Liquidation of Companies

Note: The sev...

Statement of affairs and lists to be annexed

Statement as to the affairs of .... Ltd., on the .... day of .... 19 being the date of the winding up order (or order appointing provisional liquidato or the date directed by the official liquidator, as the case may be) showing asset at estimated realisable values and liabilities expected to rank:

Assets not specifically pledged (as per list A)

		Estimated realisable value
Balance at Bank	.....	.....
Cash in hand	.....	.....
Marketable securities	.....	.....
Bills receivable	.....	.....
Trade debtors	.....	.....
Loans and advances	.....	.....
Unpaid calls	.....	.....
Stock-in-trade	.....	.....
Work-in-progress	.....	.....
Freehold property, Land & Buildings	.....	.....
Leasehold property	.....	.....
Plant & Machinery	.....	.....
Furniture, fittings, utensils etc.	.....	.....
Investments other than marketable securities	.....	.....
Livestock	.....	.....
Other property etc.		

Assets specifically Pledged (as per list B)	(a) Estimated realisable value Rs.	(b) Due to secured creditor Rs.	(c) Deficiency ranking as unsecured Rs.	(d) Surplus carried to last column Rs.
Freehold property:				
....				
....				
Estimated surplus from assets specifically pledged			....	
Estimated total assets available for preferential creditors, debentureholders secured by a floating charge and unsecured creditors (carried forward)			Rs.	

Summary of Gross assets:

	Rs.
Gross realisable value of assets specifically pledged	......
Other assets	....
Gross assets	....

Estimated total assets available for preferential creditors, debentureholders secured by a floating charge and unsecured creditors (brought forward)......

Liabilities

Gross Liabilities Rs.	(to be deducted from surplus or added to deficiency as the case may be)	
	Secured creditors (as per list B) to the extent to which claims are estimated to be covered by assets specifically pledged (item (a) or (b) as above, whichever is less) (Insert in Gross liabilities columns only)	
	Preferential creditors (as per list C)	....
	Estimated balance of assets available for debentureholders secured by a floating charge and unsecured creditors	....
	Debentureholders secured by a floating charge as per list D	....
	Estimated surplus / deficiency as regards debentureholders	.
	Unsecured creditors (as per list E)	....
	Estimated unsecured balance of claims of creditors partly secured on specific assets, brought from preceding page (c)	....
	Trade creditors	
	Bills payable	
	Outstanding expenses	
	....	
	Contingent liabilities (state nature)	
Rs.	Estimated surplus / deficiency as regards creditors (being difference between gross assets brought from preceding page (d) and gross liabilities as per column (c))	......
	Issued and called up capital:	
	.... Preference shares of .... each, Rs. .... called up (as per list 'F')	
	.... Equity shares of .... each Rs. .... called up (as per list 'G')	....
	Estimated surplus / deficiency as regards members (as per list H)	....

agree with the one shown by the statement of affairs. The period covered by this account must commence on date not less than 3 years before the date of winding up order or from the date of formation of the company if the whole period of its existence is less than 3 years, unless the liquidator otherwise agrees.

Prescribed form of deficiency or surplus account

List H – Deficiency or surplus account

	Rs.
Item contributing to deficiency (or reducing surplus)	
1. Excess (if any) of capital and liabilities over assets on the ...... 19 .... as shown by Balance Sheet (copy annexed)	....
2. Net dividends and bonuses declared during the period from ...... 19 .... to the date of the statement	....
3. Net trading losses (after charging items shown in note to follow) for the same period	....
4. Losses other than trading losses written off or for which provision has been made in the books during the same period (give particulars or annex schedule)	
5. Estimated losses now written off or for which provision has been made for the purposes of preparing the statement (give particulars or annex schedule)	....
6. Other items contributing to deficiency or reducing surplus	....
Items reducing deficiency (or contributing to surplus)	
7. Excess (if any) of assets over capital and liabilities on the .... 19 .... to the date of statement	....
8. Net trading profit (after charging items shown in note below) for the period from .... 19........... to the date of statement.	....
9. Profits and income other than trading profits during the same period (give particulars or annex schedule)	....
10. Other items reducing deficiency or contributing to surplus	....
Deficiency / surplus (as shown by the statement of affairs)	....
Note as to net trading profits and losses: Particulars are to be inserted here (so far as applicable) of the items mentioned below, which are to be taken into account in arriving at the amount of net trading profits or losses shown in this account: Provision for depreciation, renewals or diminution in value of fixed assets. Charges for Indian income tax and other Indian taxation on profits. Interest on debentures and other fixed loans, payment to directors made by the company and required by law to be disclosed in the accounts	
Exceptional or non-recurring receipts:	....
Balance being other trading profits and losses. Net trading profits and losses as shown in deficiency or surplus account above.	....
	....

Signature :

Dated 19 ....

ILLUSTRATIONS

Statement of Affairs Method

Illustration 1

The following information is extracted from the books of a Drum company on June 30, 2006 on which date a winding up order was made:

			Rs.
Equity share capital, 80,000 shares of Rs. 10 each			8,00,000
10% preference share capital 12,000 shares of Rs. 100 each			12,00,000
Calls in arrears on equity shares (estimated to produce Rs. 8,000)			16,000
9% first mortgage debentures, secured by a floating charge on the whole of the assets of the company			8,00,000
Creditors fully secured (value of shares in X Ltd. Rs. 1,60,000)			1,40,000
Creditors partly secured (value of shares in Y Ltd. 80,000)			1,60,000
Preferential creditors			30,000
Bank overdraft, secured by a second charge on the whole of the assets of the company			80,000
Unsecured creditors			10,40,000
Estimated liability on bill discounted			40,000
Cash in hand			8,100
Book debts	–	Good	1,50,000
	–	Doubtful (estimated to produce 40%)	30,000
	–	Bad debts	18,000
Stock in trade (estimated to produce Rs. 2,38,700)			2,88,000
Freehold Land & Buildings (estimated to produce Rs. 7,82,000)			6,60,000
Plant & Machinery (estimated to produce Rs. 2.12,000)			3,00,000
Fixtures & fittings (estimated to produce Rs. 30,000)			50,000

Prepare a statement of affairs

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

[Thiruvalluvar B.Com., Nov./Dec. 2009]

Solution:

Statement of Affairs of Drum Ltd. as on June 30, 2006

Assets	*Estimated realisable value* Rs.
Assets not specifically pledged (as per List A):	
Cash in hand	8,100
Trade debtors (Rs. 1,50,000 + 40% of Rs. 30,000)	1,62,000
Calls-in-arrears	8,000
Stock-in-trade	2,38,700
Freehold Land & Buildings	7,82,000
Plant & Machinery	2,12,000
Fixtures & fittings	30,000
	14,40,800

Assets specifically pledged (as per List B):

	Estimated Realisable value Rs.	*Due to Secured creditors* Rs.	*Deficiency ranking as unsecured* Rs.	*Surplus carried to last column* Rs.
Shares in X Ltd.	1,60,000	1,40,000	–	20,000
Shares in Y Ltd.	80,000	1,60,000	80,000	–
	2,40,000	3,00,000	80,000	20,000

Surplus carried to last column: 20,000

Estimated total assets available for preferential creditors, debentureholders secured by a floating charge, bank overdraft secured by a second floating charge and unsecured creditors: 14,60,800

Summary of Gross assets

Gross realisable value of assets:	Rs.
Specifically pledged	2,40,000
Others	14,40,800
	16,80,800

Gross Liabilities	Liabilities	
	To be deducted from surplus or added to deficiency as the case may be:	
2,20,000	Secured creditors (as per List B) to the extent to which claims are estimated to be covered by assets specially pledged:	–
30,000	Preferential creditors (as per List C)	30,000
	Estimated balance of assets available for debenture holders secured by a floating charge, bank O/d secured by a second floating charge and unsecured creditors	14,30,800
8,00,000	Debentureholders secured by a floating charge (as per List D)	8,00,000
		6,30,800

Statement of Affairs of Drum Ltd. as on June 30, 2006

			Estimated realisable value
			Rs.
80,000	Bank overdraft secured by a second floating charge (as per List D)		80,000
	Estimated surplus as regards debentureholders and bank		5,50,800
	Unsecured creditors (as per List E)		
	Estimated unsecured balance of claims of	Rs.	
	Creditors partly secured on specific assets	80,000	
	Unsecured creditors	10,40,000	
11,60,000	Liability on bills discounted	40,000	11,60,000
22,90,000			
	Estimated deficiency as regards creditors, being the difference between gross liabilities and gross assets		– 6,09,200
	Issued and called up capital:		
	12,000, 10% preference shares of Rs. 100 each fully paid up (as per List F)		12,00,000
	80,000 equity shares of Rs. 10 each fully paid up (as per List G)	8,00,000	
	Less: Irrecoverable calls-in-arrears	8,000	7,92,000
	Estimated deficiency as regards members or contributories (as per List H)		26,01,200

Illustration 3

The following balances were extracted from the books of Sudden Death Ltd. on 31.12.2006 on which date a winding up order was made:

	Rs.
Share capital:	
Equity shares – 20,000 shares of Rs.10 each, Rs.8 per share called up	1,60,000
Preference shares – 2,000 shares of Rs. 100 each fully paid	2,00,000
Calls-in-arrears on Equity shares – estimated to realise Rs. 600	1,000
15% debentures secured by first floating charge on the assets	2,00,000
Bank overdraft secured by a second floating charge on the assets	1,00,000
Fully secured creditors (secured against Plant & Machinery)	60,000
Investments (estimated to realise Rs. 60,000)	80,000
Plant & Machinery – Secured to creditors estimated to realise Rs. 80,000	1,20,000
Land & Buildings – estimated to realise Rs. 80,000	40,000
Rent & taxes	4,000
Wages & Salaries	3,000
Bills payable	24,000
Sundry creditors	60,000
Bills receivable – estimated to realise Rs. 2,000	6,000
Debtors – estimated to realise 60%	1,40,000
Bills discounted – Rs. 30,000 likely to rank	8,000
Contingent liability likely to materialise	6,000
Stock-in-trade – estimated to produce Rs. 38,000	60,000
Cash in hand and at bank	3,200

Entry for accrued salary of Rs. 4,000 and rent of Rs. 2,000 has still to be made in the books.

Prepare a statement of affairs and a deficiency A/c

[Madras, B.Com (AF) Ap. 2009; 1st M.Com (CAIA) Ap. 2008] [C.A., final]

Solution:

Statement of affairs of Sudden Death Ltd. as on 31.12.2006

Assets	*Estimated Realisable value* Rs.
Assets not specifically pledged as per List 'A'	
Cash in hand and at bank	3,200
Bills receivable	2,000
Sundry debtors (1,40,000 × 60%)	84,000
Calls in arrears	600
Stock-in-trade	38,000

Assets					Estimated Realisable value
					Rs.
Land & Buildings					80,000
Investments					60,000
					2,67,800

Assets specifically pledged as per List B:

	Estimated Realisable value	Due to secured creditors	Deficiency	Surplus	
	Rs.	Rs.	Rs.	Rs.	
Plant & Machinery	80,000	60,000	–	20,000	20,000

Estimated total assets available for preferential creditors, debentureholders secured by a floating charge and unsecured creditors. 2,87,800

Summary of Gross assets:

Gross realisable value of assets specifically pledged	80,000
Other assets	2,67,800
	3,47,800

Liabilities

Gross Liabilities	(To be deducted from surplus or added to be deficiency as the case may be)		
60,000	Secured creditors as per List B to the extent to which claims are estimated to be covered by assets specifically pledged		–
13,000	Preferential creditors as per List 'C'		13,000
	Estimated balance of assets available for debenture holders and bank overdraft secured by a floating charge and for unsecured creditors (3,47,800 – 73,000)		2,74,800
2,00,000	Debentureholders secured by first floating charge as per List D		2,00,000
			74,800
1,00,000	Bank overdraft secured by second floating charge as per List D		1,00,000
	Deficiency as regards creditors secured by floating charge		– 25,200
	Unsecured creditors as per List E:		
24,000	Bills payable	24,000	
60,000	Trade creditors	60,000	
8,000	Bills discounted likely to be dishonoured	8,000	
6,000	Contingent liability	6,000	– 98,000
4,71,000	Estimated deficiency as regards creditors		– 1,23,200
	Issued and called up capital:		
	2,000 preference shares of Rs. 100 each fully called and paid as per List F	2,00,000	
	20,000 equity shares of Rs. 10 each, Rs. 8 per share called up less arrears irrecoverable as per List G	1,59,600	– 3,59,600
	Estimated deficiency as regards contributories		4,82,800

List H Deficiency Account

		Rs.
Items contributing to deficiency:		
Excess of liabilities over assets (see working note)		3,60,800
Estimated losses now written off for which provision has been made for the purpose of preparing the statement:		
Investments	20,000	
Plant & Machinery	40,000	
Bills receivable	4,000	
Sundry debtors	56,000	
Bills discounted	8,000	
Contingent liability	6,000	
Stock-in-trade	22,000	
Rent & Salary outstanding	6,000	1,62,000
		5,22,800
Items reducing deficiency		
Land & Buildings (surplus on revaluation)		40,000
Deficiency as shown by statement of affairs		4,82,800

Working Note

Excess of capital and liabilities over assets Rs. 3,60,800 has been ascertained by preparing Balance Sheet of Sudden Death Ltd. as on 31.12.06.

Balance Sheet of Sudden Death Ltd. as on 31.12.06

Liabilities	*Rs.*	*Assets*	*Rs.*
Equity share capital	1,60,000	Calls in arrear	1,000
Preference share capital	2,00,000	Investments	80,000
15% debentures	2,00,000	Plant & Machinery	1,20,000
Bank overdraft	1,00,000	Land & Buildings	40,000
Rent & taxes	4,000	Bills receivable	6,000
Salary & Wages	3,000	Sundry debtors	1,40,000
Bills payable	24,000	Stock-in-trade	60,000
Sundry creditors (secured)	60,000	Cash in hand & bank	3,200
Sundry creditors	60,000	P & L A/c (bal. fig)	3,60,800
	8,11,000		8,11,000

Illustration 4

Liquidator's statement of account of the winding up (members / creditors' voluntary winding up)

1. Name of the company .... Ltd.
2. Nature of proceeding *
3. Date of commencement of the winding up.
4. Name and address of the liquidator.

Statement showing how the winding up has been conducted and the property of the company has been disposed off from ...... 19.......... (commencement of winding up) to .... 19 .... (close of winding up).

Receipts	Estimated value	Value realised	Payments	
	Rs.	Rs.		Rs.
Assets:			Legal charges	
Cash at bank			Liquidator's remuneration where applicable	
Cash in hand			% on Rs........... realised	
Marketable securities			% on Rs. distributed	
Bills receivable			Total	....
Trade debtors			(by whom fixed ....)	
Loans and advances			Auctioneers and valuer's charges	
Stock-in-trade			Cost of possession and maintenance of estate	
Work-in-progress			Gazette and news papers	
Freehold property			Incidental outlay (establishment charges and other expenses of Liquidation)	
Leasehold property			Total costs and charges	
Plant & Machinery			(i) Debentureholders:	
Furniture, fittings, utensils, etc.			Payment of Rs. .... Per Rs. debenture	
Patents, Trade marks etc.			(ii) Creditors:	
Investments other than Marketable securities			.... * Preferential	
Surplus from securities			.... * Unsecured	
Unpaid calls at Commencement of winding up			Dividend (s) ..... P in the rupees on Rs. (the estimate of the amount expected to rank for dividend was Rs. ......)	
Amounts received from calls on contributories made in the winding up			(ii) Returns to contributories:	
Receipts as per trading A/c			..... P. per rupee	
other property, viz.,			.... ** share	
....			.... P. per rupee	
.... Total			.... ** share	
Less: Payment to redeem securities			...... P. per rupee...	
Cost of execution			** share	
Payment as per Trading A/c				
Net realisations	xxx	xxx		xxx

* State the number. Preferential creditors need not be separately shown if all creditors have been paid in full.

** State nominal value and class of share.

(1) The following assets estimated to be the value of Rs. ...... have proved to be unrealised (give details of the assets which have proved to be unrealisable).

(2) Amount paid into the companies liquidation account in respect of:

(a) Unclaimed dividends payable to creditors in the winding up Rs. ....

(b) Other unclaimed distributions in the winding up Rs. ....

(c) Money held by the company in trust in respect of dividends or other sums due before the commencement of the winding up to any person as a member of the company Rs ....

(3) *Add:* Here any remarks the liquidator thinks desirable,

Dated this ...... day of 19

(Sd.)

Liquidator

I declare that the above statement is true and contains a full and accurate account of the winding up from the commencement to the close of the winding up.

Dated this .... day of 19

(Sd.)

Liquidator

Preparation of liquidator's final statement of account

Illustration 6

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

	Rs.
Preferential creditors	25,000
Unsecured creditors	58,000
6% debentures	30,000

The assets realised Rs. 80,000. The expenses of liquidation amounted to Rs. 1,500 and the liquidator's remuneration was agreed at $2\frac{1}{2}\%$ on the amount realised and 2% on the amount paid to unsecured creditors including preferential creditors.

Show the liquidator's final statement of account.

[Periyar, B.Com., Ap. 2005] [Madras, B.Com.(AF) Ap. 2009; 1st M.Com(ICE) Oct.2008; B.Com., (AF) Ap. 2008; B.Com., B.Com(CS) Ap. 2007]

Solution:

Liquidator's final statement of Account

Receipts	*Rs.*	*Payments*		*Rs.*
To Assets realised	80,000	By Legal charges		–
		By Liquidator's remuneration:		
		$2\frac{1}{2}\%$ on 80,000 :	2,000	
		2% on 25,000 :	500	
		2% on 20,588 :	412	2,912
		By Liquidation expenses		1,500
		By Debentureholders		30,000
		By Preferential creditors		25,000
		By Unsecured creditors (bal. fig)		20,588
	80,000			80,000

Working note:

Since the amount available (Rs. 21,000) is not adequate enough to pay off unsecured creditors in full, the liquidator's remuneration on payment to unsecured creditors is calculated in the following manner: $= 21{,}000 \times \frac{2}{102} = \text{Rs. } 412$

Illustration 7

The following particulars relate to a limited company which has gone into voluntary liquidation. You are required to prepare the liquidator's final account allowing for his remuneration @ 3% on the amount realised and $2\frac{1}{2}\%$ on the amount paid to the unsecured creditors.

Share capital issued:

5,000 preference shares of Rs. 100 each (fully paid)

30,000 equity shares of Rs. 10 each fully paid.

12,000 equity shares of Rs. 10 each, Rs. 8 paid up.

Assets realised Rs. 9,24,000 excluding amount realised by sale of securities held by the secured creditors.

	Rs.
Preferential creditors	24,000
Unsecured creditors	8,51,094
Secured creditors (security realised Rs. 1,62,000)	1,38,000
Debentures having a floating charge on the assets	3,00,000

Expenses of liquidation amounted to Rs. 9,000

A call of Rs. 2 per share on the partly paid equity shares was duly paid except in case of one shareholder owning 1,200 shares.

[Thiruvalluvar B.Com., Nov./Dec. 2009] [Madras, M.Com (ICE) Ap. 2007]

Solution:

Liquidator's final statement of account

Receipts	*Rs.*	*Payments*		*Rs.*
To Surplus from secured creditors (Rs.1,62,000 – Rs.1,38,000)	24,000	By Liquidator's remuneration 3% on Rs. 9,48,000 :	28,440	
To Assets realised	9,24,000	*Add:* $2\frac{1}{2}$% on Rs. 24,000:	600	
To Receipt of call money on 10,800 equity shares @ Rs. 2 per share	21,600	*Add:* $2\frac{1}{2}$% on Rs.5,92,741:	14,819	43,859
		By Liquidation expenses		9,000
		By Debentureholders		3,00,000
		By Preferential creditors		24,000
		By Unsecured creditors (bal. fig)		5,92,741
	9,69,600			9,69,600

Notes: (i) Cash available for unsecured creditors Rs. 6,07,560

(9,69,600 – 28,440 – 600 – 9,000 – 3,00,000 – 24,000)

$$\text{Liquidator's Commission} = 6{,}07{,}560 \times \frac{2.5}{102.5} = \text{Rs. } 14{,}819$$

(ii) The shareholders will not get anything as the amount is not sufficient even to make full payment to unsecured creditors.

Illustration 11

From the data relating to a company (in voluntary liquidation), you are asked to prepare liquidator's final statement of account.

(i) Cash with liquidator (after all assets are realised and secured creditors and debentureholders are paid) is Rs. 6,73,800.

(ii) Preferential creditors to be paid Rs. 30,000.

(iii) Other unsecured creditors Rs. 2,15,000.

(iv) 4,000 6% preference shares of Rs. 100 each, fully paid.

(v) 2,000 equity shares of Rs. 100 each, Rs. 75 per share paid up.

(vi) 6,000 equity shares of Rs. 100 each, Rs. 60 per share paid up.

(vii) Liquidator's remuneration 2% on preferential and other unsecured creditors.

(viii) Preference dividends were in arrears for 2 years.

[Madras, 1st M.Com (KCAIA) Ap. 2009; B.Com (CS) (ICE) Oct. 2008]

Solution

Liquidator's final statement of account

Receipts	*Rs.*	*Payments*		*Rs.*
To Cash in hand	6,73,800	By Liquidator's remuneration (2% on Rs. 2,45,000)		4,900
To Amount received on call for 6,000 shares @ Rs. 6.7625 per share	40,575	By Preferential creditors		30,000
		By Unsecured creditors		2,15,000
		By Preference shareholders:		
		Capital –	4,00,000	
		Dividend for two years @ 6% p.a.	48,000	4,48,000
		By Equity shareholders: Amount paid to holders of 2,000 equity shares @ Rs. 8.2375 each		16,475
	7,14,375			7,14,375

Working note:

Calculation of amount receivable from equity shareholders or payable to equity shareholders:

		Rs.	Rs.
	Cash in hand (Assets realised) :		6,73,800
Less:	Payments :		
	Liquidator's remuneration	4,900	
	Preferential creditors	30,000	
	Unsecured creditors	2,15,000	
	Preference shareholders (Rs. 4,00,000 + 48,000)	4,48,000	6,97,900
	Amount required for preference shareholders:		24,100
Add:	Amount payable to equity shareholders (paid up)		
	2,000 equity shares @ Rs. 75 per share		1,50,000
	6,000 equity shares @ Rs. 60 per share		3,60,000
	Total loss to be borne by equity shareholders		5,34,100

(ii) Amount unpaid to partly secured creditors	2,236
(iii) Bank overdraft	232
	17,900

Illustration 10

The following is the summarised Balance Sheet of Har Preet Ltd. as at 31.12.1998

Liabilities	*Rs.*	*Assets*	*Rs.*
Share capital:		Land & Buildings	2,60,000
3,000 6% cumulative preference shares of Rs. 100 each, fully paid	3,00,000	Plant & Machinery	1,75,000
1,000 equity shares of Rs. 100 each, fully paid	1,00,000	Stock	37,250
1,000 equity shares of Rs. 100 each, Rs. 50 paid up	50,000	Debtors	15,000
Bank loan (secured on stock & debtors)	25,000	Cash in hand	250
Current liabilities	50,000	Profit & Loss A/c	37,500
Pref. dividend arrears Rs. 36,000			
	5,25,000		5,25,000

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

The company went into voluntary liquidation and sold the fixed assets, stock and debtors for a sum of Rs. 3,75,000 payable in cash. The expenses of liquidation were Rs. 250. A call of Rs. 50 per share is made by the liquidator on 1,000 equity shares which are partly paid up. The money called is fully paid up.

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

Solution: ***[Madras, 1st M.Com., (CAIA) Ap. 2008]***

Liquidator's final statement of account

Receipts	*Rs.*	*Payments*	*Rs.*
To Assets realised: (3,75,000 – 25,000)	3,50,000	By Liquidation expenses	250
To Cash in hand	250	By Unsecured creditors	50,000
To Receipt of unpaid calls (on 1,000 equity shares @ Rs. 50 per share)	50,000	By Preference shareholders (dividends in arrears)	36,000
		By Preference shareholders (return of capital)	3,00,000
		By Equity shareholders (return of capital on 2,000 equity shares @ Rs. 7 per share)	14,000
	4,00,250		4,00,250

Holding Company Accounts

Unrealised profit in stock

Illustration 2

On 31st March, 1996 the balance sheets of H Ltd. and its subsidiary S Ltd. stood as follows:

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

Draw a consolidated Balance Sheet as at 31st March, 1996 after taking into consideration the following information:

(i) H Ltd. acquired the shares on 31st July, 1995.

(ii) S Ltd. earned profit of Rs. 45,000 for the year ended 31st March, 1996.

(iii) In January 1996 S Ltd. sold to H Ltd. goods costing Rs. 15,000 for Rs.20,000. On 31st March, 1996 half of these goods were lying as unsold in the godown of H Ltd.

Give your working notes.

[Madras, 1st M.Com., Ap. 2009; Nov. 2008; B.Com (PZ4A) Nov. 2007; B.Com. (PZG) Nov. 2005; BCS (PYD) Nov. 2005; M.Com., May 1997; A.C.S. Inter, June 1996]

[Thiruvalluvar, B.Com., April 2007]

Solution:

Notes to Accounts:

			Rs.
1. Share capital:			8,00,000
2. Reserves and surplus:			
General reserve			1,50,000
Surplus in statement of P & L:			
Balance as per C Ltd. Balance sheet :	90,000		
Add: H Ltd.'s share of revenue profit :	22,500		
	1,12,500		
Less: Provision for unrealized profit	2,500		
			1,10,000
			2,60,000
3. Trade payables:			
Sundry creditors			
H Ltd.		1,20,000	
S Ltd.		80,000	
			2,00,000
4. Tangible assets:			
Fixed assets:			
H Ltd.		5,50,000	
S Ltd.		1,00,000	
			6,50,000
5. Intangible assets:			
Goodwill			
6. Stock:			58,750
H Ltd.			
S Ltd.		1,05,000	
		1,77,000	
		2,82,000	
Less: Provision for unrealized profit		2,500	
			2,79,500
7. Other current assets:			
H Ltd.			
S Ltd.		2,25,000	
		1,28,000	
			3,53,000

Consolidated Balance sheet of H Ltd. and its subsidiary S Ltd. as on 31.3.1996
(As per Schedule VI)

	Note No.	Rs.
I. Equity and Liabilities:		
(i) Shareholders' funds:		
Share capital	1	8,00,000
Reserves and surplus	2	2,60,000
(ii) Minority interest (W.N 4)		81,250
(iii) Current liabilities		
Trade payables	3	2,00,000
Total (i) + (ii) + (iii)		13,41,250
II. Assets:		
(i) Non- current assets:		
Tangible assets	4	6,50,000
Intangible assets	5	58,750
(ii) Current assets:		
Stock	6	2,79,500
Other current assets	7	3,53,000
Total (i) + (ii)		13,41,250

Working Notes:

1. ***Holding-Minority Ratio :*** H Ltd. acquired 75% shares in S Ltd.
∴ Minority holding in S Ltd. 25% Ratio = 75 : 25 or 3 : 1

2. ***Revenue profits***

			Rs.
Current year profit of S Ltd., given			45,000
Profit earned by S Ltd. after 31st July or revenue profit	=	$45,000 \times \frac{8}{12}$	= 30,000
Holding company's share	=	$30,000 \times \frac{3}{4}$	= 22,500
Minority share	=	$30,000 \times \frac{1}{4}$	= 7,500

3. ***Capital profits***

General reserve of S Ltd. on 31.3.96	70,000
Profit & Loss account of S Ltd. on 31.3.96	55,000
	1,25,000
Less: Revenue profit	30,000
Capital profit	95,000

Holding company's share	=	$95,000 \times \frac{3}{4}$	= 71,250
Minority share	=	$95,000 \times \frac{1}{4}$	= 23,750

4. *Minority interest*

	Face value of minority shares $2,00,000 \times \frac{25}{100}$	50,000
Add:	Minority share of capital profits	23,750
Add:	Minority share of revenue profits	7,500
	Minority interest	81,250

5. *Cost of control or goodwill*

	Amount paid for shares purchased by H Ltd. in S Ltd.		2,80,000
Less:	Face value of shares purchased $2,00,000 \times \frac{3}{4}$	1,50,000	
	Holding company's share of capital profits	71,250	2,21,250
	Goodwill		58,750

6. *Provision for unrealised profit in stock*

Profit in stock of H Ltd. acquired from S Ltd.

$$(20,000 - 15,000) \times \frac{1}{2} = 5,000 \times \frac{1}{2} \quad = \quad 2,500$$

$\therefore$ Provision to be created = 2,500.

∴ Provision to be created = 2,500.

Mutual obligation in bills

Illustration 3

From the following Balance Sheet relating to H Ltd. and S Ltd. prepare a consolidated Balance Sheet.

Balance Sheet as on 31.12.1992

Liabilities	*H Ltd.* *Rs.*	*S Ltd.* *Rs.*	*Assets*	*H Ltd.* *Rs.*	*S Ltd.* *Rs.*
Share capital (Shares of Rs.10 each)	10,00,000	2,00,000	Sundry fixed assets	8,00,000	1,20,000
Profit and Loss A/c	4,00,000	1,20,000	Stock	6,10,000	2,40,000
Reserves	1,00,000	60,000	Debtors	1,30,000	1,70,000
Creditors	2,00,000	1,20,000	Bills receivable	10,000	–
Bills payable	–	30,000	Shares in 'S Ltd.' at cost (15,000 shares)	1,50,000	
	17,00,000	5,30,000		17,00,000	5,30,000

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

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

(c) The stock of H Ltd. includes Rs. 50,000 purchased from S Ltd. The profit added was 25% on cost.

[Madras, B.Com (CS) (SY4B) Nov. 2007; B.Com (ICE) Oct. 2006; B.Com., Ap. 2002; Ap. 2000; I M.Com., April 2001; B.Com., March 1995]

[Periyar, B.Com., Ap. 2005; Bharathiar, B.Com., Nov. 2004]

Solution:

Notes to Accounts:

		Rs.
1. Share capital:		
1,00,000 shares of Rs.10 each		10,00,000
2. Reserves and surplus:		
Reserve		1,00,000
Capital reserve		45,000
Surplus as per statement of P & L :		
Balance as per H Ltd. Balance sheet :	4,00,000	
Add: H Ltd.'s share of revenue profit :	90,000	
	4,90,000	
Less: Provision for unrealized profit	10,000	4,80,000
		6,25,000
3. Trade payables:		
Sundry creditors		
H Ltd.	2,00,000	
S Ltd.	1,20,000	
		3,20,000
Bills payable:	30,000	
Less: Mutual Obligation	10,000	
		20,000
		3,40,000
4. Tangible assets:		
Sundry assets:		
H Ltd.	8,00,000	
S Ltd.	1,20,000	
	9,20,000	
5. Stock:		
H Ltd.	6,10,000	
S Ltd.	2,40,000	
	8,50,000	
Less: Provision for unrealized profit	10,000	
	8,40,000	

6. Trade receivables :

Debtors:		
H Ltd.	1,30,000	
S Ltd.	1,70,000	3,00,000
Bills receivable:	10,000	
Less: Mutual Obligation	10,000	nil
		3,00,000

Consolidated Balance sheet of H Ltd. and its subsidiary S Ltd. as on 31.12.1992 (As per Revised Schedule VI)

	Note No.	Rs.
I. Equity and Liabilities:		
(i) Shareholders' funds:		
Share capital	1	10,00,000
Reserves and surplus	2	6,25,000
(ii) Minority interest (W.N 4)		95,000
(iii) Current liabilities		
Trade payables	3	3,40,000
Total (i) + (ii) + (iii)		20,60,000
II. Assets:		
(i) Non- current assets:		
Tangible assets	4	9,20,000
Intangible assets		
(ii) Current assets:		
Stock	5	8,40,000
Trade receivables	6	3,00,000
Total (i) + (ii)		20,60,000

Working notes

1. ***Holding-minority ratio***

Total shares in S Ltd. $\frac{2,00,000}{10}$	20,000
Shares acquired by H Ltd. in S Ltd.	15,000
Minority shares	5,000

∴ Ratio = 15,000 : 5,000 = 3 : 1

2. *Capital profits*

		Rs.
Reserve of S Ltd. on the date of purchase of shares in S Ltd. by H Ltd		60,000
∴ Capital profit	= 60,000	
Holding company's share	$= 60,000 \times \frac{3}{4} =$	45,000
Minority share	$= 60,000 \times \frac{1}{4} =$	15,000

3. *Revenue profits*

Profits earned by S Ltd. after shares were acquired by H Ltd. in S Ltd.	= P & L A/c =	1,20,000
∴ Revenue profits	= 1,20,000	
Holding company's share	$= 1,20,000 \times \frac{3}{4} =$	90,000
Minority's share	$= 1,20,000 \times \frac{1}{4} =$	30,000

4. *Minority interest*

Face value of minority shares 5,000 × 10	=	50,000
Add: Minority's share of capital profits	=	15,000
Add: Minority's share of revenue profits	=	30,000
Minority interest		95,000

5. *Cost of control or goodwill*

Amount paid for shares purchased by H Ltd. in S Ltd.		1,50,000
Less: Face value of shares purchased 15,000 × 10	1,50,000	
Holding company's share of capital profits	45,000	1,95,000
Capital reserve		45,000

6. *Provision for unrealised profits in stock*

Stock with H Ltd. purchased from S Ltd.		50,000
Profit included in stock 25% on cost		
(or) 20% on sale price	$= 50,000 \times \frac{20}{100} =$	10,000
Provision to be made	=	10,000

Capital expenses given in Balance Sheet

Illustration 4

The following are the Balance Sheets of H Ltd. and its subsidiary S Ltd. as on 31.3.1995.

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

H Ltd. acquired the shares of S Ltd. on 30th June 1994. On 1st April 94, S Ltd.'s general reserve and Profit & Loss account stood at Rs. 60,000 and 20,000 respectively. No part of the preliminary expenses was written off in the year ended 31.3.95.

Prepare consolidated Balance Sheet of H Ltd. and it's subsidiary S Ltd. as on 31.3.95, giving all your working notes separately.

[Madras, M.Com (ICE) (PCMA) Ap. 2007; 1st M.Com (Sem-CAIA) Ap. 2004; ACS Inter, June 1995]

Solution:

Notes to Accounts:

		Rs.
1. Share capital:		
60,000 shares of Rs.10 each		6,00,000
2. Reserves and surplus:		
General Reserve		1,50,000
Surplus as per statement of P & L:		
Balance as per H Ltd. Balance sheet:	70,000	
Add: H Ltd.'s share of revenue profit :	21,000	
		91,000
		2,41,000
3. Trade payables:		
Sundry creditors		
H Ltd.	90,000	
S Ltd.	60,000	
		1,50,000

4. Tangible assets:		
Machinery :		
H Ltd.	3,00,000	
S Ltd.	1,00,000	
		4,00,000
Furniture:		
H Ltd.	70,000	
S Ltd.	45,000	
		1,15,000
		5,15,000
5. Intangible assets:		
Goodwill		61,200
6. Stock:		
H Ltd.	1,75,000	
S Ltd.	1,89,000	
		3,64,000
7. Trade receivables :		
Debtors:		
H Ltd.	55,000	
S Ltd.	30,000	
		85,000
8. Cash at bank:		
H Ltd.	50,000	
S Ltd.	10,000	
		60,000

Consolidated Balance sheet of H Ltd. and its subsidiary S Ltd. as on 31.12.1995 (As per Revised Schedule VI)

	Note No.	*Rs.*
I. Equity and Liabilities:		
(i) Shareholders' funds:		
Share capital	1	6,00,000
Reserves and surplus	2	2,41,000
(ii) Minority interest (W.N 4)		94,200
(iii) Current liabilities		
Trade payables	3	1,50,000
Total (i) + (ii) + (iii)		10,85,200

II. Assets:		
(i) Non- current assets:		
Tangible assets	4	5,15,000
Intangible assets	5	61,200
(ii) Current assets:		
Stock	6	3,64,000
Trade receivables	7	85,000
Cash at bank	8	60,000
Total (i) + (ii)		10,85,200

Working notes

1. ***Holding-minority ratio***

Holding company acquired 70% of the shares in subsidiary

∴ Minority's stake in the share capital is 30%

Holding minority ratio = 70 : 30 or 7 : 3

2. ***Revenue profits***

	Rs.
General reserve of S Ltd. on 31.3.95	70,000
Profit & Loss A/c of S Ltd. on 31.3.95	50,000
	1,20,000
Less: Accumulated profits of S Ltd. on 1.4.94 (60,000 + 20,000)	80,000
Profit earned during 1994-95	40,000

Profit earned after 30th June or Revenue profit $= 40{,}000 \times \frac{9}{12} = 30{,}000$

Holding company's share $= 30{,}000 \times \frac{7}{10} = 21{,}000$

Minority's share $= 30{,}000 \times \frac{3}{10} = 9{,}000$

3. ***Capital profits***

General reserve on 1.4.94	60,000
Profit & Loss account on 1.4.94	20,000
Current year's profit before 30.6.94 $= 40{,}000 \times \frac{3}{12}$	10,000
	90,000
Less: Preliminary expenses	6,000
Capital profits	84,000

Holding company's share $= 84{,}000 \times \frac{7}{10} = 58{,}800$

Minority's share $= 84{,}000 \times \frac{3}{10} = 25{,}200$

Cash-in-transit – Mutual obligations

Illustration 6

X Ltd. purchased 750 shares in Y Ltd. on 1.7.94. The following were their Balance Sheets on 31.12.94

Liabilities	*X Ltd.* *Rs.*	*Y Ltd.* *Rs.*	*Assets*	*X Ltd.* *Rs.*	*Y Ltd.* *Rs.*
Share capital: Shares			Buildings	2,05,000	1,25,000
of Rs. 100 each	3,00,000	1,00,000	Stock	1,00,000	80,000
Gen. reserve on 1.1.94	1,00,000	70,000	Debtors	1,00,000	40,000
Profit & Loss A/c	1,00,000	60,000	Investment in Y Ltd.	1,00,000	–
Creditors	80,000	40,000	Bills receivable	40,000	45,000
Bills payable	50,000	20,000	Cash at bank	60,000	20,000
Current Account:			*Current Account:*		
X Ltd.	–	20,000	– Y Ltd.	25,000	–
	6,30,000	3,10,000		6,30,000	3,10,000

Additional information

(a) Bills receivable of X Ltd. include Rs. 10,000 accepted by Y Ltd.

(b) Debtors of X Ltd. include Rs. 20,000 payable by Y Ltd.

(c) A cheque of Rs. 5,000 sent by Y Ltd. on 28th December was not yet received by X Ltd. on 31st December 1994.

(d) Profit and Loss A/c of Y Ltd. showed a Balance of Rs. 20,000 on .1.1.94.

You are required to prepare a consolidated Balance Sheet of X Ltd. and Y Ltd. as on 31.12.1994.

[Madras, 1st M.Com (CAIA) Ap. 2008]
[Madurai, M.Com., adapted]

Solution:

Notes to Accounts:

		Rs.
1. Share capital:		
3,000 shares of Rs.100 each		3,00,000
2. Reserves and surplus:		
General reserve		1,00,000
Capital reserve		57,500
Surplus as per statement of P & L :		
Balance as per H Ltd. Balance sheet :	1,00,000	
Add: X Ltd.'s share of revenue profit :	15,000	
		1,15,000
		2,72,500
3. Trade payables:		
Sundry creditors:		
X Ltd.	80,000	
Y Ltd.	40,000	
	1,20,000	
Less: Mutual Obligation	20,000	
		1,00,000
Bills payable:		
X Ltd.	50,000	
Y Ltd.	20,000	
	70,000	
Less: Mutual Obligation	10,000	
		60,000
		1,60,000

4. Other current liabilities:		
Current a/c of X Ltd.	20,000	
Less: Mutual obligation	20,000	Nil
5. Tangible assets:		
Buildings:		
X Ltd.	2,05,000	
Y Ltd.	1,25,000	3,30,000
6. Stock:		
X Ltd.	1,00,000	
Y Ltd.	80,000	1,80,000
7. Trade receivables :		
Debtors:		
X Ltd.	1,00,000	
Y Ltd.	40,000	
	1,40,000	
Less: Mutual Obligation	20,000	1,20,000
Bills receivable		
X Ltd.	40,000	
Y Ltd.	45,000	
	85,000	
Less: Mutual Obligation	10,000	75,000
		1,95,000
8. Cash and cash equivalents:		
Cash at bank		
X Ltd.	60,000	
Y Ltd.	20,000	80,000
Cash in transit		5,000
		85,000
9. Other current assets:		
Currenta/c of Y Ltd.	25,000	
Less: Cash in transit	5,000	
	20,000	
Less: Mutual obligation	20,000	Nil

Consolidated Balance sheet of X Ltd. and its subsidiary Y Ltd. as on ....
(As per Revised Schedule VI)

	Note No.	Rs.
I. Equity and Liabilities:		
(i) Shareholders' funds:		
Share capital	1	3,00,000
Reserves and surplus	2	2,72,500
(ii) Minority interest (W.N 4)		57,500
(iii) Non current liabilities:		
Long term borrowings		–
(iv) Current liabilities		
Trade payables	3	1,60,000
Other current liabilities	4	NIL
Total (i) + (ii) + (iii) + (iv)		7,90,000
II. Assets:		
(i) Non- current assets:		
Tangible assets	5	3,30,000
Intangible assets		–
(ii) Current assets:		
Stock	6	1,80,000
Trade receivables	7	1,95,000
Cash and cash equivalents	8	85,000
Other current assets	9	Nil
Total (i) + (ii)		7,90,000

Working notes:

1. ***Holding-minority ratio***

Total shares in subsidiary $\frac{1,00,000}{100}$	1,000
Less: Shares purchased by X Ltd. in subsidiary	750
Minority shares	250

∴ Ratio = 750 : 250 = 3 : 1

2. ***Revenue profits***

	Rs.
Profit & Loss account balance of Y Ltd. on 31.12.94	60,000
Less: Profit & Loss account balance of Y Ltd. on 1.1.94	20,000
Profit for the current year	40,000

Profit made by Y Ltd. after 1.7.94 or revenue profit

	=	$40{,}000 \times \frac{6}{12}$	= 20,000
Holding company's share	=	$20{,}000 \times \frac{3}{4}$	= 15,000
Minority's share	=	$20{,}000 \times \frac{1}{4}$	= 5,000

3. *Capital profits*

	General reserve of Y Ltd. on 1.1.94	70,000
Add:	Profit & Loss account of Y Ltd. on 1.1.94	20,000
	Current year's capital profit, $40{,}000 \times \frac{6}{12}$	20,000
	Capital profits	1,10,000

Holding company's share	=	$1{,}10{,}000 \times \frac{3}{4}$	= 82,500
Minority's share	=	$1{,}10{,}000 \times \frac{1}{4}$	= 27,500

4. *Minority interest*

	Face value of minority's shares = 250 × 100	25,000
Add:	Minority's share of capital profit	27,500
Add:	Minority's share of revenue profit	5,000
	Minority interest	57,500

5. *Cost of control or goodwill*

	Amount paid by X Ltd. for shares purchased in Y Ltd.		1,00,000
Less:	Face value of shares purchased 750 × 100	75,000	
	Holding company's share of capital profits	82,500	1,57,500
	Capital reserve to be shown in Balance Sheet		57,500

Assets to be written off from revenue profits

Illustration 7

The following are the Balance Sheets of A Ltd. and B Ltd. as at 31st Dec. 1973

Liabilities	*A Ltd. Rs.*	*B Ltd. Rs.*	*Assets*	*A Ltd. Rs.*	*B Ltd. Rs.*
Equity share capital, Rs. 10 each	1,00,000	50,000	Sundry assets	66,250	69,100
			Shares in B Ltd. at cost	70,000	–
Revenue reserves	9,000	10,000			
P & L A/c on 1.1.73	8,500	8,000	Goodwill	–	10,000
Profit for the year less transfer to reserves	3,750	3,500			
Creditors	15,000	7,600			
	1,36,250	79,100		1,36,250	79,100

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

The holding of A Ltd. in B Ltd. is 90% acquired a year ago on 31.12.72.

Write off from sundry assets of A Ltd. Rs. 9,000. Also write off Rs. 3,100 from the sundry assets of B Ltd. out of the current year's profits.

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

[Madras, BCS. (Sem-SY4B) Ap. 2005; (2 Times); 1st M.Com (Sem-CALA) Nov. 2004]

Solution:

Notes to Accounts:

		Rs.
1. Share capital:		
10,000 shares of Rs.10 each		1,00,000
2. Reserves and surplus:		
Revenue reserve		9,000
Surplus as per statement of P & L :		
Balance as per A Ltd. Balance sheet (1.1.73) :	8,500	
Surplus in 2003 :	3,750	
Add: A's share of revenue profit:	5,400	
	14,860	
Less: Sundry assets written off	9,000	
		5,860
		14,860
3. Trade payables:		
Sundry creditors		
A Ltd.	15,000	
B Ltd.	7,600	
		22,600
4. Tangible assets:		
Sundry assets:		
A Ltd.	66,250	
Less: Written off	9,000	
		57,250
B Ltd.	69,100	
Less: Written off	3,100	
		66,000
		1,23,250
5. Intangible assets:		
Goodwill		21,050

Consolidated Balance sheet of A Ltd. and its subsidiary B Ltd. as on 31.12.1973 (As per Revised Schedule VI)

	Note No.	Rs.
I. Equity and Liabilities:		
(i) Shareholders' funds:		
Share capital	1	1,00,000
Reserves and surplus	2	14,860
(ii) Minority interest (W.N 4)		6,840
(iii) Current liabilities		
Trade payables	3	22,600
Total (i) + (ii) + (iii)		1,44,300
II. Assets:		
(i) Non- current assets:		
Tangible assets	4	1,23,250
Intangible assets	5	21,050
(ii) Current assets:		–
Total (i) + (ii)		1,44,300

Working notes

1. ***Holding-minority ratio***

A Ltd's holding in B Ltd., given = 90%

Minority holding in B Ltd. = 10%

Holding minority ratio = 90 : 10 or 9 : 1

2. ***Revenue profits***

		Rs.
	Profit for the year, before transfer to reserve	6,000
Less:	Sundry assets to be written off	3,100
	Revenue profit	2,900

Holding company's share $= 2{,}900 \times \frac{9}{10} =$ 2,610

Minority share $= 2{,}900 \times \frac{1}{10} =$ 290

3. ***Capital profits***

		Rs.
	Profit & Loss A/c of B Ltd. on 1.1.2003	8,000
Add:	Revenue reserves before current years transfer (10,000 – 2,500)	7,500
	Capital profits	15,500

Holding company's share $= 15{,}500 \times \frac{9}{10} =$ 13,950

Minority share	$= 15{,}500 \times \frac{1}{10} =$	1,550

4. *Minority interest*

Face value of minority shares $= 50{,}000 \times \frac{10}{100} =$		5,000
Add: Minority share of capital profits		1,550
Add: Minority share of revenue profits		290
Minority interest		6,840

5. *Cost of control or goodwill*

Amount paid by A Ltd. for shares purchased in B Ltd.		70,000
Less: Face value of shares purchased $= 50{,}000 \times \frac{90}{100}$	45,000	
Holding company's share of capital profit	13,950	58,950
Goodwill		11,050
Add: Goodwill in B Ltd's Balance Sheet		10,000
Goodwill to be shown in consolidated Balance Sheet		21,050

Bonus shares – Revaluation of assets

Illustration 8

A Ltd. acquired 1,600 ordinary shares of Rs. 100 each in B Ltd. on 31st December 1989. Their summarised Balance Sheets as on that date were as under:

Liabilities	*A Ltd.* Rs.	*B Ltd.* Rs.	*Assets*	*A Ltd.* Rs.	*B Ltd.* Rs.
Capital:			Land & Buildings	1,50,000	1,80,000
5,000 ordinary shares of Rs.100 each	5,00,000		Plant & Machinery	2,40,000	1,09,400
2,000 ordinary shares of Rs. 100 each		2,00,000	Investments in B Ltd. at cost	3,40,000	–
Capital reserve		1,20,000	Stocks	1,20,000	36,000
General reserve	2,40,000	–	Debtors	44,000	40,000
Profit & Loss A/c	57,200	36,000	Bills receivable (including Rs. 3,000 from 'B' Ltd.)	15,800	–
Bank overdraft	80,000	–	Cash and bank	14,500	8,000
Bills payable (including Rs. 4,000 to A Ltd.)	–	8,400			
Creditors	47,100	9,000			
	9,24,300	3,73,400		9,24,300	3,73,400

You are supplied the following information:

(a) 'B' Ltd. had made a bonus issue on 31st December 1989 of one ordinary share for every two shares held by it's shareholders. Effect has yet to be given in the accounts for the issue.

(b) The directors are advised that Land & Buildings of B Ltd. are undervalued by Rs. 20,000 and Plant & Machinery of B Ltd. over valued by Rs. 10,000. These assets have to be adjusted accordingly.

(c) Sundry creditors of 'A' Ltd. include Rs. 12,000 due to 'B' Ltd.

You are required to prepare the consolidated Balance Sheet as on 31st December 1989.

[Madras, M.Com., ICE Sept. 1993; May 1996; Oct. 1997

Bangalore B.Com., Nov/Dec. 2004 (2 Times)]

Solution:

Notes to Accounts:

		Rs.
1. Share capital:		
5,000 ordinary shares of Rs.100 each		5,00,000
2. Reserves and surplus:		
General reserve		2,40,000
Surplus as per statement of P & L :		
Balance as per A Ltd. Balance sheet		57,200
		2,97,200
3. Short term borrowings:		
Bank overdraft		80,000
4. Trade payables:		
Creditors :		
A Ltd.	47,100	
B Ltd.	9,000	
	56,100	
Less: Mutual Obligation	12,000	44,100
Bills payable:	8,400	
Less: Mutual obligation	3,000	5,400
		49,500

5. Tangible assets:		
Land & Buildings:		
A Ltd.	1,50,000	
B Ltd.	1,80,000	
	3,30,000	
Add: Under valuation	20,000	
		3,50,000
Plant & machinery:		
A Ltd.	2,40,000	
B Ltd.	1,09,400	
	3,49,400	
Less: Over valuation	10,000	
		3,39,400
		6,89,400
6. Intangible assets:		
Goodwill		47,200
7. Stock:		
A Ltd.	1,20,000	
B Ltd.	36,000	
		1,56,000
8. Trade receivables :		
Debtors:		
A Ltd.	44,000	
B Ltd.	40,000	
	84,000	
Less: Mutual Obligation	12,000	
		72,000
Bills receivable	15,800	
Less: Mutual obligation	3,000	
		12,800
		84,800
9. Cash at bank :		
A Ltd.	14,500	
B Ltd.	8,000	
		22,500

Consolidated Balance sheet of A Ltd. and its subsidiary B Ltd. as on 31.12.1989 (As per Schedule VI)

	Note No.	Rs.
I. Equity and Liabilities:		
(i) Shareholders' funds:		
Share capital	1	5,00,000
Reserves and surplus	2	2,97,200
(ii) Minority interest (W.N 5)		73,200
(iii) Non current liabilities:		
Short term borrowings	3	80,000
(iv) Current liabilities		
Trade payables	4	49,500
Total (i) + (ii) + (iii)+ (iv)		9,99,900
II. Assets:		
(i) Non- current assets:		
Tangible assets	5	6,89,400
Intangible assets	6	47,200
(ii) Current assets:		
Stock	7	1,56,000
Trade receivables	8	84,800
Cash at bank	9	22,500
Total (i) + (ii)		9,99,900

Working notes

1. Holding-minority ratio

	Total shares in B Ltd.	2,000
Less:	Shares acquired by A Ltd.	1,600
	Minority shares	400

$\therefore$ Ratio = 1,600 : 400 or 4 : 1

		Rs.
2. Bonus issue not yet recorded, at one share for 2 shares held	$= 2,00,000 \times \frac{1}{2} =$	1,00,000
Holding company's share	$= 1,00,000 \times \frac{4}{5} =$	80,000
Minority's share	$= 1,00,000 \times \frac{1}{5} =$	20,000

3. Revenue profits = Nil,

Since shares are purchased on the date of the Balance Sheet.

4. *Capital profits*

	Rs.	Rs.
Capital reserve of B Ltd.	1,20,000	
Less: Bonus issue made	1,00,000	
	20,000	
Add: Profit & Loss A/c	36,000	
Add: Under valuation in Land & Buildings	20,000	
	76,000	
Less: Over valuation of Plant & Machinery	10,000	
Capital profits	66,000	

Holding company's share $= 66{,}000 \times \frac{4}{5} =$ 52,800

Minority's share $= 66{,}000 \times \frac{1}{5} =$ 13,200

5. *Minority interest*

Face value of shares held by minority shareholders 400 × 100		40,000
Add: Bonus shares issued to minority		20,000
Minority's share of capital profits		13,200
Minority interest		73,200

6. *Cost of control or goodwill*

Amount paid by A Ltd. for shares purchased in B Ltd.		3,40,000
Less: Face value of shares purchased 1,600 × 100	1,60,000	
Holding company's share of capital profits	52,800	
Bonus shares	80,000	2,92,800
Goodwill		47,200

Capital loss – Debentures in subsidiary

Illustration 9

The following Balance Sheets are presented to you.

Balance Sheet as at 31.12.89

Liabilities	*A Ltd. Rs.*	*B Ltd. Rs.*	*Assets*	*A Ltd. Rs.*	*B Ltd. Rs.*
Share capital: Shares of Rs. 50 each	2,50,000	1,00,000	Fixed assets	1,75,000	75,000
			Stock-in-trade	45,000	20,000
General reserve	50,000	–	Debtors	30,000	15,000
Profit & Loss A/c	40,000	–	6% debentures in		

6% debentures	–	50,000	B Ltd. acquired at par	30,000	–
Trade creditors	37,500	22,500	Shares in B Ltd.		
			1,500 at Rs. 40	60,000	–
			Cash at bank	37,500	12,500
			Profit & Loss A/c	–	50,000
	3,77,500	1,72,500		3,77,500	1,72,500

A Ltd. acquired the shares on 1.4.89. The Profit & Loss account of B Ltd. showed a debit balance of Rs. 75,000 on 1.1.89. Trade creditors of B Ltd. include Rs. 10,000 for goods supplied by A Ltd. on which A Ltd., made a profit of Rs. 1,000. Half of the goods were still in stock on 31.12.89.

Prepare the consolidated Balance Sheet.

[Madras, 1st M.Com (CAIA) Ap. 2009; Nov. 2008; B.Com (CS) Nov. 2009; B.Com., April 1970; Madras, M.Com., Sep. 1993]

Solution:

Notes to Accounts:

		Rs.
1. Share capital:		
5,000 shares of Rs.50 each		2,50,000
2. Reserves and surplus:		
General reserve		50,000
Surplus as per statement of P & L :		
Balance as per A Ltd. Balance sheet :	40,000	
Add: A Ltd.'s share of revenue profit :	14,063	
	54,063	
Less: Provision for unrealized profit	500	
		53,563
		1,03,563
3. Long term borrowings:		
6% Debentures	50,000	
Less: Mutual obligation	30,000	
		20,000
4. Trade payables:		
Trade creditors:		
A Ltd.	37,500	
B Ltd.	22,500	
	60,000	

	10,000	
Less: Mutual obligation		50,000
5. Tangible assets:		
Fixed assets:		
A Ltd.	1,75,000	
B Ltd.	75,000	
		2,50,000
6. Intangible assets:		
Goodwill		36,563
7. Stock:		
A Ltd.	45,000	
B Ltd.	20,000	
	65,000	
Less: Provision for unrealized profit	500	
		64,500
8. Trade receivables :		
Debtors:		
A Ltd.	30,000	
B Ltd.	15,000	
	45,000	
Less: Mutual obligation	10,000	
		35,000
9. Cash at bank :		
A Ltd.	37,500	
B Ltd.	12,500	
		50,000

Consolidated Balance sheet of A Ltd. and its subsidiary B Ltd. as on 31.12.1989 (As per Schedule VI)

	Note No.	*Rs.*
I. Equity and Liabilities:		
(i) Shareholders' funds:		
Share capital	1	2,50,000
Reserves and surplus	2	1,03,563
(ii) Minority interest (W.N 4)		12,500
(iii) Non current liabilities:		

	Note	Rs.
Long term borrowings	3	20,000
(iv) Current liabilities		
Trade payables	4	50,000
Total (i) + (ii) + (iii) + (iv)		4,36,063
II. Assets:		
(i) Non- current assets:		
Tangible assets	5	2,50,000
Intangible assets	6	36,563
(ii) Current assets:		
Stock	7	64,500
Trade receivables	8	35,000
Cash at bank	9	50,000
Total (i) + (ii)		4,36,063

Working notes

1. Holding-minority ratio

	Total shares in subsidiary $\frac{1,00,000}{50}$ =	2,000
Less:	Shares purchased by the holding company	1,500
	Minority shares	500

∴ Ratio = 1,500 : 500 or 3 : 1

2. Revenue profits

		Rs.
	Profit & Loss A/c debit balance of B Ltd. on 1.1.89	75,000
Less:	Profit & Loss A/c debit balance of B Ltd. on 31.12.89	50,000
	Profit for current year	25,000
	Profit made by B Ltd. after 1.4.89 or revenue profit $25,000 \times \frac{9}{12}$	18,750
	Holding company's share $= 18,750 \times \frac{3}{4}$ =	14,063
	Minority's share $= 18,750 \times \frac{1}{4}$ =	4,687

3. Capital Profit/Loss

	Profit & Loss Account debit balance of B Ltd. on 1.1.89	75,000
Less:	Capital profit of current year $= 25,000 \times \frac{3}{12}$	6,250
	Capital loss	68,750

Holding company's share of capital loss	$= 68{,}750 \times \frac{3}{4} =$	51,563
Minority's share of capital loss	$= 68{,}750 \times \frac{1}{4} =$	17,187

4. *Minority interest*

	Face value of minority's shares = 500×50	25,000
Add:	Minority share of revenue profits	4,687
		29,687
Less:	Minority share of capital loss	17,187
	Minority interest	12,500

5. *Cost of control or goodwill*

	Amount paid by A Ltd. for shares purchased in B Ltd.	60,000
Add:	Holding company's share of capital loss	51,563
		1,11,563
Less:	Face value of shares purchased $1{,}500 \times 50 =$	75,000
	∴ Goodwill	36,563

6. *Provision for unrealised profit in stock:*

Profit charged by A Ltd. included in the stock of B Ltd.	$= 1{,}000 \times \frac{1}{2} =$	500
∴ Provision to be made	=	500