8

Consolidated Financial Statements

DEFINITION

For the purpose of AS - 21, the following terms are used with the meanings specified.

Control

The ownership, directly or indirectly through subsidiary (ies), of more than one half of the voting power of an enterprise; or

Control of the composition of the board of directors in the case of a company or of the composition of the corresponding governing body in case of any other enterprise so as to obtain economic benefits from its activities.

MINORITY INTEREST

Is that part of the net results of operations and of the net assets of a subsidiary attributable to interests which are not owned, directly or indirectly through subsidiary

A **SUBSIDIARY** is an enterprise that is controlled by another subsidiary [known as the parent]

A **PARENT** is an enterprise that has one or more subsidiaries.

A **GROUP** is a parent and all its subsidiaries

EQUITY

Is the residual interest in the assets of an enterprise after deducting all its liabilities.

CONSOLIDATED FINANCIAL STATEMENT

Are the financial statements of a group presented as those of a single enterprise.

Items in Consolidated financial Statement [CFS]

Includes

- Consolidated Balance Sheet
- Consolidated Statement of Profit & loss.
- notes
- Other statements and explanatory material that form an integral part thereof.

Consolidated cash flow statement is presented in case a parent presents its own cash flow statement.

CFS are presented, to the extent possible, in the same format as that adopted by the parent for its separate financial statements.

Subsidiary should be excluded from consolidation when:-

Control is intended to be temporary because the subsidiary is acquired and held exclusively with a view to its subsequent disposal in the near future,

It operates under severe long-term restrictions which significantly impair its ability to transfer funds to the parent.

In consolidated financial statement, investment in such subsidiaries should be accounted for in accordance with Accounting standard (AS) 13, Accounting for investment. The reasons for not consolidating a subsidiary should be disclosed in the consolidated financial statements.

INTRAGROUP BALANCES & INTRAGROUP TRANSACTIONS

Intragroup balances & intragroup transactions and resulting unrealized profits should be eliminated in full. Unrealised losses resulting from intragroup transactions should also be eliminated unless cost cannot be recovered.

HOLDING BALANCE SHEET

LIABILITIES	₹	ASSETS	₹
		Trade Receivables	30,000

SUBSIDIARY BALANCE SHEET

LIABILITIES	₹	ASSETS	₹
Trade Payable	30,000		

CONSOLIDATED BALANCE SHEET

LIABILITIES		₹	ASSETS		₹
Trade Payables	30000		Trade Receivables	30,000	
less Contra	(30000)	NIL	less Contra	(30,000)	NIL

ELIMINATION OF UNREALISED PROFIT

Elimination of unrealized Profit

(A) Inventories

(B) Non current assets

Unrealized Profit on Inventories

DOWNSTREAM

Holding Co. is seller and Subsidiary Co is the buyer

H → S

- Deduct from Consolidated Reserves and Surplus.
- Deduct from Inventory in Consolidated Balance Sheet.

UPSTREAM

Subsidiary Co. is a seller and Holding Co. is the buyer.

S → H

- Deduct from Post Acquisition Profit of Subsidiary in Analysis of profit [After time adjustment]
- Deduct Inventory from Consolidated Balance sheet.

MINORITY INTEREST

Minority interest should be presented in the consolidated balance sheet separately from liabilities and equity of the parent's shareholders. Minority in the income of the group should also be separately presented.

The losses applicable to the minority interest in the equity of the subsidiary.

⇩

The excess, and any further losses applicable to the minority, are adjusted against the majority interest except to the extent that the majority has a binding obligation to and is able to make good the losses.

⇩

If the subsidiary subsequently reports profits, all such profits are allocated to the majority interest until the minority's share of losses previously absorbed by the majority has been recovered.

Minority Interest (Becoming Negative)

- Minority Interest cannot be negative, if share of loss of minority interest makes it negative
- Subsequently when, subsidiary converts into profit, share of minority interest in profits will be transferred to holding reserves and surplus to the extent loss absorbed.

If a subsidiary has outstanding cumulative preference share which are held outside the group, the parent computes its share of profit or losses after adjusting for the subsidiary's preference dividends, whether or not dividend have been declared.

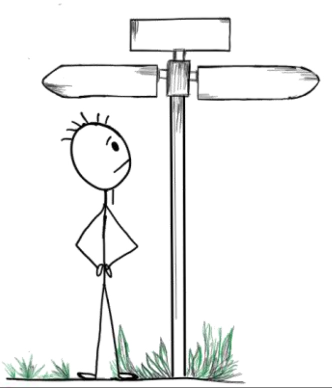
Steps to consolidate

1. DATE OF ACQUISITION AND SHAREHOLDING PATTERN

2. ANALYSIS OF PROFIT

PARTICULARS	PRE-ACQUISITION	POST-ACQUISITION	TOTAL	REMARK
Balances	XXX	XXX (B/F)	XXX	
Dividend [within the Period of AOP] irrespective of its source i.e Pre or Post		XXX		Entire Dividend Paid
Bonus [if entry is passed]		XXX		Entire Bonus Paid
	XXX	XXX		
Time Adjustments	XXX	(XXX)		
Dividend	(XXX)	(XXX)		
Bonus [If entry is passed]	(XXX)			
Bonus Issue [If no entry is passed]	(XXX)			
Revaluation of Assets	XXX/(XXX)			
Additional Depreciation/ Savings		XXX/(XXX)		
Elimination of unrealized Profit / loss.		XXX/(XXX)		
Holdings share	XXX	XXX		
Minority Interest				

3. COST OF CONTROL [Date of acquisition]



Particulars	₹
Cost of Acquisition [Investment]	XXX
(-) Pre-Acquisition dividend [Only share of Holding]	(XXX)
Ⓐ	
Net Assets represented by Share Capital	XXX
(-) Pre acquisition Reserves	(XXX)
Ⓑ	XXX

A − B = Goodwill [if positive] / Capital Reserve [if negative]

4. MINORITY INTEREST

Particulars	₹
Equity share Capital [Minority share]	XXX
(+) Pre acquisition profit [minority share]	XXX
Minority Interest on date of acquisition	XXX
(+) Post acquisition Profit	XXX
Minority Interest as on date of consolidation	XXX

5. CONSOLIDATED RESERVES AND SURPLUS

Particulars			
Holding Reserves & Surplus			
(+) Post Acquisition Profit from Analysis of Profit			
(–) Unrealised Profit on downstream			
(+) Capital Reserve [Step 3]			
(–) Rectification in dividend [Holding's Share]			

Revaluation of Assets and Liabilities

FOR ASSETS

Fair Value > Carrying Amount

↓

Add increase in value to pre-acquisition reserve of subsidiary [AOP]

and

Increase in fair value in assets in Consolidated Balance sheet.

↓

Assets A/c Dr
 To Pre-P&L A/c

Fair Value < Carrying Amount

↓

Deduct from pre-acquisition reserves of subsidiary [AOP]

and

Deduct decrease in fair value from respective assets in Consolidated Balance sheet.

↓

Pre-P&L A/c Dr
 To Assets A/c

FOR LIABILITIES

Fair Value > Carrying Amount

Deduct fair value increase from pre-acquisition profit of subsidiary [AOP]

and

Add increases in Liability in Consolidation Balance Sheet

Fair Value < Carrying Amount

Add FV increase in pre-acqusition profits of subsidiary [AOP]

and

Deduct increase from Liability in Consolidated Balance Sheet.

Revaluation in case of depreciable assets

Additional depreciation would arise in case of initial upward or reversal of excess depreciation would arise in case of downward revaluation. Effect of addional depreciation or savings in depreciation should be adjusted from post-acquisition profits [AOP].

EXAMPLE 1: Balance Sheet 31.03.2023 [When acquisition date is at the beginning]

A purchased 70% shares of B on 01.04.2022

Fixed Assets Book Value = 60 Cr. On 01.04.2022

Depreciation Rate = 20% WDV

As on date of acquisition there is an Upward Revaluation of asset by 10%

Book Value 01.04.22	60 Cr.
(+) Upward Revaluation 10%	6 Cr. (60 Cr. on 10%)
Revised Value as on 01.04.22	66 Cr.

Depreciation	
- On Revalued Figure (66 Cr. X 20%)	13.20
- Actually Charged (60 Cr. X 20%)	(12)
Additional depreciation to be reduced from **post acquisition profit**	**1.20**

EXAMPLE 2: Acquisition date 30.09.2022 [When acquisition is in between the year]

Fair Value as on 30.09.2022 (Working Note. 1)	59.4
(-) Book Value as on 30.09.2022	54
Revaluation Profit	5.4

Working Note. 1

Opening	60 CR
(-) Depreciation (6 CR X 6/12 X 20%)	(6)
Carrying Amount before revaluation	**54**
(+) 10% on 54 [Upward Revaluation5.4]	
Fair Value as on 30.09.2022	59.4 Cr.

Calculation of Depreciation

Depreciation of Revalued figure (59.4 X 20% X 6/12)	5.94	59.4
(-) already charged (60 Cr. X 20% X 6/12)	6	54
Increase in post acquisition profit [AOP]	**0.06**	5.4

Note for the above Example 2

Presentation of PPE in Consolidated Financial Statements

Particulars	**Amount**
Book Value of Holding	XXX
Book Value of Subsidiary	XXX
	XXX
+ Revaluation on PPE	XXX
(-) Depreciation on only Revaluation	(XXX)
PPE for Consolidated Financial Statements	XXX

EXAMPLE 3

a) A Ltd. holds 80% of the equity capital and voting power in B Ltd. A Ltd. sells inventories costing ₹ 180 lacs to B Ltd at a price of ₹ 200 lacs. The entire inventories remain unsold with B Ltd. at the financial year end i.e. 31 March 20X1.

b) A Ltd. holds 75% of the equity capital and voting power in B Ltd. A Ltd. purchases inventories costing ₹ 150 lacs from B Ltd at a price of ₹ 200 lacs. The entire inventories remain unsold with A Ltd. at the financial year end i.e. 31 March 20X1.

Suggest the accounting treatment for the above mentioned transactions in the consolidated financial statements of A Ltd. giving reference of the relevant guidance/standard.

SOLUTION

a) This would be the case of downstream transaction. In the consolidated profit and loss account for the year ended 31 March 20X1, entire transaction of sale and purchase of ₹ 200 lacs each, would be eliminated by reducing both sales and purchases (cost of sales).

Further, the unrealized profits of ₹ 20 lacs (i.e. ₹ 200 lacs – ₹ 180 lacs), would be eliminated from the consolidated financial statements for financial year ended 31 March 20X1, by reducing the consolidated profits/ increasing the consolidated losses, and reducing the value of closing inventories as of 31 March 20X1.

b) This would be the case of upstream transaction. In the consolidated profit and loss account for the year ended 31 March 20X1, entire transaction of sale and purchase of ₹ 200 lacs each, would be eliminated by reducing both sales and purchases (cost of sales).

Further, the unrealized profits of ₹ 50 lacs (i.e. ₹ 200 lacs – ₹ 150 lacs), would be eliminated in the consolidated financial statements for financial year ended 31 March 20X1, by reducing the value of closing inventories by ₹ 50 lacs as of 31 March 20X1. In the consolidated balance sheet as of 31 March 20X1, A Ltd.'s share of profit from B Ltd will be reduced by ₹ 37.50 lacs (being 75% of ₹ 50 lacs) and the minority's share of the profits of B Ltd would be reduced by ₹ 12.50 lacs (being 25% of ₹ 50 lacs).

DIVIDEND

Standalone Financial Statements

HOLDING COMPANY

Reserves

Cash / Bank A/c Dr
To Dividend A/c
[Post incorporation Profit]

or

Cash / Bank A/c Dr
To Investment A/c
[Pre incorporation Profit]
as per AS-13

SUBSIDIARY COMPANY

Reserves

Profit and Loss A/c Dr
To Dividend Payable A/c

Dividend Payable A/c Dr
To Cash / Bank A/c

Consolidated financial Statements

RESERVES

Source of Dividend = Pre

Source of Dividend = Post

SOURCE OF DIVIDEND

PRE

CORRECT ENTRY

Cash / Bank A/c Dr.
To Investment A/c

WRONG ENTRY

Cash / Bank A/c Dr.
To Profit and loss A/c

RECTIFIED ENTRY

Profit and loss A/c Dr
To Investment A/c

POST

CORRECT ENTRY

Cash / Bank A/c Dr.
To Profit and loss A/c

WRONG ENTRY

Cash / Bank A/c Dr.
To Investment A/c

RECTIFIED ENTRY

Investment A/c Dr.
To Profit and loss A/c

BONUS ISSUE

1. Bonus issue is the issue of shares to existing shareholders without any additional consideration. This means that number of shares outstanding increases, but there is not corresponding increase in company's resources.

2. Journal in the Books of Subsidiary.

Particulars	Dr. (Rs.)	Cr. (Rs.)
Reserves A/c Dr.	XXX	
To Share Capital A/c		XXX
(Being Reserves Capitalised)		

3. Journal in the books of holding or minority. No journal entry is passed, only no. of shares will increase without any further investment.

4. There will be no change in shareholding pattern post Bonus Issue.

Example : Before Bonus issue = Holding 8000 Shares

= Minority 2000 Shares

Company gave bonus share of 1 for every 2 shares held

∴ Revised shareholding pattern.

Particular	Calculation	Shareholding Pattern
Holding	8000 X ½ + 8000 = 12,000	80% (12/15)
	2000 X ½ + 2000 = 3000	20% (3/15)
Minority	Total 15000	

CONSOLIDATED PROFIT & LOSS ACCOUNT

Line by line addition of items of P & L as on consolidate.

Elimination of inter company transaction.

- ✓ Inter group sale and purchase
- ✓ Inter group expenses [Other than purchases]
- ✓ Inter group incomes [Other than Sales]

Elimination of unrealized profit inventory

Elimination of dividend payment

CONSOLIDATED CASH FLOW

Add line by line items of cashflow statement of Holding & Subsidiary as full amount as approving in their separate cash flow state as on consolidation date.

Elimination inter group transaction

[In case of dividend paid by subsidiary company, only parent company share in eliminated].

TREATMENT OF SUBSIDIARY COMPANY HAVING PREFERENCE SHARE CAPITAL

- Outstanding cumulative preference shares issued by subsidiary company are considered in a same manner as any other liability and therefore cost associated to such shares need to be adjusted for.
- While computing share of P & L of the Subsidiary adjustments regarding outstanding dividend on preference shares held outside the group to be made.
- In case of Non cumulative preference share no such adjustment is required.

Note for student...

CHAPTER 8 – CONSOLIDATED FINANCIAL STATEMENTS

QUESTIONS							
No.	QUESTIONS	PAGE NO.	DATE	R1	R2	R3	REMARK
1	ICAI Illustration No 13						
2	ICAI Practical Q No 4						
3	ICAI Illustration No 3						
4	RTP Nov 2018 Q13						
5	QP May19 Q 5a						
6	RTP NOV 20, Exam Nov 19						
7	QP NOV 20						
8	QP NOV 18						
9	RTP Nov 22						
10	Question						
TEST IN TIME PASS IN TIME							
1	QP July 21						
2	QP July 21						

1. ICAI Illustration No 13

Subsidiary B Ltd. provides the following balance sheet:

Particulars	Note No.	20X0 (₹)	20X1 (₹)
I. Equity and Liabilities			
(1) Shareholder's Funds			
(a) Share Capital	1	5,00,000	5,00,000
(b) Reserves and Surplus	2	2,86,000	7,14,000
(2) Current Liabilities			
(a) Short term borrowings	3	--	1,70,000
(b) Trade Payables		4,90,000	4,94,000
(c) Short-term provisions	4	3,10,000	4,30,000
Total		15,86,000	23,08,000
II. Assets			
(1) Non-current assets			
(a) Property, Plant and Equipment	5	2,72,000	2,24,000
(b) Non-current Investment			4,00,000
(2) Current assets			
(a) Inventories		5,97,000	7,42,000
(b) Trade Receivables		5,94,000	8,91,000
(c) Cash & Cash Equivalents		51,000	3,000
(d) Other current assets	6	72,000	48,000
Total		15,86,000	23,08,000

Notes to Accounts

		20X0 (₹)	20X1 (₹)
1.	Share capital		
	5,000 equity shares of ₹10 each, fully paid up	5,00,000	5,00,000
2.	Reserves and Surplus		
	General Reserves	2,86,000	7,14,000
3.	Short term borrowings		
	Bank overdraft	--	1,70,000
4.	Short term provisions		
	Provision for taxation	3,10,000	4,30,000
5.	Property, plant and equipment		

	Cost	3,20,000	3,20,000
	Less: Depreciation	(48,000)	(96,000)
	Total	2,72,000	2,24,000
6.	**Other current Assets**		
	Prepaid expenses	72,000	48,000

Also consider the following information:

a) B Ltd. is a subsidiary of A Ltd. Both the companies follow calendar year as the accounting year.

b) A Ltd. values inventory on LIFO basis while B Ltd. used FIFO basis. To bring B Ltd.'s values in line with those of A Ltd. its value of inventory is required to be reduced by ₹12,000 at the end of 20X0 and ₹34,000 at the end of 20X1.

c) B Ltd. deducts 1% from Trade Receivables as a general provision against doubtful debts.

d) Prepaid expenses in B Ltd. include advertising expenditure carried forward of ₹ 60,000 in 20X0 and ₹30,000 in 20X1, being part of initial advertising expenditure of₹90,000 in 20X0 which is being written off over three years. Similar amount of advertising expenditure of A Ltd. has been fully written off in 20X0.

Restate the balance sheet of B Ltd. as on 31st December, 20X1 after considering the above information, for the purpose of consolidation. Such restatement is necessary to make the accounting policies adopted by A Ltd. and B Ltd. uniform.

2. **ICAI Practical Q No 4**

A Ltd. acquired 1,600 ordinary shares of ₹100 each of B Ltd. on 1st July, 20x1. On 31st December, 20x1 the summarized balance sheets of the two companies were as given below:

Balance Sheet of A Ltd. and its subsidiary, B Ltd.
as at 31st December, 20X1

Particulars	**Note No.**	**A Ltd. (₹)**	**B Ltd. (₹)**
I. Equity and Liabilities			
(1) Shareholder's Funds			
(a) Share Capital	1	5,00,000	2,00,000
(b) Reserves and Surplus	2	2,97,200	1,82,000

(2) **Current Liabilities**			
(a) Trade Payables		47,100	17,400
(b) Short term borrowings	3	80,000	
Total		9,24,300	3,99,400
II. **Assets**			
(1) **Non-current assets** (d) Property, Plant and Equipment	4	3,90,000	3,15,000
(b) Non-current Investments	5	3,40,000	--
(2) Current assets			
(a) Inventories		1,20,000	36,400
(b) Trade receivables		59,800	40,000
(c) Cash & Cash equivalents	6	14,500	8,000
Total		9,24,300	3,99,400

Notes to Accounts

		A Ltd. ₹	B Ltd. ₹
1.	**Share Capital**		
	5,000 shares of ₹ 100 each, fully paid up	5,00,000	-
	2,000 shares of ₹ 100 each, fully paid up	-	2,00,000
	Total	5,00,000	2,00,000
2.	**Reserves and Surplus**		
	General Reserves	2,40,000	1,00,000
	Profit & loss	57,200	82,000
	Total	2,97,200	1,82,000
3.	**Short term borrowings**		
	Bank overdraft	80,000	--
4.	**Property plant and equipment**		
	Land and building	1,50,000	1,80,000
	Plant & Machinery	2,40,000	1,35,000
	Total	3,90,000	3,15,000
5.	**Non-current Investments**		
	Investment in B Ltd (at cost)	3,40,000	--
6.	**Cash & Cash equivalents**		
	Cash	14,500	8,000

The Profit & Loss Account of B Ltd. showed a credit balance of ₹30,000 on 1st January, 20X1 out of which a dividend of 10% was paid on 1st August, 20X1; A Ltd. credited the dividend received to its Profit & Loss Account. The Plant & Machinery which stood at ₹ 1,50,000 on 1st January, 20X1 was considered as worth ₹1,80,000 on 1st July, 20X1; this figure is to be considered while consolidating the Balance Sheets. The rate of depreciation on plant & machinery is 10% (computed on the basis of useful lives).

Prepare consolidated Balance Sheet as at 31st December, 20X1.

3. **ICAI Illustration No 3**

Exe Ltd. acquires 70% of equity shares of Zed Ltd. as on 31st March, 20X1 at a cost of₹70 lakhs. The following information is available from the balance sheet of Zed Ltd. as on 31st March, 20X1:

Particulars	₹in lakhs
Property, Plant and equipment	120
Investments	55
Current Assets	70
Loans & Advances	15
15% Debentures	90
Current Liabilities	50

The following revaluations have been agreed upon (not included in the above figures):

Fixed Assets Up by 20%

Investments Down by 10%

Zed Ltd. declared and paid dividend @ 20% on its equity shares as on 31st March, 20X1. Exe Ltd. purchased the shares of Zed Ltd. @ ₹20 per share.

Calculate the amount of goodwill/capital reserve on acquisition of shares of Zed Ltd.

4. **RTP Nov 2018 Q13**

The Summarised Balance Sheet of X Ltd. and its subsidiary Y Ltd. as on 31st March, 2017 are as follows:

Particulars	Amounts as at 31st March, 2017	
	X Ltd. (₹ in lakhs)	Y Ltd. (₹ in lakhs)
LIABILITIES		
Share Capital:		
Authorised	20,000	8,000
Issues and subscribed:		
Equity share of ₹ 10 each, fully paid up	15,000	6,000
15% preference shares of ₹ 10 each, fully paid up	4,000	1,000
General Reserves	2,500	1,450
Profit & Loss Account	2,750	1,250
Trade payables	1,646	1,027
ASSESTS	**25,896**	**10,727**
Land & Building	3,550	1,510
Plant & Machinery	5,275	3,600
Furniture & Fittings	1,945	655
Investment in Y Ltd.: 450 Lakh Equity share in Y Ltd. purchased on 1st April, 16	6,800	
Inventory	4,142	2,520
Trade Receivables	3,010	1,882
Cash and Bank Balance	1,174	560
	25,896	**10,727**

The following information is also given to you

(a) 10% dividend on Equity shares was declared by Y Ltd. on 31 st March, 2016 for the year ended 31st March, 2016. X Ltd. credited the dividend received to its Profit & Loss Account.

(b) Credit Balance of Profit & Loss account of Y Ltd. as on 1st April, 2016 was ₹ 650 Lakhs.

(c) General Reserve of Y Ltd. stood at same ₹ 1,450 Lakhs as on 1st April, 2016.

(d) Y Ltd.'s Plant & machinery showed a balance of ₹ 4,000 Lakh on Ist April 2016. At the time of purchase of shares in Y Ltd., X Ltd. revalued Y's Ltd. Plant & Machinery upward by ₹ 1,000 Lakh.

(e) Included in Trade Payables of Y Ltd. are ₹ 50 Lakh for goods supplied by X Ltd.

(f) On 31st March, 2017, Y's ltd. inventory included goods for ₹ 150 lakhs which it had purchased from X Ltd. X Ltd. sold goods to Y Ltd. at cost plus 25%.

You are required to prepare a Consolidated Balance Sheet of X Ltd. and its subsidiary Y Ltd. as on 31st March, 2017 giving working notes. (Ignoring dividend on preference shares)

5. **QP May19 Q 5a**

H Ltd. acquire 70% of equity share of S Ltd. as on 1st January, 2011 at a cost of ₹ 5,00,000 when S Ltd. had an equity share capital of ₹ 5,00,000 and reserves and surplus of ₹ 40,000.

Both the companies follow calendar year as the accounting year.

In the four consecutive years, S Ltd. performed badly and suffered losses of ₹ 1,25,000, ₹ 2,00,000, ₹ 2,50,000 and ₹ 60,000 respectively.

Thereafter in 2015, S Ltd. experienced turnaround and registered an annual profit of ₹ 25,000. In the next two years i.e. 2016 and 2017, S Ltd. recorded annual profits of ₹ 50,000 and ₹ 75,000 respectively.

Show the Minority Interests and Cost of Control at the end of each year for the purpose of consolidation.

6. **RTP NOV 20, Exam Nov 19**

From the following data, determine Minority Interest on the date of acquisition and on the date of consolidation in each case:

Case	Subsidiary Company	% of Share Owned	Cost	Date of Acquisition		Consolidation date	
				01-01-2019		31-12-2019	
				Share	Profit and	Share	Profit and

				Capital	Loss A/c	Capital	Loss A/c
Case-A	X	90%	2,00,000	1,50,000	75,000	1,50,000	85,000
Case-B	Y	75%	1,75,000	1,40,000	60,000	1,40,000	20,000
Case-C	Z	70%	98,000	40,000	20,000	40,000	20,000
Case-D	M	95%	75,000	60,000	35,000	60,000	55,000
Case-E	N	100%	1,00,000	40,000	40,000	40,000	65,000

7. **QP NOV 20**

H Limited acquired 64000 Equity Shares of ₹ 10 each in S Ltd. as on 1st October, 2019. The Balance Sheets of the two companies as on 31st March, 2020 were as under:

Particulars	H Ltd. (₹)	S Ltd. (₹)
Equities and Liabilities:		
Equity Share Capital: Shares of ₹ 10 each	20,00,000	8,00,000
General Reserve (1st April, 2019)	9,60,000	4,20,000
Profit & Loss Account	2,28,800	3,28,000
Preliminary Expenses (1st April, 2019)	-	(20,000)
Bank Overdraft	3,00,000	-
Bills Payable	-	52,000
Trade Payables	1,66,400	80,000
Total	36,55,200	16,60,000
Assets:		
Land and Building	7,20,000	7,60,000
Plant & Machinery	9,60,000	5,40,000
Investment in Equity Shares of S Ltd.	12,27,200	-
Inventories	4,56,000	1,68,000
Trade Receivables	1,76,000	1,60,000
Bills Receivable	59,200	-
Cash in Hand	56,800	32,000
Total	36,55,200	16,60,000

Additional Information:

1. The Profit & Loss Account of S Ltd. showed credit balance of ₹ 1,20,000 on 1st April, 2019. S Ltd. paid a dividend of 10% out of the same on 1st November, 2019 for the year 2018-19. The dividend was correctly accounted for by H Ltd.

2. The Plant & Machinery of S Ltd. which stood at ₹ 6,00,000 on 1st April, 2019 was considered worth ₹ 5,20,000 on the date of acquisition by H Ltd. S Ltd. charges depreciation @ 10% per annum on Plant & Machinery.

Prepare consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as on 31st March, 2020 as per Schedule III of the Companies Act, 2013.

8. **QP NOV 18**

The Profit and Loss Accounts of A Ltd. and its subsidiary B Ltd. for the year ended 31st March, 2018 are given below :

₹ in Lakhs

Incomes	A Ltd.	B Ltd.
Sales and other income	7,500	1,500
Increase in Inventory	1,500	300
Total	9,000	1,800
Expenses		
Raw material consumed	1,200	300
Wages and Salaries	1,200	225
Production expenses	300	150
Administrative expenses	300	150
Selling and distribution expenses	300	75
Interest	150	75
Depreciation	150	75
Total	3,600	1,050
Profit before tax	5,400	750
Provision for tax	1,800	300
Profit after tax	3,600	450
Dividend paid	1,800	225

Balance of Profit	1,800	225

The following information is also given:

(i) A Ltd sold goods of ₹ 180 Lakhs to B Ltd at cost plus 25%. (1/6 of such goods were still in inventory of B Ltd at the end of the year)

(ii) Administrative expenses of B Ltd include ₹ 8 Lakhs paid to A Ltd as consultancy fees.

(iii) Selling and distribution expenses of A Ltd include ₹15 Lakhs paid to B Ltd as commission.

(iv) A Ltd holds 72% of the Equity Capital of B Ltd. The Equity Capital of B Ltd prior to 2016-17 is ₹1,500 Lakhs

Prepare a consolidated Profit and Loss Account for the year ended 31st March, 2018.

9. **RTP Nov 22**

On 31st March, 2022, H Ltd. and S Ltd. give the following information:

	H Ltd. (₹ in 000's)	S Ltd. (₹ in 000's)
Equity Share Capital – Authorised	5,000	3,000
Issued and subscribed in Equity Shares of ₹ 10 each fully paid	4,000	2,400
General Reserve	928	690
Profit and Loss Account (Cr. Balance)	1,305	810
Trade payables	611	507
Provision for Taxation	220	180
Other Provisions	65	17
Plant and Machinery	2,541	2,450
Furniture and Fittings	615	298
Investment in the Equity Shares of S Ltd.	1,500	□
Inventory	983	786
Trade receivables	820	778
Cash and Bank Balances	410	102

Sundry Advances (Dr. balances)	260	190

Following Additional Information is available:

(a) H Ltd. purchased 90 thousand Equity Shares in S Ltd. on 1st April, 2021. On that date the following balances stood in the books of S Ltd.:

General Reserve ₹ 1,500 thousand; Profit and Loss Account ₹ 633 thousand.

(b) On 14th July, 2021 S Ltd. declared a dividend of 20% out of pre-acquisition profits. H Ltd. credited the dividend received to its Profit and Loss Account.

(c) On 1st November, 2021, S Ltd. issued 3 fully paid Equity Shares of ₹ 10 each, for every 5 shares held as bonus shares out of pre-acquisition General Reserve.

(d) On 31st March, 2021, the Inventory of S Ltd. included goods purchased for ₹ 50 thousand from H Ltd., which had made a profit of 25% on cost.

(e) Details of Trade payables and Trade receivables:

	H Ltd. (₹ in 000's)	S Ltd. (₹ in 000's)
Trade payables		
Bills Payable	124	80
Sundry creditors	487	427
	611	507
Trade receivables		
Debtors	700	683
Bills Receivables	120	95
	820	778

Prepare a consolidated Balance Sheet as at 31st March, 2022.

10. **Question**

H Ltd. Holds share capital of S Ltd. On 31.03.2015 whose Balance Sheets are as follows :

Particulars	H	S	Particulars	H	S
Share Capital @₹10 each	20,000	10,000	Fixed Assets [Tangible]	30,000	15,000
General Reserves			Current Assets	35,000	25,000
P/L Account (1.4.14)	10,000	5,000	8,000 Shares in S Ltd.	10,000	
10% Debentures	5,000	4,000			
Sundry Creditors	20,000	10,000			
P/L Account for the year	10,000	5,000			
	10,000	6,000			
Total	**75,000**	**40,000**	**Total**	**75,000**	**40,000**

H Limited acquired shares in S Limited on 01.10.2014. S Limited has a balance of₹4,000 in General Reserve on 01.04.2014. On the account fire goods costing₹2000 of S Limited were destroyed in June, 2014. The loss has been charged to the Profit and Loss Account for the year.

Required to prepare a consolidated Balance Sheet. Required to compile consolidated Balance Sheet on 31.03.2015.

Nazar Hati Durghatna Ghati...

Test In Time...Pass In Time

1. QP July 21

Long Limited acquired 60% stake in Short Limited for a consideration of ₹ 112 lakhs. On the date of acquisition Short Limited's Equity Share Capital was ₹ 100 lakhs, Revenue Reserve was ₹ 40 lakhs and balance in Profit & Loss Account was ₹ 30 lakhs. From the above information you are required to calculate Goodwill / Capital Reserve in the following situations:

(i) On consolidation of Balance Sheet.

(ii) If Long Limited showed the investment in subsidiary at a carrying amount of ₹ 104 lakhs.

(iii) If the consideration paid for acquiring the 60% stake was ₹ 92 lakhs.

2. QP July 21

The Trial Balances of X Limited and Y Limited as on 31st March, 2021 were as under:

	X Limited (₹ In 000)		Y Limited (₹ In 000)	
	Dr.	Cr.	Dr.	Cr.
Equity Share capital (Share of ₹ 100 each)		2,000		400
7% Preference share capital		-		400
Reserves		600		200
6% Debentures		400		400
Trade Receivables/Trade Payables	160	180	100	120
Profit & Loss A/c balance		40		30
Purchases /Sales	1,000	1,800	1,200	1,900
Wages and Salaries	200		300	
Debenture Interest	24	7	24	
General Expenses	160		120	
Preference share dividend up to 30.09.2020			14	
Inventory (as on 31.03.2021)	200		100	
Cash at Bank	27		12	
Investment in Y Limited	1,056		-	
Fixed Assets	2,200		1,580	
Total	5,027	5,027	3,450	3,450

Investment in Y Limited was acquired on 1st July, 2020 and consisted of 80% of Equity Share Capital and 50% of Preference Share Capital.

- After acquiring control over Y Limited, X Limited supplied to Y Limited goods at cost plus 25%, the total invoice value of such goods being ₹ 1,20,000, one fourth of such goods were still lying in inventory at the end of the year.
- Depreciation to be charged @ 10% in X Limited and @ 15% in Y Limited on Fixed Assets.

You are required to prepare the Consolidated Statement of Profit and Loss for the year ended on 31st March, 2021.

MCQs

1. Minority interest should be presented in the consolidated balance sheet
   a) As a part of liabilities.
   b) As a part of equity of the parent's shareholders.
   c) Separately from liabilities and the equity of the parent's shareholders.
   d) As a part of assets.

2. Minority of the subsidiary is entitled to
   a) Capital profits of the subsidiary company.
   b) Revenue profits of the subsidiary company.
   c) Both capital and revenue profits of the subsidiary company.
   d) Neither capital nor revenue profits of the subsidiary.

3. In consolidation of accounts of holding and subsidiary company _________ is eliminated in full.
   a) Current liabilities of subsidiary company.
   b) Reserves and surplus of both holding and subsidiary company.
   c) Mutual indebtedness.
   d) Nothing.

4. In consolidated balance sheet, the share of the outsiders in the net assets of the subsidiary must be shown as
   a) Minority interest.
   b) Capital reserve.
   c) Current liability.
   d) Current assets.

5. Provision for Tax made by the subsidiary company will appear in the consolidated balance sheet as an item of
   a) Current liability.
   b) Revenue profit.
   c) Capital profit.
   d) Current assets.

Answers									
1.	(c)	2.	(c)	3.	(c)	4.	(a)	5.	(a)

9 Accounting for Reconstruction of Companies

RECONSTRUCTION

a process by which affairs of a company are reorganized by revaluation of assets, reassessment of liabilities and by writing off the losses already suffered by reducing the paid up value of shares and / or varying the rights attached to different classes of shares.

Internal Reconstruction

In case of internal reconstruction, the company's existing financial structure is reorganised without dissolving the existing company and without forming a new company. Taking a wider meaning of the term 'Internal Reconstruction'

methods

- Alteration of share Capital
  - Sub division & consolidation of shares.
  - Conversion of shares into stock or vica versa.
- Variation of Shareholder's Rights
- Reduction of share capital
- compromise / Arrangement
- Surrender of Shares

External Reconstruction

covered under 'Amalgamation in the nature of merger' in AS-14.

ALTERATION OF SHARE CAPITAL

ACCOUNTING ENTRIES

The accounting entries in each case of alteration of share capital will be as under:-

(a) For increase in share capital

Example – X Ltd issued 10,000 Equity Shares of ₹ 10 each at par.

DATE	PARTICULARS	LF	Dr. (₹)	Cr. (₹)
(i)	Bank A/c Dr.		1,00,000	
	To Equity Share Application and Allotment A/c			1,00,000
	(Being the application money received)			
(ii)	Equity share Application and Allotment A/c Dr.		1,00,000	
	To Equity Share Capital A/c			1,00,000
	(Being 10,000 Equity Shares of Rs. 10 each allotted at par)			

(b) For consolidation of shares

Example – X Ltd having 10,000 Equity Shares of ₹ 10 each decides to convert the share capital into Equity Shares of ₹ 100 each.

DATE	PARTICULARS	LF	Dr. (₹)	Cr. (₹)
(i)	Equity Share Capital (₹10) A/c Dr.		1,00,000	
	To Equity Share Capital (₹100) A/c			1,00,000
	(Being 10,000 Equity Shares of ₹10 each converted into 1000 shares of ₹100 each)			

(c) For sub-division of shares

Example – X Ltd having 1000 Equity Shares of ₹ 100 each decides to convert the share capital into Equity Shares of ₹ 10 each.

DATE	PARTICULARS	LF	Dr. (₹)	Cr. (₹)
(i)	Equity Share Capital (₹100) A/c Dr.		1,00,000	
	To Equity Share Capital (₹10) A/c			1,00,000
	(Being 1000 Equity Shares of ₹100 each converted into 10,000 shares of ₹10 each)			

(d) For conversion of shares into stock

Example – X Ltd having 10,000 Equity Shares of ₹ 10 each decides to convert the share capital into Equity Stock.

DATE	PARTICULARS	LF	Dr. ()	Cr. ()
(i)	Equity Share Capital (₹10) A/c Dr.		1,00,000	
	To Equity Stock A/c			1,00,000
	(Being 1,000 Equity Stock of ₹10 each converted into equity stocks)			

(e) For conversion of stocks into shares

Example – X Ltd having Equity Stock of ₹ 1,00,000 decides to convert the Equity Stock into Equity Share Capital of ₹ 10 each.

DATE	PARTICULARS	LF	Dr. ()	Cr. ()
(i)	Equity Stock A/c Dr.		1,00,000	
	To Equity Share Capital (₹10) A/c			1,00,000
	(Being Equity Stock in of ₹1,00,000 converted into 10,000 equity shares of ₹10 each)			

(f) For Cancelling unissued shares

No accounting entry is required to be passed. The authorized share capital gets reduced by the amount of unissued shares now cancelled.

DATE	PARTICULARS	LF	Dr. ()	Cr. ()
(i)	No Entry			

REDUCTION OF SHARE CAPITAL

Section 66 of the Companies Act, 2013 lays down the procedure in respect of reduction of share capital.

NO	PARTICULARS	MEANING	EXAMPLE	ACCOUNTING TREATMENT
1.	When liability of the shareholders is extinguished or reduced in respect of unpaid amount on the shares held by them	Shareholders are not called upon to pay the unpaid amount on shares held by them in future.	Company decides to reduce ₹ 10 per share, into ₹ 7.5 per share fully paid up, by cancelling the unpaid amount of ₹ 2.5 per share	Share Capital (Partly Paid-Up) A/c Dr. (₹ 7.5 (F.V. ₹10) X No. of Shares) To Share Capital (Fully Paid-up) A/c (₹ 7.5 (F.V. - ₹ 7.5) X No. of Shares)

2.	When excess paid up capital is paid off	Company refund excess capital to shareholder	company having fully paid-up share of ₹ 10 each, decides to pay-off ₹ 2 per share to make it of ₹ 8 fully paid-up	Share Capital A/c Dr. (₹ 10 X No. of Shares) To Share Capital A/c (₹ 8) (₹ 8 X No. of Shares) To Shareholders A/c (₹ 2 X No. of Shares) Shareholders A/c Dr. (₹ 2 X No. of Shares) To Bank A/c (₹ 2 X No. of Shares)
3.	When the paid up capital which is lost or not represented is cancelled	Nominal value of the share remains the same and only the paid value is reduced.	Shareholders may agree to reduce the paid capital of ₹ 100 per share to paid value of ₹ 10 per share	Share Capital A/c Dr. (₹ 90 X No. of Shares) To Capital Reduction A/c (₹ 90 X No. of Shares)
		Reduction in both nominal and paid up values		Share Capital A/c Dr. (₹ 100 X No. of Shares) To Share Capital A/c (₹ 10 X No. of Shares) To Capital Reduction A/c (₹ 90 X No. of Shares)

The amount of reduction is credited to a new account called Capital Reduction Account (or Reconstruction Account).

VARIATION OF SHAREHOLDER'S RIGHTS

Example 1 → X Ltd. has 1000, 10% cum pref shares of ₹ 100 each. At a class meeting of cum pref shareholders, it was decided that the rate of dividend be reduced to 9%. In such a case following Journal Entry will be passed.

No.	Particulars	LF	Dr. ₹	Cr. ₹
	10% Cum. Pref. Share Capital A/c Dr.		1,00,000	
	To 9% Cum Pref. Share Capital A/c			1,00,000

Example 2 → Y Ltd. has 1000, 10% cumulative pref. shares of ₹ 100 each. At a meeting of cum pref. shareholders, it was decided that the existing cumulative pref. shares to be converted into non-cumulative pref. shares.

No.	Particulars	LF	Dr. ₹	Cr. ₹
	10% Cum. Pref. Share Capital A/c Dr.		1,00,000	
	To 10% Non Cum Pref. Share Capital A/c			1,00,000

SCHEME OF COMPROMISE AND ARRANGEMENT

A scheme of compromise and arrangement is an agreement between a company and its members and outside liabilities when the company faces financial problems.

No.	Particulars		LF	Dr.	Cr.
1	When equity shareholders give up their claim to reserves and accumulated profits				
	Reserves A/c (With the amount of reserve)	Dr.			
	To Reconstruction A/c				
2	Settlement of outside liabilities at lesser amount				
	Outside Liabilities A/c (With the amount of sacrifice)	Dr.			
	Provision Account, if any (Made by creditors debenture holders A/c)	Dr.			
	To Reconstruction A/c				

SURRENDER OF SHARES

In this method, shares are divided into shares are smaller denominations and then the shareholders are made to surrender their shares to company. These shares are then alloted to debentureholders and creditors so that their liabilities are reduced. The unutilized surrendered shares are then cancelled by transferred to Reconstruction A/c.

ACCOUNTING ENTRIES

DATE	PARTICULARS	LF	Dr.	Cr.
1	To reduce both the nominal value and paid up value of shares			
	Share Capital A/c (100 each) Dr.		100	
	To Share Capital A/c (80 each)			80
	To Reconstruction A/c / Capital Reduction A/c			20
2	To reduce only the paid up value of shares			
	Share Capital A/c Dr.		20	
	To Reconstruction A/c / Capital Reduction A/c			20
3	(a) To pay the Arrears of Preference Dividend			
	Reconstruction A/c Dr.			
	To Bank A/c / Share Capital A/c			
	(b) To cancel the Arrears of preference dividend			
	No journal entry is required to cancel a Contingent Liability			
4	To reduce the claims of Debenture holders			
	Debentures A/c Dr.			
	Interest on Debentures A/c Dr.			
	To New Debentures A/c / Share Capital A/c / Bank A/c			
	To Reconstruction A/c			
5	To reduce the claims of trade creditors			
	Trade Creditors A/c Dr.			
	To Share Capital A/c / Bank A/c			
	To Reconstruction A/c			
6	To Settle the Tax Liability			
	Provision for Tax A/c Dr.			
	To Bank A/c			
	To Reconstruction A/c			
7	To pay reconstruction expenses			
	Reconstruction A/c Dr.			
	To Bank A/c			
8	To pay for cancellation of Capital Commitments etc.			

	Reconstruction A/c Dr.			
	To Bank A/c			
9	To Record the bad debts and doubtful debts			
	Reconstruction A/c (With Total) Dr.			
	To Debtors A/c (With Bad debts)			
	To Provision for doubtful debts A/c (With Doubtful debts)			
10	To record the appreciation in value of assets			
	Investments A/c / Land & Building A/c Dr.			
	To Reconstruction A/c			
11	To transfer capital reserve for reconstruction purpose			
	Capital reserve A/c Dr.			
	To Reconstruction A/c			
12	To write off the accumulated losses, fictitious assets and the over valuation of over valued assets			
	Capital Reduction A/c / Reconstruction A/c Dr.			
	To Profit & loss A/c			
	To Preliminary Expenses A/c			
	To Underwriting Commission A/c			
	To Discount on issue of Shares / Debentures A/c			
	To Goodwill A/c (To the extent of over valuation)			
	To Patents A/c (To the extent of over valuation)			
	To Trade marks A/c (To the extent of over valuation)			
	To Copy right A/c (To the extent of over valuation)			
	To Other overvalued assets (Individually)			
13	To transfer the credit balance of reconstruction A/c / Capital reconstruction A/c *			
	Capital reduction A/c / Reconstruction A/c Dr.			
	To Capital Reserve A/c			

*In case debit balance: Use capital reserve, Security Premium, General Reserve / P & L and if still debit balance persists, show it in Balance sheet as capital loss.

Note : Even if the question is silent, the debit balance of P and L account and Unamortized expense item shall be written off to the extent balance available in Reconstruction/ Capital Reduction A/c

Note for student...

CHAPTER 9 – ACCOUNTING FOR RECONSTRUCTION OF COMPANIES

QUESTIONS							
No.	QUESTIONS	PAGE NO.	DATE	R1	R2	R3	REMARK
1	ICAI Illustration No 6						
2	ICAI PRACTICAL Q 3						
3	RTP MAY 20						
4	QP JULY 21						
5	MTP March 2022 Test Series 1						
TEST IN TIME PASS IN TIME							
1	Question						
2	Question						

1. ICAI Illustration No 6

Vaibhav Ltd. gives the following ledger balances as at 31st March 20X1

	₹
Property, Plant and Equipment	2,50,00,000
Investments (Market-value ₹ 19,00,000)	20,00,000
Current Assets	2,00,00,000
P & L A/c (Dr. balance)	12,00,000
Share Capital: Equity Shares of ₹ 100 each	2,00,00,000
6%, Cumulative Preference Shares of ₹ 100 each	1,00,00,000
5% Debentures of ₹ 100 each	80,00,000
Creditors	1,00,00,000
Provision for taxation	2,00,000

The following scheme of Internal Reconstruction is sanctioned:

1. All the existing equity shares are reduced to ₹ 40 each.
2. All preference shares are reduced to ₹ 60 each.
3. The rate of Interest on Debentures increased to 6%. The Debenture holders surrender their existing debentures of ₹ 100 each and exchange the same for fresh debentures of ₹ 70 each for every debenture held by them.
4. Fixed assets are to be written down by 20%
5. Current assets are to be revalued at ₹ 90,00,000.
6. Investments are to be brought to their market value.
7. One of the creditors of the company to whom the company owes ₹ 40,00,000 decides to forgo 40% of his claim. The creditor is allotted with 60000 equity shares of ₹ 40 each in full and final settlement of his claim.
8. The taxation liability is to be settled at ₹ 3,00,000.
9. It is decided to write off the debit balance of Profit & Loss A/c.

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

2. ICAI PRACTICAL Q 3

Green Limited had decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the summarized Balance Sheet of the Company on 31.3.20X1 before reconstruction:

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	65,00,000
	B	Reserves and Surplus	2	(20,00,000)
2		**Non-current liabilities**		
	A	Long-term borrowings	3	15,00,000
3		**Current liabilities**		
	A	Trade Payables		5,00,000
		Total		65,00,000
		Assets		
1		Non-current assets		
	A	Property, plant and equipment	4	45,00,000
	B	Intangible assets	5	20,00,000
2		Current assets		Nil
		Total		65,00,000

Notes to Accounts

		₹
1	**Share Capital**	
	Equity share capital	
	Authorized share capital	
	1,50,000 Equity shares of ₹ 50 each	75,00,000
	Issued, subscribed and paid up capital	
	50,000 Equity Shares of ₹ 50 each	25,00,000
	1,00,000 Equity shares of ₹ 50 each, ₹ 40 paid up	40,00,000
2	**Reserves and Surplus**	65,00,000
	Debit balance of Profit and loss Account	(20,00,000)
3	**Long-term borrowings**	(20,00,000)
	Secured: 12% First debentures	5,00,000
	12% Second debentures	10,00,000
4	**Property, Plant and Equipment**	15,00,000
	Building	10,00,000

	Plant	10,00,000
	Computers	25,00,000
5	**Intangible assets**	45,00,000
	Goodwill	20,00,000
		20,00,000

The following is the interest of Mr. X and Mr. Y in Green Limited:

	Mr. X	**Mr. Y**
12% First Debentures	3,00,000	2,00,000
12% Second Debentures	7,00,000	3,00,000
Trade payables	2,00,000	1,00,000
	12,00,000	6,00,000
Fully paid up ₹ 50 shares	3,00,000	2,00,000
Parly paid up shares (₹ 40 paid up)	5,00,000	5,00,000

The following Scheme of Reconstruction is approved by all parties interested and also by the Court:

a) Uncalled capital is to be called up in full and such shares and the other fully paid up shares be converted into equity shares of ₹ 20 each.

b) Mr. X is to cancel ₹ 7,00,000 of his total debt (other than share amount) and to pay ₹ 2 lakhs to the company and to receive new 14% First Debentures for the balance amount.

c) Mr. Y is to cancel ₹ 3,00,000 of his total debt (other than equity shares) and to accept new 14% First Debentures for the balance.

d) The amount thus rendered available by the scheme shall be utilised in writing off of Goodwill, Profit and Loss A/c Loss and the balance to write off the value of computers.

You are required to draw the Journal Entries to record the same and also show the Balance Sheet of the reconstructed company.

3. RTP MAY 20

The following is the Balance Sheet of Star Ltd. as on 31st March, 2019:

				₹
A.	Equity & Liabilities			
	1.	Shareholders' Fund:		
		(a)	Share Capital:	
			9,000 7% Preference Shares of ₹ 100 each fully paid	9,00,000
			10,000 Equity Shares of ₹ 100 each fully paid	10,00,000
		(b)	Reserve & Surplus:	
			Profit & Loss Account	(2,00,000)
	2.	Non-current liabilities:		
			"A" 6% Debentures (Secured on Bombay Works)	3,00,000
			"B" 6% Debentures (Secured on Chennai Works)	3,50,000
	3.	Current Liabilities and Provisions:		
		(a)	Workmen's Compensation Fund:	
			Bombay Works	10,000
			Chennai Works	5,000
		(b)	Trade Payables	1,25,000
			Total	24,90,000
B.	Assets:			
	Non- current Assets:			
	1.	PPE:		
			Bombay Works	9,50,000
			Chennai Works	7,75,000
	2.	Investment:		
			Investments for Workman's Compensation Fund	15,000
	3.	Current Assets:		
		(a)	Inventories	4,50,000
		(b)	Trade Receivables	2,50,000
		(c)	Cash at Bank	50,000
				24,90,000

A reconstruction scheme was prepared and duly approved. The salient features of the scheme were as follows:

(i) Paid up value of 7% Preference Share to be reduced to ₹ 80, but the rate of dividend being raised to 9%.

(ii) Paid up value of Equity Shares to be reduced to ₹ 10.

(iii) The directors to refund ₹ 50,000 of the fees previously received by them.

(iv) Debenture holders forego their interest of ₹ 26,000 which is included among the trade payables.

(v) The preference shareholders agreed to waive their claims for preference share dividend, which is in arrears for the last three years.

(vi) "B" 6% Debenture holders agreed to take over the Chennai Works at ₹ 4,25,000 and to accept an allotment of 1,500 equity shares of ₹ 10 each at par, and upon their forming a company called Zia Ltd. (to take over the Chennai Works) they allotted 9,000 equity shares of ₹ 10 each fully paid at par to Star Ltd.

(vii) The Chennai Worksmen's compensation fund disclosed that there were actual liabilities of ₹ 1,000 only. As a consequence, the investments of the fund were realized to the extent of the balance. Entire investments were sold at a profit of 10% on book value and the proceeds were utilized for part payment of the creditors.

(viii) Inventory was to be written off by ₹ 1,90,000 and a provision for doubtful debts is to be made to the extent of ₹ 20,000.

(ix) Chennai works completely written off.

(x) Any balance of the Capital Reduction Account is to be applied as two-third to write off the value of Bombay Works and one-third to Capital Reserve.

Pass necessary Journal Entries in the books of Star Ltd. after the scheme has been carried into effect.

4. QP JULY 21

Sapra Limited has laid down the following terms upon the sanction of the reconstruction scheme by the court.

(i) The shareholders to receive in lieu of their present holding at 7,50,000 shares of ₹ 10 each, the following:

- New fully paid ₹ 10 Equity Shares equal to 3/5th of their holding.
- Fully paid ₹ 10, 6% Preference Shares to the extent of 2/5th of the above new equity shares.
- 7% Debentures of ₹ 250,000.

(ii) Goodwill which stood at ₹ 2,70,000 is to be completely written off.

(iii) Plant & Machinery to be reduced by ₹ 1,00,000, Furniture to be reduced by ₹ 88,000 and Building to be appreciated by ₹ 1,50,000.

(iv) Investment of ₹ 6,00,000 to be brought down to its existing market price of ₹ 1,80,000.

(v) Write off Profit & Loss Account debit balance of ₹ 2,25,000.

In case of any shortfall, the balance of General Reserve of ₹ 42,000 can be utilized to write off the losses under reconstruction scheme.

You are required to show the necessary Journal Entries in the books of Sapra Limited of the above reconstruction scheme considering that balance in General Reserve is utilized to write off the losses.

5. MTP March 2022 Test Series I

Preeti Limited gives the following information as on 31st March 2021, was as follows:

	(₹)
Authorized and subscribed capital:	
20,000 Equity shares of ₹ 100 each fully paid	20,00,000
Unsecured loans:	
15% Debentures	6,00,000

Interest payable thereon	90,000
Current Liabilities:	
Trade payables	1,04,000
Provision for income tax	72,000
Property, plant and equipment:	
Machineries	7,00,000
Current Assets:	
Inventory	5,06,000
Trade receivables	4,60,000
Bank	40,000
Profit & loss A/c (Dr.)	11,60,000

It was decided to reconstruct the company for which necessary resolution was passed and sanctions were obtained from the appropriate authorities. Accordingly, it was decided that:

i) Each share be sub-divided into 10 fully paid up equity shares of ₹ 10 each.
ii) After sub-division, each shareholder shall surrender to the company 50% of his holding for the purpose of reissue to debenture holders and trade payables as necessary.
iii) Out of shares surrendered 20,000 shares of ₹ 10 each shall be converted into 10% Preference shares of ₹ 10 each fully paid up.
iv) The claims of the debenture holders shall be reduced by 50%. In consideration of the reduction, the debenture holder shall receive Preference Shares of ₹ 2,00,000 which are converted out of shares surrendered.
v) Trade payables claim shall be reduced by 25%. Remaining trade payables are to be settled by the issue of equity shares of ₹ 10 each out of shares surrendered.
vi) Balance of Profit and Loss account to be written off.
vii) The shares surrendered and not re-issued shall be cancelled.

Pass Journal Entries giving effect to the above.

Nazar Hati Durghatna Ghati...

Test In Time...Pass In Time

1. Question

The Balance Sheet of Vaibhav Ltd. as on 31st March 20X1 is as follows:

Liabilities	₹	Assets	₹
Equity Shares of ₹ 100 each	2,00,00,000	Fixed Assets	2,50,00,000
6%, Cumulative Preference Shares of ₹ 100 each	1,00,00,000	Investments (Market Value ₹ 19,00,000)	20,00,000
5% Debentures of ₹ 100 each	80,00,000	Current Assets	2,00,00,000
Sundry Creditors	1,00,00,000	P & L A/c	12,00,000
Provision for taxation	2,00,000		
TOTAL	4,82,00,000	TOTAL	4,82,00,000

The following scheme of Internal Reconstruction is sanctioned:

1. All the existing equity shares are reduced to ₹ 40 each.
2. All preference shares are reduced to ₹ 60 each.
3. The rate of Interest on Debentures increased to 6%. The Debenture holders surrender their existing debentures of ₹ 100 each and exchange the same for fresh debentures of ₹ 70 each for every debenture held by them.
4. Fixed assets are to be written down by 20%
5. Current assets are to be revalued at ₹ 90,00,000.
6. Investments are to be brought to their market value.
7. One of the creditors of the company to whom the company owes ₹ 40,00,000 decides to forgo 40% of his claim. The creditor is allotted with 60000 equity shares of ₹ 40 each in full and final settlement of his claim.
8. The taxation liability is to be settled at ₹ 3,00,000.
9. It is decided to write off the debit balance of Profit & Loss A/c.

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

2. Question

The Summarised Balance Sheet of Revise Limited as at 31st March, 2012 was as follows :

Liabilities	₹	Assets	₹
Authorised & subscribed capital:		Fixed Assets:	
10,000 Equity shares of ₹ 100 each fully paid	10,00,000	Machineries	1,00,000
Unsecured Loans:		Current assets:	
12% Debentures	2,00,000	Inventory	3,20,000
Accrued interest	24,000	Trade receivables	2,70,000
Current liabilities		Bank	30,000
Trade payables	72,000	Profit and loss account	6,00,000
Provision for income tax	24,000		
	13,20,000		13,20,000

It was decided to reconstruct the company for which necessary resolution was passed and sanctions were obtained from appropriate authorities. Accordingly, it was decided that:

a) Each share is sub-divided into ten fully paid up equity shares of ₹ 10 each.

b) After sub-division, each shareholder shall surrender to the company 50% of his holding, for the purpose of re-issue to debenture holders and trade payables as necessary.

c) Out of shares surrendered, 10,000 shares of ₹ 10 each shall be converted into 12% preference shares of ₹ 10 each, fully paid up.

d) The claims of the debenture-holders shall be reduced by 75 per cent. In consideration of the reduction, the debenture holders shall receive preference shares of ₹ 1,00,000 which are converted out of shares surrendered.

e) Trade payables claim shall be reduced to 50 per cent, it is to be settled by the issue of equity shares of ₹ 10 each out of shares surrendered.

f) Balance of profit and loss account to be written off.

g) The shares surrendered and not re-issued shall be cancelled.

You are required to show the journal entries giving effect to the above and the resultant Balance Sheet.

MCQs

1. When the object of reconstruction is usually to re-organise capital or to compound with creditors or to effect economies then such type of reconstruction is called
   a) Internal reconstruction with liquidation
   b) Internal reconstruction without liquidation of the company
   c) External reconstruction
   d) None of the above.

2. The accumulated losses under scheme of internal reconstruction are written off against
   a) Capital Reduction account
   b) Share Capital account
   c) Shareholders' account
   d) Reserve and surplus.

3. A process of reconstruction, which is carried out without liquidating the company and forming a new one is called
   a) Internal reconstruction.
   b) External reconstruction.
   c) Amalgamation in the nature of merger.
   d) Amalgamation in the nature of purchase.

4. Reconstruction is a process by which affairs of a company are reorganized by
   a) Revaluation of assets and Reassessment of liabilities.
   b) Writing off the losses already suffered by reducing the paid up value of shares and/or varying the rights attached to different classes of shares.
   c) Both (a) and (b).
   d) None of the above.

5. For reduction of the share capital, the permission has to be sought from
   a) Court.
   b) Controller.
   c) State government.
   d) Shareholders.

6. In case of internal reconstruction
   a) Only one company is liquidated.
   b) Two or more companies are liquidated.
   c) No company is liquidated.

d) Two companies amalgamated.

Answers											
1.	(b)	2.	(a)	3.	(a)	4.	(c)	5.	(a)	6.	(c)

7

Amalgamation of Companies

Amalgamation

the process of merger of two or more companies into a single entity or where one company takes over the other by outright purchase. Therefore, the term 'amalgamation' contemplates two kinds of activities:

(i) two or more companies join to form a new company

OR

(ii) Absorption and blending of one by the others.

TYPES OF AMAGAMATION

[methods of Accounting as per AS-14]

- Amalgamation in the nature of merger → Pooling of Interest method
- Amalgamation in the nature of Purchase. → The Purchase method.

Example - 1

Company A (TRANSFEROR) is taken over by Company B. (TRANSFEREE)

ABSORPTION

Example – 2

TRANSFEROR COMPANY

$\underbrace{\text{Company A + Company B}}_{\text{AMALGAMATION}}$ → TRANSFEREE COMPANY: Company C

Example – 3

Suffering losses for past 5 years

Company A
TRANSFEROR

Transferor is a subsidiary company

Company B.
TRANSFEREE

take over existing

EXTERNAL RECONSTRUCTION

Amalgamation

In the books of Transferor	In the books of Transferee
↓	↓
[the one who is selling the business]	[the one who is buying the business]
↓	↓
Liquidation proceedings are applicable.	AS-14 is applicable to only transferee

↓

BALANCE SHEET

Cash

Step 1· Empty the Balance sheet into 2 Accounts
- Realisation A/c
- Shareholder A/c
  - Equity shareholder
  - Preference shareholder
- Cash /bank A/c

Step 2· Make purchase consideration due from transferee

Step 3· Discharge of purchase consideration

Step 4· Distribute purchase consideration to shareholder.

Amalgamation in the nature of merger.

As per AS-14, Amalgamation is in the nature of merger which satisfies all the following conditions :—

1· All the assets and liabilities of the transferor company, become, after amalgamation, the assets and liabilities of the transferee company.

II Shareholders holding not less than 90% of the face value of equity shares of the transferor company become equity shareholders of the transferee Company.

III The consideration is discharged by the transferee co· wholly by the issue of equity shares in the transferee co., except that cash may be paid in respect of any fractional shares.

IV The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.

V No adjustment is intended to be made to the book values of the transferor company when they are incorporated in the financial statement of the transferee co.

If any one or more of above conditions are not satisfied in an amalgamation, such amalgamation is called amalgamation in the nature of purchase

The Pooling of Interest Method

Conditions

- All assets, liabilities and reserves of transferor company should be recorded at their existing carrying amounts and in the same form as at the date of the amalgamation.
- The balance of P&L A/c of the transferor company should be aggregated with the corresponding balance of the transferee company or transferred to the general reserve, if any.
- If at the time of the amalgamation, the transferor and the transferee companies have conflicting accounting policies, a uniform set of accounting policies should be adopted following the amalgamation.
- The difference between the amount recorded as share capital issued and the amount of share capital of the transferor company should be adjusted in reserves.

Accounting Entries

Respective assets A/c [Book value] Dr.
Reserves A/c* Dr.
To Respective Liability [Book value]
To Respective Reserve A/c ["]
To Business Purchase A/c
To Reserves A/c*

Particulars	Rs.	Rs.
Purchase Consideration		
Less Net Asset		
Less Reserves		
Balance	+ (Capital Reserve)	- (Capital Reserve)

The Purchase Method

1. All or some assets and liabilities of transferor are taken over.
2. Accounted at book value or at fair value
3. Only statutory reserves of transferor co. should be recorded by debiting Amalgamation Adjustment A/c

   Amalgamation Adjustment A/c ....Dr
   To Statutory Reserves A/c
4. Statutory reserves will be shown in Reserves & Surplus.
5. Goodwill arising on amalgamation should be amortised over a period not exceeding 5 years, unless a longer period can be justified.
6. Provision for unrealised profit on stock held is adjusted against goodwill or Capital Reserves.
7. Liquidation expenses to be borne by transferee company are adjusted against goodwill or Capital Reserves.

Accounting Entry

Respective assets A/c [Fair Value] Dr
Goodwill A/c [Balancing Figure]
To Respective liability [Fair Value]
To Business Purchase A/c
To Capital Reserve A/c [Balancing figure]

Particulars	Rs.	Rs.
Purchase Consideration		
Less Net Asset		
Balance	+ (Goodwill)	- (Capital Reserve)

Methods of calculating Purchase Consideration

1 Lumpsum Method

Transferee Co. agrees to pay a lumpsum/fixed amount to shareholders of transferor co.

2 Net Payment Method

Payment is made to Equity shareholders / Preference shareholders by way of cash, issue of shares and debenture.

3 Net Assets Method

Purchase Consideration = Assets [excluding fictitious assets] − Outside liabilities [excluding Share Capital and reserves]

Discharge of PC →

Cash	xxx
Equity shares of transferee	xxx
Preference shares of transferee	xxx
PC	xxx

4 Intrinsic Value of shares or Share exchange method

Purchase Consideration is calculated at Intrinsic value of shares of transferor or transferee co. and ratio of shares is computed and multiplied with Intrinsic value.

IN THE BOOKS OF TRANSFEROR COMPANY				
NO.	PARTICULARS	LF	(Dr.) Rs	(Cr.) Rs
1	Transfer of books value of the assets			
	Realisation A/c Dr.			
	To Sundry Assets (Individually)			
2	Transfer of liabilities / provision			
	Sundry liabilities / provision A/c (Individually) Dr.			
	To Realisation A/c			
3	a) Transfer of amount due to debenture holders			
	b) Debenture holders liability taken over by transferee company			
	Debentures A/c Dr.			
	Realisation A/c Dr.			
	(Premium payable on redemption)			
	To Debenture holders A/c			
	Debenture holders A/c Dr.			
	To Realisation A/c			
	OR			
	Debentures A/c Dr.			
	To Realisation A/c (face value transferred)			
4	Transfer of amount due to preference shareholders			
	Preference Share Capital A/c Dr.			
	Realisation A/c Dr.			
	(Arrears of dividend/ premium payable)			
	To Preference shareholders A/c			
5	Transfer of Equity Share Capital, Reserves and surplus balances			
	Equity Share Capital A/c Dr.			
	Reserves A/ (Individually) Dr.			
	Profit and Loss A/c Dr.			
	To Equity Shareholders A/c			
6	Transfer of fictitious assets, write offs, accumulated losses etc.			
	Equity shareholders A/c Dr.			
	To Profit and Loss A/c			
	To Discount on Issue of shares A/c			

	To Preliminary Expenses A/c			
	To Other Accounts (Individually)			
7	Purchase Consideration due			
	Transferee Company's A/c Dr.			
	To Realisation A/c			
8	Discharge of Purchase Consideration			
	Cash I Bank A/c Dr.			
	Equity shares in Transferee Company A/c Dr.			
	Preference shares in Transferee Company A/c Dr.			
	To Transferee Company's A/c			
9	Disposal of assets not taken over by the Transferee Company.			
	Cash / Bank A/c Dr.			
	To Realisation A/c			
10	Liquidation Expenses			
	Realisation A/c Dr.			
	To Cash / Bank A/c			
11	Discharge of liabilities not taken over by Transferee company			
	Realisation A/c Dr.			
	To Bank A/c			
12	Settlement of Debenture holders dues (Debentures not taken over by Transferee Company)			
	Realisation A/c Dr.			
	To Cash / Bank A/c			
13	Settlement of preference shareholders dues			
	Preference shareholders A/c Dr.			
	To Preference Shares in Transferee Company A/c			
	To Equity Shares in Transferee Company A/c			
	To Bank A/c			
14	Transfer of profit or loss on realisation Profit Loss			
	Realisation A/c Dr.			
	To Equity shareholders A/c			
	Equity shareholders A/c Dr.			
	To Realisation A/c			

15	Settlement of Equity shareholders accounts (dividend under liquidation)			
	Equity shareholders A/c Dr.			
	To Cash / Bank A/c			
	To Equity shares in Transferee Company			
	To Pref. shares in Transferee company			
	To Debentures in Transferee company			

IN THE BOOKS OF TRANSFEREE COMPANY				
NO.	PARTICULARS	LF	(Dr.) Rs.	(Cr.) Rs.
1	Purchase of business			
	Business Purchase A/c Dr.			
	To Liquidator of Transferor Company A/c			
2	Recording of assets and Liabilities			
	a) Purchase Method			
	Respective assets A/c (Fair Value) Dr.			
	Goodwill A/c (Balancing Fig.)			
	To Respective Liability A/c (Fair Value)			
	To Business Purchase A/c			
	To Capital Reserve A/c (Balancing Fig.)			
	b) Pooling of Interest Method			
	Respective Asset A/c (Book Value) Dr.			
	Reserve A/c * Dr.			
	To Respective Liability A/c (Book Value)			
	To Respective Reserve A/c (Book Value)			
	To Business Purchase A/c			
	To Reserve A/c #			
3	Discharge of purchase consideration			
	Liquidator of Transferor Company A/c Dr.			
	Discount on issue of shares A/c Dr.			
	To Cash / Bank A/c			
	To Equity Share Capital A/c			

	To Preference Share Capital A/c			
	To Debentures A/c			
	To Securities Premium A/c			
4	Liquidation Expenses			
	(if to be borne by transferee company)			
	a) paid by Transferee Company			
	Goodwill and / or Capital Reserve A/c Dr.			
	Reserve A/c Dr.			
	To Cash / Bank A/c			
	b) paid by Transferor Company			
	Goodwill and / or Capital Reserve A/c Dr.			
	To Liquidator of Transferor Company A/c			
	Reserve A/c Dr.			
	Liquidator of Transferor Company A/c Dr.			
	To Cash / Bank A/c			
5	Statutory Reserves of Transferor Company to be recorded in the books of Transferee Company under purchase method			
	Amalgamation Adjustment A/c Dr.			
	To Respective Statutory Reserve A/c			
6	Provision for unrealised profit on stock held out of inter-company purchases			
	a) Pooling Interest Method			
	Revenue Reserves / Profit and Loss A/c Dr.			
	To Stock Account			
	b) Purchase Method			
	Goodwill and /or Capital Reserve A/c			
	To Stock Account			
7	Issue of Debentures to discharge the existing Debenture holders.			
	Debentures in Transferor Co. A/c Dr.			
	Discount on issue of debentures A/c Dr.			
	To Debentures in Transferor Co. A/c			
	To Security Premium A/c			

* Difference between purchase consideration and paid up capital of Transferor Company.

Difference between paid up capital of transferor company and purchase consideration.

INTER CO-OWINGS

At the time of merger, inter company dues are required to be eliminated. The dues are resulting out of inter company transactions effected prior to and remained unsettled as on the date of merger.

NO.	PARTICULARS	LF	(Dr.) Rs	(Cr.) Rs
(1)	Sundry Debtors - Sundry Creditors			
	Sundry Creditors A/c. Dr.			
	To Sundry Debtors A/c.			
(2)	Bills Receivable – Bills Payable			
	Bills Payable A/c. Dr.			
	To Bills Receivable A/c.			
(3)	Current Accounts			
	Current A/c. (Credit balance) Dr.			
	To Current A/c. (Debit balance)			
(4)	Intern Company loans			
	Loan Received A/c. Dr.			
	To Loan Given A/c.			
(5)	Interest receivable – Interest payable			
	Interest Payable A/c. Dr.			
	To Interest Receivable A/c.			

In the books of transferee company

No.	Particulars	LF	(Dr.) Rs	(Cr.) Rs
(1)	For elimination of inter-company dues, an asset of one company is set-off against a liability of another			
	Respective Liability A/c Dr.			
	To Respective Asset A/c			

Unrealised Profit on Stock

Transferor $\underset{\text{buys stock}}{\overset{\text{sells stock}}{\rightleftarrows}}$ Transferee

The stock holding company values the stock at its cost price [i.e invoice price of seller which is inclusive of profit must be eliminated

NO.	PARTICULARS	LF	(Dr.) Rs	(Cr.)Rs
(1)	Pooling Interest Method			
	Profit and Loss A/c / Revenue Reserves A/c Dr.			
	To Stock Account			
(2)	Purchase Method			
	Goodwill and/or Capital Reserve A/c Dr.			
	To Stock Account			

Note for student...

CHAPTER 7 – AMALGAMATION OF COMPANIES

QUESTIONS							
No.	QUESTIONS	PAGE NO.	DATE	R1	R2	R3	REMARK
1	ILLUSTRATION 3 (QP May 2018, Nov 20 RTP)						
2	QP JULY 21						
3	MTP April 2022 Series 2						
4	RTP Nov 22						
5	QP NOV 20						
6	RTP MAY 20						
7	QP MAY 19						
8	MTP Oct 22 (Series 2)						
9	RTP Nov 2018						
10	RTP MAY 2018						
11	ICAI ILLUSTRATION 10						
TEST IN TIME PASS IN TIME							
1	Question						
2	Question						

1. ILLUSTRATION 3 (QP May 2018, Nov 20 RTP)

The financial position of X Ltd. and Y Ltd. as on 31st March 2018 was as under

Particulars	X Ltd. (₹)	Y Ltd. (₹)
Equity and Liabilities		
Equity Shares of ₹ 10 each	30,00,000	9,00,000
9% Preference Shares of ₹ 100 each	3,00,000	-
10% Preference Shares of ₹ 100 each	-	3,00,000
General Reserve	2,10,000	2,10,000
Retirement Gratuity Fund (long term)	1,50,000	60,000
Trade Payables	3,90,000	2,40,000
Total	**40,50,000**	**17,10,000**
Assets		
Goodwill	1,50,000	75,000
Land & Buildings	9,00,000	3,00,000
Plant & Machinery	15,00,000	4,50,000
Inventories	7,50,000	5,25,000
Trade Receivables	6,00,000	3,00,000
Cash and Bank	1,50,000	60,000
Total	**40,50,000**	**17,10,000**

X Ltd. absorbs Y Ltd. on the following terms :

(i) 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of X Ltd.

(ii) Goodwill of Y Ltd. on absorption is to be computed based upon two times of average profits of preceding three financial years (2016-17 : ₹ 90,000; 2015-16 : ₹ 78,000 and 2014-15 : ₹ 72,000). The profits of 2014-15 included credit of an insurance claim of ₹ 25,000 (fire occurred in 2013-14 and loss by fire (30,000 was booked in Profit and Loss Account of that year). In the year 2015-16, there was an embezzlement of cash by an employee amounting to ₹ 10,000.

(iii) Land & Buildings are valued at ₹ 5,00,000 and the Plant & Machinery at ₹ 4,00,000.

(iv) Inventories are to be taken over at 10% less value and Provision for Doubtful Debts is to be created @ 2.5%

(v) There was an unrecorded current asset in the books of Y Ltd. whose fair value amounted to

₹ 15,000 and such asset was also taken over by X Ltd.

(vi) The trade payables of Y Ltd. included ₹ 20,000 payable to X Ltd.

(vii) Equity Shareholders of Y Ltd. will be issued Equity Shares @ 5% premium.

You are required to

(i) Prepare Realisation No in the books of Y Ltd.

(ii) Show journal entries in the books of X Ltd.

(iii) Prepare the Balance Sheet of X Ltd. after absorption as at 31St March, 2018.

2. QP JULY 21

The summarized Balance Sheets of Black Limited and White Limited as on 31st March, 2020 is as follows:

Particulars	Notes	Black Limited(₹ In 000)	White Limited(₹ In 000)
Equity and Liabilities			
Shareholders' Funds			
(a) Share Capital	1	6,000	3,600
(b) Reserves and Surplus	2	1,080	660
Current Liabilities			
Trade payables		600	360
Total		7,680	4,620
Assets			
Non-current assets			
Property, Plant and Equipment		3,600	2,400
Current assets			
(a) Inventories		960	720
(b) Trade receivables		1,680	1,080
(c) Cash and Cash Equivalents		1,440	420
Total		7,680	4,620

Note No.	Particulars	Black Limited(₹ in	White Limited(₹ in

		000)	000)
1.	Share Capital Equity Shares of ₹ 100 each	6,000	3,600
2.	Reserves and Surplus		
	General Reserve	360	180
	Profit and Loss Account	720	480
	Total	1,080	660

Black Limited takes over White Limited on 1st July, 2020.

No Balance Sheet of White Limited is available as on that date. It is, however estimated that White Limited earned profit of ₹ 2,40,000 after charging proportionate depreciation @ 10% p.a. on Property Plant and Equipment, during April-June, 2020.

Estimated profit of Black Limited during these 3 months was ₹ 4,80,000 after charging proportionate depreciation @ 10% p.a. on Property Plant and Equipment.

Both the companies have declared and paid 10% dividend within this 3 months' period.

Goodwill of White Limited is valued at ₹ 2,40,000 and Property Plant and Equipment are valued at ₹ 1,20,000 above the depreciated book value on the date of takeover.

Purchase consideration is to be satisfied by Black Limited by issuing shares at par. Ignore income tax.

You are required to:

(i) Compute No. of shares to be issued by Black Limited to White Limited against purchase consideration.

(ii) Calculate the balance of Net Current Assets of Black Limited and White Limited as on 1st July, 2020.

(iii) Give balance of Profit or Loss of Black Limited as on 1st July, 2020

(iv) Give balance of Property Plant and Equipment as on 1st July, 2020 after takeover.

3. MTP **April** 2022 Series 2

Sulpher Ltd. and Diamond Ltd. give the following information as at 31.03.2022:

	Sulpher Ltd.(₹ in lakhs)	Diamond Ltd.(₹ in lakhs)
Equity Share Capital (Fully paid shares of ₹ 10 each)	22,500	9,000
Securities Premium	4,500	-
Foreign Project Reserve	-	465
General Reserve	14,250	4,800
Profit and Loss Account	4,305	1,162.5
12% Debentures	-	1,500
Trade payables	1,800	694.5
Provisions	2,745	1,053
Land and Buildings	9,000	-
Plant and Machinery	21,000	7,500
Furniture, Fixtures and Fittings	3,456	2,550
Inventory	11,793	6,061.5
Trade receivables	3,180	1,650
Cash at Bank	1,671	913.5

All the bills receivable held by Diamond Ltd. were Sulpher Ltd.'s acceptances.

On 1st April 2022, Sulpher Ltd. took over Diamond Ltd. in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business, Sulpher Ltd. would allot three fully paid equity shares of ₹ 10 each at par for every two shares held in Diamond Ltd. It was also agreed that 12% debentures in Diamond Ltd. would be converted into 13% debentures in Sulpher Ltd. of the same amount and denomination.

Details of trade receivables and trade payables are as under

Particulars (₹ in lakhs)	Sulpher Ltd.	Diamond Ltd.
Trade Payables:		
Creditors	1,620	694.5
Bills Payable	180	-
	1,800	694.5
Trade receivables:		
Debtors	3,180	1,530
Bills Receivables	-	120
	3,180	1,650

Expenses of amalgamation amounting to ` 1.5 lakhs were borne by Sulpher Ltd.

You are required to:

i) Pass journal entries in the books of Sulpher Ltd. and
ii) Prepare Sulpher Ltd.'s Balance Sheet immediately after the merger.

4. RTP Nov 22

The balance sheets of Truth Limited and Myth Limited as at 31.03.2021 is given below. Myth Limited is to be amalgamated with Truth Limited from 1.04.2021. The amalgamation is to be carried out in the nature of purchase.

Particulars	Note No.	Truth Ltd. (₹)	Myth Ltd. (₹)
(1) Equity and Liabilities			
1. Shareholders' Funds			
(a) Share Capital	1	10,00,000	4,00,000
(b) Reserves and Surplus	2	11,35,000	4,13,000
2. Non -Current Liabilities	3	-	1,50,000
3. Current Liabilities	4	1,40,000	1,82,000
Total		22,75,000	11,45,000
(2) Assets			
1. Non -Current Assets			
(a) Property, Plant & Equipment		15,75,000	6,80,000
(b) Investments		1,87,500	1,00,000
2. Current Assets	5	5,12,500	3,65,000
Total		22,75,000	11,45,000

Note No.	Particulars	Truth Limited (₹)	Myth Limited (₹)
1	Share Capital		
	Equity shares of ₹ 10 each	10,00,000	4,00,000
2	Reserves & Surplus		
	General Reserve	5,05,000	2,30,000

	Profit & Loss A/c	4,45,000	1,58,000
	Export Profit Reserve	1,85,000	25,000
		11,35,000	4,13,000
3	Non- Current Liabilities		
	14% Debentures	---	1,50,000
4	Current Liabilities		
	Trade Payables	90,000	1,42,000
	Other Current Liabilities	50,000	40,000
5	Current Assets	1,40,000	1,82,000
	Inventory	2,15,000	85,000
	Trade Receivables	2,02,500	1,75,000
	Cash and Cash equivalents	95,000	1,05,000
		5,12,500	3,65,000

Truth Limited would issue 12% debentures to discharge the claim of the debenture holders of Myth Limited so as to maintain their present annual interest income. Non-trade investment, which constitute 80% of their respective total investments yielded income of 20% to Truth Limited and 15% to Myth Limited. This income is to be deducted from profits while computing average profit for the purpose of calculating goodwill. Profit before tax of both the companies during the last 3 years were as follows:

	Truth Limited (₹)	Myth Limited (₹)
2018-2019	8,20,000	2,55,000
2019-2020	7,45,000	2,15,000
2020-2021	6,04,000	2,14,000

Goodwill is to be calculated on the basis of simple average of three years profit by using Capitalization method taking 18% as normal rate of return. Ignore taxation. Purchase consideration is to be discharged by Truth Limited on the basis of intrinsic value per share. Prepare Balance Sheet of Truth Limited after the amalgamation.

5. QP NOV 20

High Ltd. and Low Ltd. were amalgamated on and from, Ist April, 2020. A new company Little Ltd. was formed to take over the business of the existing Companies. The summarized Balance sheets of High Ltd. and Low Ltd. as on 31st March, 2020 are as under:

Liabilities	**High Ltd.**	**Low Ltd.**	**Assets**	**High Ltd.**	**Low Ltd.**
Share Capital:			Property, Plant and Equipment:		
Equity Shares of ₹ 100 each	1000	850	Land & Building	670	385
14% Pref Shares of ₹ 100 each	320	175	Plant & Machinery	475	355
Reserves & Surplus:			Investments	95	80
Revaluation Reserve	225	110	Current Assets:		
General Reserve	360	240	Stock	415	389
Investment Allowance Reserve	80	40	Sundry Debtors	322	213
P & L Account	85	82	Bills Receivables	35	-
Non-Current Liabilities:			Cash & Bank	303	166
Secured Loans:					
13% Debentures (₹ 100 each)	100	56			
Unsecured Loans (Public Deposits)	50	-			
Current Liabilities & Provisions:		-			
Sundry Creditors	65	35			
Bills Payable	30	-			
TOTAL	2315	1588	TOTAL	2315	1588

Other Information:

(1) 13% Debenture holders of High Ltd. & Low Ltd. are discharged by Little Ltd. by issuing such number of its 15% Debentures of ₹ 100 each so as to maintain the same amount of interest.

(2) Preference Shareholders of the two companies are issued equivalent number of 15% Preference shares of Little Ltd. at a price of ₹ 125 per share (Face Value ₹ 100)

(3) Little Ltd. will issue 4 Equity Shares for each Equity Share of High Ltd. & 3 equity shares for each Equity Share of Low Ltd. The shares are to be issued at ₹ 35 each having a face value of ₹ 10 per share.

(4) Investment Allowance Reserve is to be maintained for two more years.

Prepare the Balance sheet of Little Ltd. as on 1st April, 2020 after the amalgamation has been carried out in basis of in the nature of Purchase.

6. RTP MAY 20

P Ltd. and Q Ltd. agreed to amalgamate and form a new company called PQ Ltd. The summarized balance sheets of both the companies on the date of amalgamation stood as below:

Liabilities	P Ltd. ₹	Q Ltd. ₹	Assets	P Ltd. ₹	Q Ltd. ₹
Equity Shares (₹ 100 each)	8,20,000	3,20,000	Land & Building	4,50,000	3,40,000
9% Pref. Shares (₹ 100 each)	3,80,000	2,80,000	Furniture & Fittings	1,00,000	50,000
8% Debentures	2,00,000	1,00,000	Plant & Machinery	6,20,000	4,50,000
General Reserve	1,50,000	50,000	Trade receivables	3,25,000	1,50,000
Profit & Loss A/c	3,52,000	2,05,000	Inventory	2,33,000	1,05,000
Unsecured Loan	-	1,75,000	Cash at bank	2,08,000	1,75,000
Trade payables	88,000	1,60,000	Cash in hand	54,000	20,000
	19,90,000	12,90,000		19,90,000	12,90,000

PQ Ltd. took over the assets and liabilities of both the companies at book value after creating provision @ 5% on inventory and trade receivables respectively and depreciating Furniture & Fittings by @ 10%, Plant and Machinery by @ 10%. The trade receivables of P Ltd. include ₹ 25,000 due from Q Ltd.

PQ Ltd. will issue:

i) 5 Preference shares of ₹ 20 each @ ₹ 18 paid up at a premium of ₹ 4 per share for each pref. share held in both the companies.

ii) 6 Equity shares of ₹ 20 each @ ₹ 18 paid up a premium of ₹ 4 per share for each equity share held in both the companies.

iii) 6% Debentures to discharge the 8% debentures of both the companies.

iv) 20,000 new equity shares of ₹ 20 each for cash @ ₹ 18 paid up at a premium of ₹ 4 per share.

PQ Ltd. will pay cash to equity shareholders of both the companies in order to adjust their rights as per the intrinsic value of the shares of both the companies.

You are required to prepare ledger accounts in the books of P Ltd. and Q Ltd. to close their books.

7. QP MAY 19

The following are the summarized Balance Sheet of VT Ltd. and MG Ltd. as on 31st March, 2018:

Particulars	VT Ltd. (₹)	MG Ltd. (₹)
Equity and Liabilities		
Equity Shares of ₹ 10 each	12,00,000	6,00,000
10% Pref. Shares of ₹ 100 each	4,00,000	2,00,000
Reserve and Surplus	6,00,000	4,00,000
12% Debentures	4,00,000	3,00,000
Trade Payables	5,00,000	3,00,000
Total	31,00,000	18,00,000
Assets		
Fixed Assets	14,00,000	5,00,000
Investment	1,60,000	1,60,000
Inventory	4,80,000	6,40,000
Trade Receivables	8,40,000	4,20,000
Cash at Bank	2,20,000	80,000
Total	31,00,000	18,00,000

Details of Trade receivables and trade payables are as under:

	VT Ltd. (₹)	MG Ltd. (₹)
Trade Receivable		
Debtors	7,20,000	3,80,000
Bills Receivable	1,20,000	40,000
	8,40,000	4,20,000
Trade Payables		
Sundry Creditors	4,40,000	2,50,000

Bills Payable	60,000	50,000
	5,00,000	3,00,000

Fixed Assets of both the companies are to be revalued at 15% above book value. Inventory in Trade and Debtors are taken over at 5% lesser than their book value.

Both the companies are to pay 10% equity dividend, Preference dividend having been already paid.

After the above transactions are given effect to, VT Ltd. will absorb MG Ltd. on the following terms:

(i) VT Ltd. will issue 16 Equity Shares of ₹ 10 each at par against 12 Shares of MG Ltd.

(ii) 10% Preference Shareholders of MG Ltd. will be paid at 10% discount by issue of 10% Preference Shares of ₹ 100 each, at par, in VT. Ltd.

(iii) 12% Debenture holders of MG Ltd. are to be paid at 8% premium, by 12% Debentures in VT Ltd., issued at a discount of 10%.

(iv) ₹ 60,000 is to be paid by VT Ltd. to MG Ltd. for Liquidation expenses.

(v) Sundry Debtors of MG Ltd. includes ₹ 20,000 due from VT Ltd. You are required to prepare:

(1) Journal entries in the books of VT Ltd.

(2) Statement of consideration payable by VT Ltd.

8. MTP Oct 22 (Series 2)

A Limited and B Limited are carrying on business of same nature. On 31 st March, 2021 the information given by both these companies is as follows:

	A Ltd. (₹)	B Ltd. (₹)
Share Capital		
- Equity Shares 10 each (Fully Paid)	12,00,000	7,20,000
- 10% Preference Shares of ₹ 100 each	6,00,000	-
- 8% Preference Shares of ₹ 100 each	-	5,00,000
General Reserve	3,00,000	2,50,000

Investment Allowance Reserve	-	60,000
Security Premium	2,40,000	-
Export Profit Reserve	1,80,000	1,20,000
Profit & Loss Account	2,16,000	1,92,000
9% Debentures (₹ 10 each)	3,00,000	2,00,000
Secured Loan	-	3,60,000
Sundry Creditors	3,12,000	2,04,000
Bills Payable	75,000	1,00,000
Other Current Liabilities	50,000	75,000
Land and Building	10,80,000	8,40,000
Plant and Machinery	6,00,000	5,60,000
Office Equipment	3,45,000	2,10,000
Investments	96,000	3,00,000
Stock in Trade	6,30,000	4,20,000
Sundry Debtors	4,90,000	3,20,000
Bills Receivables	60,000	70,000
Cash at Bank	1,72,000	61,000

A Limited take over B Limited on the above date, both companies agreeing on a scheme of Amalgamation on the following terms:

(a) A Limited will issue 80,000 Equity Shares of ₹ 10 each at par to the Equity Shareholders of B Limited.

(b) A Limited will issue 10% Preference Shares of ₹ 100 each to discharge the Preference Shareholders of B Limited at 15% premium in such a way that the existing dividend quantum of the preference shareholders of B Limited will not get affected. Accordingly, ₹ 5,00,000 pref. shares are discharged at ₹ 5,75,000 (5,00,000X 115%) by issue of 4,000 preference shares of ₹ 100 each at premium of ₹ 43.75 each.

(c) The Debentures of B Limited will be converted into equivalent number of Debentures of A Limited.

(d) All the Bills Receivable of A Limited were accepted by B Limited.

(e) A contingent liability of B Limited amounting to ₹ 72,000 to be treated as actual liability in trade payables.

(f) Expenses of Amalgamation amounted to ₹ 12,000 were borne by A Limited.

You are required to pass opening Journal Entries in the books of A Limited and prepare the opening Balance Sheet of A Limited as on 1st April, 2021 after amalgamation, assuming that the amalgamation is in the nature of Merger.

9. RTP Nov 2018

The financial position of two companies Alex Ltd. and Beta Ltd. as on 31st March, 2017 was as under:

Assets	Alex Ltd. (₹)	Beta Ltd. (₹)
Goodwill	1,40,000	70,000
Building	8,40,000	2,80,000
Machinery	14,00,000	4,20,000
Inventory	7,00,000	4,90,000
Trade receivables	5,60,000	2,80,000
Cash at Bank	1,40,000	56,000
	37,80,000	15,96,000
Liabilities	**Alex Ltd. (₹)**	**Beta Ltd. (₹)**
Share Capital:		
Equity Shares of ₹ 10 each	28,00,000	8,40,000
8% Preference Shares of ₹ 100 each	2,80,000	–
10% Preference Shares of ₹ 100 each	–	2,80,000
General Reserve	1,96,000	1,96,000
Retirement Gratuity fund	1,40,000	56,000
Trade payables	3,64,000	2,24,000
	37,80,000	15,96,000

Beta Ltd.is absorbed by Alex Ltd. on the following terms:

1. 10% Preference Shareholders are to be paid at 10% premium by issue of 8% Preference Shares of Alex Ltd.
2. Goodwill of Beta Ltd. is valued at ₹ 1,40,000, Buildings are valued at ₹ 4,20,000 and the Machinery at ₹ 4,48,000.

3. Inventory to be taken over at 10% less value and Provision for Doubtful Debts to be created @ 7.5%.
4. Equity Shareholders of Beta Ltd. will be issued Equity Shares of Alex Ltd. @ 5% premium.

You are required to:

(a) Prepare necessary Ledger Accounts to close the books of Beta Ltd.

(b) Prepare the acquisition entries in the books of Alex Ltd.

(c) Also prepare the Balance Sheet after absorption as at 31st March, 2017. Ans.

10. RTP MAY 2018

P Ltd. and Q Ltd. agreed to amalgamate their business. The scheme envisaged a share capital, equal to the combined capital of P Ltd. and Q Ltd. for the purpose of acquiring the assets, liabilities and undertakings of the two companies in exchange for share in PQ Ltd. The Summarized Balance Sheets of P Ltd. and Q Ltd. as on 31st March, 2017 (the date of amalgamation) are given below:

Summarized balance sheets as at 31-03-2017

Liabilities	P Ltd. ₹	Q Ltd. ₹	Assets	P Ltd. ₹	Q Ltd. ₹
Equity & liabilities:			Assets:		
Shareholders Fund			Non-current Assets:		
a. Share Capital	6,00,000	8,40,000	Fixed Assets (excluding Goodwill)	7,20,000	10,80,000
b. Reserves	10,20,000	6,00,000	Current Assets		
Current Liabilities			a. Inventories	3,60,000	6,60,000
Bank Overdraft	-	5,40,000	b. Trade receivables	4,80,000	7,80,000
Trade payables	2,40,000	5,40,000	c. Cash at Bank	3,00,000	-
	18,60,000	25,20,000		18,60,000	25,20,000

The consideration was to be based on the net assets of the companies as shown in the above Balance Sheets, but subject to an additional payment to P Ltd. for its goodwill to be calculated as its weighted average of net profits for the three years ended 31 st March, 2017. The weights for this purpose for the years 2014-15, 2015-16 and 2016-17 were agreed as 1, 2 and 3 respectively. The profit had been:

2014-15 ₹ 3,00,000; 2015-16 ₹ 5,25,000 and 2016-17 ₹ 6,30,000.

The shares of PQ Ltd. were to be issued to P Ltd. and Q Ltd. at a premium and in proportion to the agreed net assets value of these companies.

In order to raise working capital, PQ Ltd proceeded to issue 72,000 shares of ₹ 10 each at the same rate of premium as issued for discharging purchase consideration to P Ltd. and Q Ltd.

You are required to:

1. **Calculate** the number of shares issued to P Ltd. and Q Ltd; and
2. **Prepare** required journal entries in the books of PQ Ltd.; and
3. **Prepare** the Balance Sheet of PQ Ltd. as per Schedule III after recording the necessary journal entries.

11. ICAI ILLUSTRATION 10

The following are the summarized Balance Sheets of P Ltd. and Q Ltd. as on 31st March, 20X1:

		Particulars	Notes	₹ P Ltd	₹ Q Ltd
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital	1	8,00,000	4,00,000
	B	Reserves and Surplus		3,00,000	2,00,000
2		**Non-current liabilities**			
	A	Long-term borrowings	2	2,00,000	1,50,000
3		**Current liabilities**			
		Trade Payables		2,50,000	1,50,000
		Total		15,50,000	9,00,000
		Assets			
1		**Non-current assets**			

	A	Property, Plant and Equipment		7,00,000	2,50,000
	B	Non-current investments		80,000	80,000
2		**Current assets**			
	A	Inventories		2,40,000	3,20,000
	B	Trade receivables		4,20,000	2,10,000
	C	Cash and Cash equivalents		1,10,000	40,000
		Total		15,50,000	9,00,000

Notes to accounts

			P Ltd.	Q Ltd.
1	**Share Capital**			
	Equity shares of ₹ 10 each		6,00,000	3,00,000
	10% Preference Shares of ₹ 100 each		2,00,000	1,00,000
			8,00,000	4,00,000
2	**Long term borrowings**			
	12% Debentures		2,00,000	1,50,000
			2,00,000	1,50,000

Details of Trade receivables and trade payables are as under:

Particulars	P Ltd. (₹)	Q Ltd. (₹)
Trade receivables		
Debtors	3,60,000	1,90,000
Bills Receivable	60,000	20,000
	4,20,000	2,10,000
Trade payables		
Sundry Creditors	2,20,000	1,25,000
Bills Payable	30,000	25,000
	2,50,000	1,50,000

Property, plant and equipment of both the companies are to be revalued at 15% above book value. Both the companies are to pay 10% Equity dividend, but Preference dividend having been already paid.

After the above transactions are given effect to, P Ltd. will absorb Q Ltd. on the following terms:

(i) 8 Equity Shares of ₹ 10 each will be issued by P Ltd. at par against 6 shares of Q Ltd.

(ii) 10% Preference Shareholders of Q Ltd. will be paid at 10% discount by issue of 10% Preference Shares of ₹ 100 each at par in P Ltd.

(iii) 12% Debenture holders of Q Ltd. are to be paid at 8% premium by 12% Debentures in P Ltd. issued at a discount of 10%.

(iv) ₹ 30,000 is to be paid by P Ltd. to Q Ltd. for Liquidation expenses. Sundry Creditors of Q Ltd. include ₹ 10,000 due to P Ltd.

(v) Inventory in Trade and Debtors are taken over at 5% lesser than their book value by P Ltd

Prepare:

(a) Journal entries in the books of P Ltd.

(b) Statement of consideration payable by P Ltd.

Nazar Hati Durghatna Ghati...

Test In Time...Pass In Time

1. Question

The following is the summarized Balance Sheet of 'A' Ltd. as on 31.3.20 17:

Liabilities	Rs.	Assets	Rs.
14,000 Equity shares of Rs. 100 each, fully paid up	14,00,000	Sundry assets	18,00,000
General reserve	10,000		
10% Debentures	2,00,000		
Trade payables	1,40,000		
Bank overdraft	50,000		
	18,00,000		18,00,000

B Ltd. agreed to take over the business of 'A' Ltd. Calculate purchase consideration under Net Assets method on the basis: Market value of 75% of the sundry assets is estimated to be 12% more than the book value and that of the remaining 25% at 8% less than the book value. The liabilities are taken over at book values. There is an unrecorded liability of Rs. 25,000.

2. Question

Consider the following summarized balance sheets of X Ltd. and Y Ltd.

Balance Sheet as on 31st March, 20X1

Liabilities	X Ltd.	Y Ltd.	Assets	X Ltd.	Y Ltd.
	Rs.'000	Rs.'000		Rs.'000	Rs.'000
Equity Share Capital (₹ 10 each)	50,00	30,00	Land & Building	25,00	15,50
14% Preference Share Capital (₹ 100 each)	22,00	17,00	Plant & Machinery	32,50	17,00
General Reserve	5,00	2,50	Furniture & Fittings	5,75	3,50
Export Profit Reserve	3,00	2,00	Investments	7,00	5,00
Investment Allowance Reserve		1,00	Inventory	12,50	9,50
Profit & Loss A/c	7,50	5,00	Trade receivables	9,00	10,30
13% Debentures (₹ 100 each)	5,00	3,50	Cash & Bank	7,25	5,20
Trade payables	4,50	3,50			
Other Current Liabilities	2,00	1,50			
	99,00	66,00		99,00	66,00

X Ltd. takes over Y Ltd. on 1st April, 20X1. X Ltd. discharges the purchase consideration as below:

- Issued 3,50,000 equity shares of ₹ 10 each at par to the equity shareholders of Y Ltd.
- Issued 15% preference shares of ₹ 100 each to discharge the preference shareholders of Y Ltd. at 10% premium.

The debentures of Y Ltd. will be converted into equivalent number of debentures of X Ltd.
The statutory reserves of Y Ltd. are to be maintained for 2 more years.
Show the balance sheet of X Ltd. after amalgamation on the assumption that:

- the amalgamation is in the nature of merger.
- the amalgamation is in the nature of purchase.

MCQs

1. In case of amalgamation, the entry for elimination of unrealized profit or loss on stock is made
   a) By the vendor company
   b) By the purchasing company
   c) By the third party
   d) By the court

2. If expenses of liquidation of the vendor company are paid by the purchasing company then, in purchasing company's book, the account debited is
   a) Goodwill account.
   b) Liquidation expense account.
   c) Vendor company account.
   d) General reserve.

3. Amalgamation adjustment reserve is opened in the books of the amalgamated company to incorporate
   a) Assets of the amalgamating company.
   b) Non- Statutory reserves of the amalgamating company.
   c) Statutory reserves of the amalgamating company.
   d) General reserve of the amalgamating company.

4. Amalgamation Adjustment Reserve is presented in the financial statements of the transferee company as
   a) Other current asset.
   b) Separate line item with a negative sign under the head 'Reserves and Surplus'.
   c) Other non-current assets.
   d) Investment of the company

5. A company into which the vendor company is merged is called
   a) Transferee company.
   b) Transferor company.
   c) Selling company.
   d) Acquiree company.

6. If the purchase consideration is more than net assets (at agreed values) of the transferor company, difference shall be recorded as __________ in the books of the transferee company.
   a) Goodwill.

b) Capital Reserve.

c) Profit.

d) Loss.

Answer											
1.	(b)	2.	(a)	3.	(c)	4.	(b)	5.	(a)	6.	(a)

6 Buyback of Securities

Buyback of shares means purchase of its own shares by a company. when shares are bought back a company, they have to be cancelled by the company. Thus, shares buyback results in decrease in share capital of the company.

Revaluation Reserve cannot be used for buy-back of securities as it represents unrealised profits.

SOURCES OF FUNDS FOR BUYBACK

A company may purchase its own shares or others specified securities out of —

- Free Reserves
- or Securities Premium A/c
- or Proceeds of the issue of any share or others specified securities

Provided that no buyback of any kind of shares or others specified securities shall be made out of the proceeds of an earlier issue of the same kind of shares or same kind of others specified securities.

PREMIUM PAID ON BUYBACK OF SHARES

Premium paid on Buy-back of shares shall be paid first out of Securities Premium and then free Reserves.

For Example:—

Buyback

Face value = ₹100

Redemption Value = ₹120

- Face value = ₹100
  - Free Reserves → CRR
  - Fresh Issue
- Premium on Buyback = ₹20
  - Securities Premium
  - Free Reserves

TRANSFER OF CERTAIN SUMS TO CAPITAL REDEMPTION RESERVE

Where a company purchases its own shares out of free reserves or securities premium, a sum equal to the nominal value of the shares so purchased shall be transferred to the Capital Redemption Reserve [CRR] Account and details of such transfer must be disclosed in the balance sheet.

CRR CREATION

Face value of Buy-back	xxx
Less: fresh issue of shares	(xxx)
	xxx

Equity Shares ✓ Preference shares ✓ Debentures ✗

THREE TEST CONDITIONS

HOW TO CALCULATE THE MAXIMUM NO. OF SHARES THAT CAN BE BOUGHT BACK?

Step 1 Calculate the maximum no. of Equity shares that can be bought back as per following 3 tests :—

TEST	MAX. NO. OF SHARES THAT CAN BE BROUGHT BACK.
I. Outstanding share test	= 25% of total outstanding Equity Shares.
II Resources test.	$= \dfrac{25\% \text{ of [paid up capital + Free Reserves]}}{\text{Buy back price per share}}$
III Debt - Equity Ratio Test	$= \dfrac{\text{Paid up capital (after buyback) + Free Reserves [after buyback]} - \text{minimum Equity funds (i.e. Debt fund / 2)}}{\text{Buyback Price per share}}$

Step 2 Max. no. of equity shares that can be bought back = least in above 3 tests.

ACCOUNTING ENTRIES

The various journal entries to be passed on buyback are given as follows→

Date	Particulars	LF	Dr.	Cr.
1	**To make partly paid Equity Shares Fully paid up**			
a)	On making final call			
	Equity Share Final Call A/c Dr. To Equity Share Capital A/c			
b)	On Receipt of Final Call			
	Bank A/c Dr. To Equity Share Final Call A/c			
2	**To realise investments to provide cash for buy back**			
	Bank A/c [With Sale Proceeds] Dr. Profit & Loss a/c [With Loss] Dr. To Investment A/c [With Book Value] To Profit & Loss A/c [With Profit]			
3.	**To issue fresh other kind of Shares of Securities (Say Preference Shares / Debentures)**			
(a)	On receipt of Application Money			
	Bank A/c Dr. To Pref. Share Application & Allotment A/c			
(b)	On Allotment			
(i)	**If at par**			
	Pref-share Application & Allotment A/c Dr. To Pref. Share Capital A/c			
(ii)	**If at Premium**			
	Pref. Share Application & Allotment A/c Dr. To Pref. Share Capital A/c To Securities Premium A/c			

4	Make Amount due on Buy-back				
	Equity Share Capital A/c [With Nominal Value] Dr. Securities Premium A/c [With Premium] Dr. General Reserves A/c [With Balancing Figure] Dr. To Equity Shares Buy Back A/c [With Total]				
5	To Make Payment on buy-back of Equity Shares				
	Equity Shares Buy Back A/c [With Amount Paid] Dr. To Bank A/c				
6	To Transfer Free Reserves to Capital Redemption Reserve Account equal to the Nominal Value of Equity Shares bought back out of Free Reserves				
	Revenue Reserves Dr. Profit & Loss A/c Dr. To Capital Redemption Reserve A/c				

Note for student...

CHAPTER 6 – BUYBACK OF SECURITIES

QUESTIONS							
No.	QUESTIONS	PAGE NO.	DATE	R1	R2	R3	REMARK
1	Mock Test Paper 1, ICAI PQ No 1						
2	RTP MAY 20						
3	QP JULY 21						
4	QP JULY 21						
TEST IN TIME PASS IN TIME							
1	Question						
2	Question						

1. **Mock Test Paper I, ICAI PQ No I**

SMM Ltd. has the following capital structure as on 31^{st} March, 20X1: ₹ in crore

SNo.	Particulars	Situation I	Situation II
(i)	Equity share capital (shares of ₹ 10 each)	1,200	1,200
(ii)	Reserves:		
	General Reserves	1,080	1,080
	Securities Premium	400	400
	Profit & Loss	200	200
	Infrastructure Development Reserve (Statutory Reserve)	320	320
(iii)	Loan Funds	3,200	6,000

The company has offered buy back price of ₹ 30 per equity share. You are required to calculate maximum permissible number of equity shares that can be bought back in both situations and also required to pass necessary Journal Entries.

2. **RTP MAY 20**

The following was the Balance Sheet of C Ltd. as on 31^{st} March ,2019:

Equity & Liabilities	₹ Lakhs	Assets	₹ Lakhs
Share Capital:		Fixed Assets	14,000
Equity shares of ₹ 10 each Fully Paid Up	8,000	Investments	2,350
10% Redeemable Pref. Shares of ₹ 10 each Fully Paid Up	2,500	Cash at Bank	2,300
Reserves & Surplus		Other Current Assets	8,250
Capital Redemption Reserve	1,000		
Securities Premium	800		
General Reserve	6,000		
Profit & Loss Account	300		

Secured Loans:			
9% Debentures	5,000		
Current Liabilities:			
Trade payables	2,300		
Sundry Provisions	1,000		
	26,900		26,900

On 1st April, 2019 the Company redeemed all its Preference Shares at a Premium of 10% and bought back 10% of its Equity Shares at ₹ 20 per Share. In order to make cash available, the Company sold all the Investments for ₹ 2,500 lakhs.

You are required to pass journal entries for the above and prepare the Company's Balance sheet immediately after buyback of equity shares and redemption of preference shares.

3. QP JULY 21

A company provides the following 2 possible Capital Structures as on 31st March, 2021:

Particulars	Situation 1 (₹)	Situation 2 (₹)
Equity Share Capital (Shares of ₹ 10 each, fully paid up)	30,00,000	30,00,000
Reserves & Surplus:		
General Reserve	12,00,000	12,00,000
Securities Premium	6,00,000	6,00,000
Profit & Loss	2,10,000	2,10,000
Statutory Reserve	4,20,000	4,20,000
Loan Funds	25,00,000	1,20,00,000

The company is planning to offer buy back of Equity Share at a price of ₹ 30 per equity share. You are required to calculate maximum permissible number of equity shares that can be bought back in both the situations as per Companies Act, 2013 and are also required to pass necessary Journal Entries in the situation where the buyback is possible.

4. QP JULY 21

i. Explain the meaning of Equity Shares with Differential Rights. Can Preference Shares be also issued with differential rights ?

ii. In Jugnu Limited A, B, C and D hold equity share capital in the proportion of 30:30:30: 10 and M, N, O and P hold preference share capital in proportion of 40:20:30:10.

You are required to calculate their voting rights in case of resolution of winding up of the company, if the paid up Equity Share Capital of the company is ₹ 100 Lakhs and Preference Share Capital is ₹ 50 Lakhs.

Nazar Hati Durghatna Ghati...

Test In Time...Pass In Time

1. Question

Dee Limited {a non listed company} furnishes the following summarised balance sheet as at 31st March 2012.

	₹'000	₹'000
Liabilities		
Share capital		
Advance capital		30,00
Issue and subscribed capital		
2,50,000 Equity shares of Rs 10 each fully paid	25,00	
2000, 10% Preference shares of Rs 100 each	2,00	
(Issued two months back for the purpose of buy back)		27,00
Reserve and surplus		
Capital reserve	10,00	
Revenue reserve	30,00	
Securities premium	22,00	
Profit and loss account	35,00	97,00
Current liabilities and provision		14,00
		1,38,00
Assets		
Fixed assets		93,00
Investments		30,00
Current assets, loans and advances {including cash and bank balance}		15,00
		1,38,00

The company passes a resolution to buy back 20% of its equity capital @ Rs 50 per share. For this purpose, it sold all of its investment for Rs 22,00,000.

You are required to pass necessary journal entries and prepare the balance sheet.

2. Question

The following summarized Balance Sheet Pee Limited (a non-listed company) **furnishes** as at 31st March, 2017:

Particulars		₹
Equity & Liabilities		
Share capital:		
Authorised capital		
2,50,000 Equity shares of ₹ 10 each fully paid up	25,00,000	
5,000, 10% Preference shares of ₹ 100 each	5,00,000	30,00,000
Issued and subscribed capital:		
2,40,000 Equity shares of ₹ 10 each fully paid up	24,00,000	
3,000, 10% Preference shares of ₹ 100 each	3,00,000	27,00,000
(Issued two months back for the purpose of buy back)		
Reserves and surplus:		
Capital reserve	10,00,000	
Revenue reserve	25,00,000	
Securities premium	27,00,000	
Profit and loss account	35,00,000	97,00,000
Current liabilities		
Trade payables	13,00,000	
Other current Liabilities	3,00,000	16,00,000
		1,40,00,000
Assets		
Tangible assets		
Building	25,00,000	
Machinery	31,00,000	
furniture	20,00,000	76,00,000
Non-current Investments		30,00,000
Current assets		
Inventory	12,00,000	
Trade receivables	7,00,000	
cash and bank balance	15,00,000	34,00,000
		1,40,00,000

On 1st April, 2017, the company passed a resolution to buy back 20% of its equity capital @ ₹ 60 per share. For this purpose, it sold all of its investment for ₹ 25,00,000.

The company achieved its target of buy-back. You are required to:

a) Give necessary journal entries and

b) Give the Balance Sheet of the company after buy back of shares.

MCQs

1. As per section 68(1) of the Companies Act, buy-back of own shares by the company, shall not exceed
   a) 25% of the total paid-up capital and free reserves of the company.
   b) 20% of the total paid-up capital and free reserves of the company.
   c) 15% of the total paid-up capital and free reserves of the company.
   d) 10% of the total paid-up capital and free reserves of the company.

2. The companies are permitted to buy-back their own shares out of
   a) Free reserves and Securities premium.
   b) Proceeds of the issue of any shares.
   c) Both (a) and (b)
   d) Neither (a) nor (b).

3. When a company purchases its own shares out of free reserves; a sum equal to nominal value of shares so purchased shall be transferred to
   a) Revenue redemption reserve.
   b) Capital redemption reserve.
   c) Buy-back reserve
   d) Special reserve

4. State which of the following statements is true?
   a) Buy-back is for more than twenty-five per cent of the total paid-up capital and free reserves of the company.
   b) Partly paid shares cannot be bought back by a company.
   c) Buy-back of equity shares in any financial year shall exceed twenty-five per cent of its total paid-up equity capital in that financial year.
   d) Partly paid shares can be bought back by a company.

5. Premium (excess of buy-back price over the par value) paid on buy-back should be adjusted against
   a) Free reserves.
   b) Securities premium.
   c) Both (a) and (b).
   d) Neither (a) nor (b).

6. Advantages of Buy-back of shares include to
   a) Encourage others to make hostile bid to take over the company.
   b) Decrease promoters holding as the shares which are bought back are cancelled.
   c) Discourage others to make hostile bid to take over the company as the buy-back will increase the promoters holding.
   d) All of the above.

Answers											
1.	(a)	2.	(c)	3.	(b)	4.	(b)	5.	(c)	6.	(c)

5 Cashflow Statement

Presentation of Cash Flow Statements

The Cash Flow Statement should report cash flows during the period classified by

Operating Activities | Investing Activities | Financing Activities

OPERATING ACTIVITIES

Principal revenue-producing activities of the enterprise

EXAMPLES

1. Cash receipts from the sale of goods and the rendering of services;
2. Cash receipts from royalties, fees, commissions and other revenue;
3. Cash payments to suppliers for goods and services;
4. Cash payments to and on behalf of employees;

INVESTING ACTIVITIES

represent the extent to which expenditures have been made for resources intended to generate future income and cash flows.

EXAMPLES

1. Cash payments to acquire fixed assets.
2. Cash receipts from disposal of fixed assets.
3. Cash payments to acquire shares, warrants or debt instruments of other enterprises and interests in joint venture
4. Cash receipts from disposal of shares, warrants or debt instruments of other enterprises and interests in joint ventures.
5. Cash advances and loans made to third parties
6. Cash receipts from the repayment of advances and loans made to third parties.

FINANCING ACTIVITIES

It is useful in predicting claims on future cash flows by providers of funds [both capital and borrowings] to the enterprise

EXAMPLES

1. Cash proceeds from issuing shares or other similar instruments;
2. Cash proceeds from issuing debentures, loans, notes, bonds and other short or long term borrowings; and.
3. Cash repayments of amounts borrowed.

इस्पेशल Adjustments

FOREIGN CURRENCY

Cash flows are recorded in reporting currency using exchange rate prevailing on the date of cash flow. The effect of changes in exchange rates on cash and cash equivalents held in a foreign currency should be reported as a separate part of the reconciliation of the changes in cash and cash equivalents during the period.

EXTRA ORDINARY ITEMS

Cash flow from extra ordinary items shall also be classified in operating, investing and financing activity. If such categorization is not possible then show it in operating activity.

INTERESTS AND DIVIDEND

Interest and Dividend shall be classified as follows:

For a Financial Enterprise:

- Interest paid, Interest and Dividend received as operating activity.
- Dividend paid as financing activity.

For other Enterprises:

- Interest and Dividend paid as financing activity.
- Interest and dividend received as investing activity.

TREATMENT OF TAX

Cash flows arising from tax payment or refund should be classified as cash flow from operating activities unless they can be specifically identified with financing or investing activities.

CASH FLOW STATEMENT – PROFORMA

CASH FLOW STATEMENT – DIRECT METHOD

No.	Particulars	Rs	Rs
A.	Cash flows operating activities:	-----	
	Cash receipts from customers	-----	
	Cash paid to suppliers and employees	-----	
	Cash generated from operations	-----	
	Income taxes paid	-----	
	Cash flow before extraordinary item	-----	
	Proceeds from earthquake disaster settlement	-----	
	Net cash from operating activities		-----
B.	Cash flows from investing activities:	-----	
	Purchase of fixed assets	-----	
	Proceeds from sale of equipment	-----	
	Interest received	-----	
	Dividends received	-----	
	Net cash from investing activities		-----
C.	Cash flows from financing activities:		
	Proceeds from issuance of share capital	-----	
	Proceeds from long term borrowings	-----	
	Repayment of long term borrowings	-----	
	Interest paid	-----	
	Dividends paid	-----	
	Net cash used in financing activities		-----
D.	Net Increase/Decrease in cash and cash equivalents(A+B+C)		-----
E.	Cash and cash equivalents at beginning of period		-----
F.	Cash and cash equivalents at end of period (D+E)		-----

CASH FLOW STATEMENT – INDIRECT METHOD

No.	Particulars	Rs	Rs
A.	Cash flows operating activities:	-----	
	Net profit before taxation, and extraordinary items adjustments for:	-----	
	Depreciation	-----	
	Foreign exchange loss	-----	
	Interest income	-----	
	Dividend income	-----	
	Interest expense	-----	
	Operating profit before working capital changes Increase in sundry debtors	-----	
	Decrease in inventories	-----	
	Decrease in sundry creditors	-----	
	Cash generated from operations	-----	
	Income taxes paid	-----	
	Cash flow before extraordinary items	-----	
	Proceeds from earthquake disaster settlement	-----	
	Net cash from operating activities		-----
B.	Cash flows from investing activities:	-----	
	Purchase of fixed assets	-----	
	Proceeds from sale of equipment	-----	
	Interest received	-----	
	Dividends received	-----	
	Net cash from investing activities		-----
C.	Cash flows from financing activities:		
	Proceeds from issuance of share capital	-----	
	Proceeds from long term borrowings	-----	
	Repayment of long term borrowings	-----	
	Interest paid	-----	
	Dividends paid	-----	
	Net cash used in financing activities		-----
D.	Net Increase/Decrease in cash and cash equivalents(A+B+C)		-----
E.	Cash and cash equivalents at beginning of period		-----
F.	Cash and cash equivalents at end of period (D+E)		-----

Note for student...

CHAPTER 5 – CASHFLOW STATEMENT

QUESTIONS							
No.	QUESTIONS	PAGE NO.	DATE	R1	R2	R3	REMARK
1	QP May 2019 Q5 b						
2	RTP Nov 19						
3	May 20 RTP						
4	Mock Test – Oct 20						
5	QP May 2018						
6	ICAI Practical Question 1						
7	QP Jan 21						
8	QP Nov 19						
9	ICAI Illustration 8						
TEST IN TIME PASS IN TIME							
1	Question						
2	Question						

1. QP May 2019 Q5 b

The following information was provided by M/s PQR Ltd. for the year ended 31st March, 2019

1. Gross Profit Ratio was 25% for the year, it amounts to ₹ 3,75,000.
2. Company sold goods for cash only.
3. Opening inventory was lesser than closing inventory by ₹ 25,000.
4. Wages paid during the year ₹ 5,55,000.
5. Office expenses paid during the year ₹ 35,000.
6. Selling expenses paid during the year ₹ 15,000.
7. Dividend paid during the year ₹ 40,000 (including dividend distribution tax).
8. Bank Loan repaid during the year ₹ 2,05,000 (included interest ₹5,000)
9. Trade Payables on 31st March, 2018 were ₹ 50,000 and on 31st March, 2019 were ₹ 35,000.
10. Amount paid to Trade payables during the year ₹6,10,000
11. Income Tax paid during the year amounts to ₹ 55,000 (Provision for taxation as on 31st March, 2019 ₹ 30,000)
12. Investments of ₹ 8,20,000 sold during the year at a profit of ₹ 20,000.
13. Depreciation on furniture amounts to ₹40,000.
14. Depreciation on other tangible assets amounts to ₹20,000.
15. Plant and Machinery purchased on 15th November, 2018 for ₹3,50,000.
16. On 31st March, 2019 ₹2,00,000, 7% Debentures issued at face value in an exchange for a plant.
17. Cash and Cash equivalents on 31st March, 2018 ₹2,25,000.

(A) Prepare cash flow statement for the year ended 31st March, 2019, using direct method.

(B) Calculate cash flow from operating activities, using indirect method.

2. RTP Nov 19

From the following information, prepare a Cash Flow Statement for the year ended 31st March, 2019.

Balance Sheet

	Particulars	Note	31.03.2019 (₹)	31.03.2018 (₹)
I	**EQUIT Y AND LIABILIT ES**			
	(1) Shareholder's Funds			
	(a) Share Capital	1	3,50,000	3,00,000
	(b) Reserves and Surplus	2	82,000	38,000
	(2) Non-Current Liabilities			
	(3) Current Liabilities			
	(a) Trade Payables		65,000	44,000
	(b) Other Current Liabilities	3	37,000	27,000
	(c)Short term Provisions (provision for tax)	4	32,000	28,000
	Total		**5,66,000**	**4,37,000**
	ASSET S			
II	**(1)Non-current Assets**			
	(a)Tangible Assets		2,66,000	1,90,000
	(b)Intangible Assets (Goodwill)		47,000	60,000
	Non-Current Investments		35,000	10,000
	(2)Current Assets			
	(a) Inventories		78,000	85,000
	(b) Trade Receivables		1,08,000	75,000
	(c) Cash & Cash Equivalents		32,000	17,000
	Total		**5,66,000**	**4,37,000**

Note 1: Share Capital

Particulars	31.03.2019 (₹)	31.03.2018 (₹)
Equity Share Capital	2,50,000	1,50,000
8% Preference Share Capital	1,00,000	1,50,000
Total	**3,50,000**	**3,00,000**

Note 2: Reserves and Surplus

Particulars	31.03.2019 (₹)	31.03.2018 (₹)
General Reserve	30,000	20,000
Profit and Loss A/c	27,000	18,000

Capital Reserve	25,000	
Total	**82,000**	**38,000**

Note 3: Current Liabilities

Particulars	31.03.2019(₹)	31.03.2018 (₹)
Dividend declared	37,000	27,000

Note 4: Tangible Assets

Particulars	31.03.2019 (₹)	31.03.2018 (₹)
Land & Building	75,000	1,00,000
Machinery	1,91,000	90,000
Total	**2,66,000**	**1,90,000**

Additional Information:

i. ₹ 18,000 depreciation for the year has been written off on plant and machinery and no depreciation has been charged on Land and Building.

ii. A piece of land has been sold out for ₹ 50,000 and the balance has been revalued, profit on such sale and revaluation being transferred to capital reserve. There is no other entry in Capital Reserve Account.

iii. A plant was sold for ₹ 12,000 WDV being ₹ 15,000 on the date of sale (after charging depreciation).

iv. Dividend received amounted to ₹ 2,100 which included pre-acquisition dividend of ₹ 600.

v. An interim dividend of ₹ 10,000 including Dividend Distribution T ax has been paid.

vi. Non-current investments given in the balance sheet represents investment in shares of other companies.

vii. Amount of provision for tax existing on 31.3.2018 was paid during the year 2018 -19.

3. May 20 RTP

The following figures have been extracted from the books of X Limited for the year ended on 31.3.2019. You are required to prepare a cash flow statement as per AS 3 using indirect method.

(i) Net profit before taking into account income tax and income from law suits but after taking into account the following items was ₹ 20 lakhs:

(a) Depreciation on Property, Plant & Equipment ₹ 5 lakhs.

(b) Discount on issue of Debentures written off ₹ 30,000.

(c) Interest on Debentures paid ₹ 3,50,000.

(d) Book value of investments ₹ 3 lakhs (Sale of Investments for ₹ 3,20,000).

(e) Interest received on investments ₹ 60,000.

(f) Compensation received ₹ 90,000 by the company in a suit filed.

(ii) Income tax paid during the year ₹ 10,50,000.

(iii) 15,000, 10% preference shares of ₹ 100 each were redeemed on 31.3.2019 at a premium of 5%. Further the company issued 50,000 equity shares of ₹ 10 each at a premium of 20% on 2.4.2018. Dividend on preference shares were paid at the time of redemption.

(iv) Dividend paid for the year 2017-2018 ₹ 5 lakhs and interim dividend paid ₹ 3 lakhs for the year 2018-2019.

(v) Land was purchased on 2 4.2018 for ₹ 2,40,000 for which the company issued 20,000 equity shares of ₹ 10 each at a premium of 20% to the land owner as consideration.

(vi) Current assets and current liabilities in the beginning and at the end of the years were as detailed below:

Particulars	As on 31.3.2018	As on 31.3.2019
	₹	₹
Inventory	12,00,000	13,18,000
Trade receivables	2,58,000	2,53100
Cash in hand	1,96,300	35,300
Trade payables	2,11,000	2,11,300
Outstanding expenses	75,000	81,800

4. Mock Test – Oct 20

What do you mean by the term "cash and cash equivalent" as per AS 3? From the following information of XYZ Limited, calculate cash and cash equivalent as on 31-03-2019.

Particulars	Amount (₹)
Cash balance with Bank	10,000
Fixed Deposit created on 01-11-2018 and maturing on15-07-2019	75,000
Short Term Investment in highly liquid Sovereign Debt Mutual fund made on 01-03-2019 (having maturity period of less than 3 months)	1,00,000
Bank Balance in a Foreign Currency Account in India	$ 1,000
(Conversion Rate: on the day of deposit ₹ 69/USD; ₹ 70/USD as on 31-03-2019)	
Debentures purchased of ₹ 10 lacs of A Ltd., which are redeemable on 31st October, 2019	90,000
Shares of Alpha Ltd. purchased on 1st January, 2019	60,000

5. QP May 2018

Classify the following activities as

(i) Operating Activities, (ii) Investing activities, (iii) Financial activities and (iv) Cash Equivalents.

(1) Cash receipts from Trade Receivables

(2) Marketable Securities

(3) Purchase of investment

(4) Proceeds from long term borrowings

(5) Wages and Salaries paid

(6) Bank overdraft
(7) Purchase of Goodwill
(8) Interim dividend paid on equity shares
(9) Short term Deposits
(10) Underwriting commission paid

6. ICAI Practical Question 1

Classify the following activities as (a) Operating activities, (b) Investing activities (c) Financing activities (d) Cash equivalents with reference to AS 3 (Revised).

(a) Brokerage paid on purchase of investments
(b) Underwriting commission paid
(c) Trading commission received
(d) Proceeds from sale of investment
(e) Purchase of goodwill
(f) Redemption of preference shares
(g) Rent received from property held as investment
(h) Interest paid on long-term borrowings
(i) Marketable securities (having risk of change in value)
(j) Refund of income tax received

7. QP Jan 21

Following information was extracted from the books of S Ltd. For the year ended 31st March,2020:

1. Net profit before taking into account income tax and after taking into account the following items was ₹ 30 lakhs
   i. Depreciation on property , plant and Equipment ₹7,00,000
   ii. Discount on issue of debentures written off ₹ 45,000

iii. Interest on debentures paid ₹ 4,35,000

iv. Investment of book value ₹ 3,50,000 sold for ₹ 3,75,000

v. Interest received on Investment ₹ 70,000

2. Income tax paid during the year ₹ 12,80,000
3. Company issued 60,000 Equity shares of ₹ 10 each at a premium of 20% on 10th April,2019,
4. 20,000, 9% preference shares of ₹ 100 each were redeemed on 31st March 2020 at a premium of 5%
5. Dividend paid during the year amounted to ₹ 11 lakhs (including dividend distribution tax)
6. A new plant costing ₹ 7 lakhs was purchased in part exchange of an old plant on 1st January, 2020. The book value of the old plant was ₹ 8 lakhs but the vender took the old plant at a value of ₹ 6 lakhs only. The balance amount was paid to vendor through cheque on 30th March, 2020.
7. Company decided to value inventory at cost whereas previously the practice was to value inventory at cost less 10 %. The inventory according to books on 31.03.2020.was ₹ 14,76,000. The inventory on 31.03.2019 was correctly valued at ₹ 13,50,000.
8. Current Assets and Current Liabilities in the beginning and at the end year 2019 -2020 were as:

Particulars	As on 1st April,2019 (₹)	As on 31st March,2020 (₹)
Inventory	13,50,000	14,76,000
Trade Receivables	3,27,000	3,13,200
Cash & Bank Balances	2,40,000	3,70,500
Trade Payables	2,84,000	2,87,300
Outstanding Expenses	97,000	1,01,400

You are required to prepare a cash Flow Statement for the year ended 31st March, 2020 as per AS 3 (revised) using the indirect method

8. QP Nov 19

Prepare cash flow from investing as per AS 3 of M/s Shubham Creative Limited for year ended 31.3.2019

Particulars	Amount (₹)
Machinery acquired by issue of shares at face value	2,00,000
Claim received for loss of machinery in earthquake	55,000
Unsecured loans given to associates	5,00,000
Interest on loan received form associate company	70,000
Pre-acquisition dividend received on investment made	52,000
Debenture interest paid	1,45,200
Term loan repaid	4,50,000
Interest received on investment (TDS of ₹ 8,200 was deducted on the above interest)	73,800
Purchased debentures of X Ltd., on 1st December, 2018 which are redeemable within 3 months	3,00,000
Book value of plant & machinery sold (loss incurred ₹ 9600)	90,000

9. ICAI Illustration 8

Ms. Jyoti of Star Oils Limited has collected the following information for the preparation of cash flow statement for the year ended 31st March, 2015:

Particulars	(in lakhs)
Net Profit	25,000
Dividend paid	8,535
Provision for Income tax	5,000
Income tax paid during the year	4,248
Loss on sale of assets (net)	40
Book value of the assets sold	185
Depreciation charged to Profit & Loss Account	20,000
Profit on sale of Investments	100

Carrying amount of Investment sold	27,765
Interest income received on investments	2,506
Interest expenses of the year	10,000
Interest paid during the year	10,520
Increase in Working Capital (excluding Cash & Bank Balance)	56,081
Purchase of fixed assets	14,560
Investment in joint venture	3,850
Expenditure on construction work in progress	34,740
Proceeds from calls in arrear	2
Receipt of grant for capital projects	12
Proceeds from long-term borrowings	25,980
Proceeds from short-term borrowings	20,575
Opening cash and Bank balance	5,003
Closing cash and Bank balance	6,988

Prepare the Cash Flow Statement for the year 2015 in accordance with AS3. (Make necessary assumptions).

Nazar Hati Durghatna Ghati...

Test In Time...Pass In Time

1. Question

From the following details relating to the Accounts of Grow More Ltd. prepare Cash Flow Statement:

Liabilities	31.03.2015 (₹)	31.03.2014 (₹)
Share Capital	10,00,000	8,00,000
Reserve	2,00,000	1,50,000
Profit and Loss Account	1,00,000	60,000
Debentures	2,00,000	–
Provision for taxation	1,00,000	70,000
Dividend payable	2,00,000	1,00,000
Trade payables	7,00,000	8,20,000
	25,00,000	20,00,000
Assets		
Plant and Machinery	7,00,000	5,00,000
Land and Building	6,00,000	4,00,000
Investments	1,00,000	–
Trade receivables	5,00,000	7,00,000
Inventories	4,00,000	2,00,000
Cash on hand/Bank	2,00,000	2,00,000
	25,00,000	20,00,000

(i) Depreciation @ 25 % was charged on the opening value of Plant and Machinery.

(ii) At the year end, one old machine costing 50,000(WDV20,000) was sold for 35,000. Purchase was also made at the year end.

(iii) 50,000 was paid towards Income tax during the year.

(iv) Building under construction was not subject to any depreciation. Prepare Cashflow Statement.

2. Question

Prepare cash flow statement of M/s MNT Ltd. for the year ended 31 st March, 2015 with the help of the following information:

(1) Company sold goods for cash only.

(2) Gross Profit Ratio was 30% for the year, gross profit amounts to 3,82,500.

(3) Opening inventory was lesser than closing inventory by 35,000.
(4) Wages paid during the year 4,92,500.
(5) Office and selling expenses paid during the year 75,000.
(6) Dividend paid during the year 30,000 (including dividend distribution tax.)
(7) Bank loan repaid during the year 2,15,000 (included interest 15,000)
(8) Trade payables on 31st March,2014 exceed the balance on 31st March, 2015 by 25,000.
(9) Amount paid to trade payables during the year 4,60,000.
(10) Tax paid during the year amounts to 65,000 (Provision for taxation as on 31.03.2015 45,000).
(11) Investments of 7,00,000 sold during the year at a profit of 20,000.
(12) Depreciation on fixed assets amounts to 85,000.
(13) Plant and machinery purchased on 15 November,2014 for 2,50,000.
(14) Cash and Cash Equivalents on 31st March,2014 2,00,000.
(15) Cash and Cash Equivalents on 31stMarch,2015 6,07,500.

MCQs

1. While preparing cash flow statement, conversion of debt to equity
   a) Should be shown as a financing activity.
   b) Should be shown as an investing activity.
   c) Should not be shown as it is a non-cash transaction.
   d) Should not be shown as operating activity.

2. Which of the following would be considered a 'cash-flow item from an "investing" activity'?
   a) Cash outflow to the government for payment of taxes.
   b) Cash outflow to purchase bonds issued by another company.
   c) Cash outflow to shareholders as dividends
   d) Cash outflow to make payment to trade payables.

3. All of the following would be included in a company's operating activities except:
   a) Income tax payments
   b) Collections from customers or Cash payments to suppliers
   c) Dividend payments
   d) Office and selling expenses.

4. Hari Uttam, a stock broking firm, received` 1,50,000 as premium for forward contracts entered for purchase of equity shares. How will you classify this amount in the cash flow statement of the firm?
   a) Operating Activities.
   b) Investing Activities.
   c) Financing Activities.
   d) Non-cash transaction

5. As per AS 3 on Cash Flow Statements, cash received by a manufacturing company from sale of shares of ABC Company Ltd. should be classified as
   a) Operating activity.
   b) Financing activity.
   c) Investing activity.
   d) Non-cash transaction

Answers									
1.	(c)	2.	(b)	3.	(c)	4.	(a)	5.	(c)