10 each	9,00,000	1,50,000
	10% Preference Shares of Rs.10each	1,00,000	-
	Total	10,00,000	1,50,000
2	Reserves & Surplus: P&L A/C		
	General reserve	90,000	60,000
	Profit & Loss Account	60,000	15,000
	Current Year Profits	1,50,000	60,000
	Total	3,00,000	1,35,000
3	Trade Payables: Creditors	1,85,000	1,05,000
	Bills Payable	40,000	35,000
	Total	2,25,000	1,40,000
4	Tangible Fixed Assets:		
	Land & buildings	4,50,000	1,20,000
	Machinery	3,00,000	90,000
	Total	7,50,000	2,10,000
5	Non Current Investments		
	12,000 shares in Slow Ltd. at cost	1,90,000	-
6	Trade Receivables		
	Debtors	1,50,000	80,000
	Bills Receivables	25,000	10,000
	Total	1,75,000	90,000

Other Information:

1. Fast Ltd. acquired shares in Slow Ltd. on 1-10-14
2. General reserve of Slow Ltd. on 1-4-14was Rs. 10,000
3. Bills payable of Slow Ltd. included Rs.20,000 accepted in favour of Fast Ltd. out of which Fast Ltd. discounted bills worth Rs.12,000
4. Creditors of Slow Ltd. included Rs. 50,000 for goods supplied by Fast Ltd. at cost + 25%. Half of the goods were in stock of Slow Ltd.

Prepare the consolidated balance sheet of Fast Ltd. & Slow Ltd. as on 31-3-15

SOLUTION:

Given:

Financial Year	1-4-14 to 31-3-15
Date of Acquisition	1-10-14
Pre – Acquisition Period	1-04-14 to 30-09-14 (6 months)
Post – Acquisition Period	1-10-14 to 31-03-14 (6Months)
Cost of Acquisition	Rs.1,90,000
Nominal Value of Shares	Rs. 10 per share
Ratio Total Shares of Slow Ltd.(15,000)	H : S 12,000: 3,000 4 : 1

STEP 1:

Chart Showing Majority and Minority Interest

Sl.No	Particulars	Total	H Ltd.	S Ltd.
1	Share Capital (4:1)	1,50,000	1,20,000	30,000
2	Reserves (4:1) Pre- Acquisition Reserve Post- Acquisition Reserve	 35,000 25,000	 28,000 20,000	 7,000 5,000
3	Profit & Loss A/C (4:1) Pre - Acquisition Profit Post- Acquisition Profit	 45,000 30,000	 36,000 24,000	 9,000 6,000
		2,85,000	**2,28,000**	**57,000**
		Total	**Majority Interest**	**Minority Interest**

❖ Working Note

Calculation of Pre- Acquisition Profit and Post Acquisition Profit /Loss

Reserve on 1-4-2014		10,000(Pre-Acq.)
Reserve on 31-3-15	60,000	
Less: Reserve on 1-4-14	10,000	
Current Year Reserve	50,000	

Pre Post

6M 6M

Pre-Acquisition reserve for Current Year = 50,000X6/12 25,000
Pre-Acquisition Reserve 35,000

Post Acquisition Reserve = 50,000X6/12 25,000

Calculation of Pre- Acquisition Profit and Post Acquisition Profit
Profit on 1-4-2014 15,000(Pre-Acq.)
Current Year Profit 60,000

Pre 6M | Post 6M

Pre-Acquisition profit for Current Year = 60,000X6/12 30,000
Pre-Acquisition Profit 45,000

Post Acquisition Profit = 60,000X6/12 30,000

Calculation of Unrealized Profit
Goods Supplied by Fast Ltd. to Slow Ltd. worth Rs.50, 000 at Cost + 25%
Half of Goods in Stock= 5,000X1/2 = 25,000
Cost = 100 Profit = 25
Cost = 25,000 Profit =?
25,000X25/125 = Rs. 5, 000/-

STEP 2:

Calculation of Goodwill (Cost of Control) or Capital Reserve

d. Goodwill (Cost of Control)
Cost of Acquisition (Given) 1, 90,000
Less: Nominal Value of Shares

70,000

Add: Existing Goodwill (as per B/S)
(Fast: 75,000+Slow: 45,000) 1, 15,000
Goodwill 1, 85,000

e. Capital Reserve
Pre-Acquisition Reserve of H Ltd 28,000
Pre- Acquisition Profit of H Ltd 36,000
Capital Reserve 64,000

f. Apply Condition
Goodwill > Capital Reserve
1, 85,000 > 64,000
Thus, Goodwill is more therefore Goodwill = Rs.1,21,000

Note: In consolidated B/S there can be either Capital Reserve or Goodwill. So we need to apply the condition. If Goodwill is more and Capital Reserve less then we will have Goodwill, and if Capital Reserve is more and Goodwill is less then will have Capital Reserve.

STEP 3:

In the books of Fast Ltd. & Slow Ltd.
CONSOLIDATED BALANCE SHEET OR STATEMENT OF ASSETS & LIABILITIES
As on 31-3-15
AS – 21

Sl.No	Particulars	Note No.	Amt.
I	Equity & Liabilities:		
	Shareholders Fund		
	Share Capital	1	10,00,000
	Reserves & Surplus	2	3,39,000
	Minority Interest	--	57,000
	Non-Current Liabilities	3	--
	Current Liabilities		
	Trade payables	4	3,07,000
	Short-Term Borrowings	5	-
	Total Liabilities		**17,03,000**
II	Assets:		
	Non- Current Assets:		
	Tangible Fixed Assets	7	9,60,000
	Intangible Fixed Assets	8	1,21,000
	Non- Current Investments	9	--
	Current Assets:		
	Inventories	10	3,10,000
	Trade Receivables	11	2,07,000
	Cash & Cash Equivalents	12	1,05,000
	Total Assets		**17,03,000**

STEP 4:

Notes to Balance Sheet:

Note No.1: Share Capital		
Authorized Capital		
------Equity shares of Rs.---Each		XXX
------10% Preference shares of Rs.---Each		XXX
Issued & Subscribed Capital		
90,000 Equity Shares of Rs 10 each		9,00,000
10,000 10% Preference Shares ofRs.10		1,00,000
	Total	**10,00,000**
Note No.2: Reserves & Surplus		
Capital Reserve (as per Step 2)		NIL
General Reserve		
	Fast Ltd. 90,000	
Add: Post Acquisition Reserve (of F ltd. in S ltd.)	Slow Ltd. 20,000	1,10,000
Surplus (Credit Balance of P&L A/C)		

P&L A/C (60,000 + 1,50,000)	
Fast Ltd.2,10,000	
Add: Post Acquisition Profit (of F ltd. in S ltd.) Slow Ltd.	
24,000	2,29,000
2,34,000	**3,39,000**
Less: Unrealized Profit 5,000	
Total	
Note No.4: Current Liabilities (Trade Payables)	
Sundry Creditors	
Fast Ltd.1,85,000	
Slow Ltd. 1,05,000	
2,90,000	
Less: Intercompany dues 50,000	2,40,000
Bills Payable	
Fast Ltd.40,000	
Slow Ltd. 35,000	
75,000	67,000
Less Intercompany bills(Bills 20,000 Dis. 12,000) (20,000-12,000) 8,000	3,07,000
Total	
Note No.7: Tangible Fixed Assets	
Land & Building	
Fast Ltd.4,50,000	
Slow Ltd. 1,20,000	5,70,000
Machinery	
Fast Ltd.3,00,000	3,90,000
Slow Ltd. 90,000	9,60,000
Total	
Note No.8: Intangible Fixed Assets	
Goodwill (as per step 2)	1,21,000
Note No.10: Inventories	
Stock-In-Trade	
Fast Ltd.2,40,000	
Slow Ltd. 75,000	
3,15,000	
Less: Unrealized Profit 5,000	3,10,000
	3,10,000
Total	
Note No.11: Trade Receivables	
Sundry Debtors	
Fast Ltd. 1,50,000	
Slow Ltd. 80,000	
2,30,000	
	1,80,000

Less: Intercompany dues 50,000 Bills Receivables Fast Ltd. 25,000 Slow Ltd. 10,000 35,000 Less Intercompany bills(Bills 20,000 Dis. 12,000) (20,000-12,000) 8,000 Total	 27,000 2,07,000
Note No.12: Cash & Cash Equivalents Cash Fast Ltd. 95,000 Slow Ltd. 10,000 Total	 1,00,000 1,00,000

* * * * *

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