Dr.Babasaheb Ambedkar Open University

DAA
DIPLOMA IN ADVANCE ACCOUNTING

Block

3

Accounting in Special Situations for Companies

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PUBLISHER :
Shri S. H. Barot
(I/C. Director & Registrar.)
Dr.Babasaheb Ambedkar Open University, Dafnala, Ahmedabad.
August, 2004 (Print)

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Printed by : Shree Neminath Printers, Shahibaug, Ahmedabad. Mobile : 9825042651

Unit : 6 : Holding Companies Accounts

Introduction:

Day by day technologies are changing rapidally and it demands constant improvement in the business. Various tools are used by the body corporates for increasing their efficiencies and sometimes even for their survival. Now a days there is a stiff competition in the market. For reducing the competition as well as for creating monopolies, very big compnies have started making investment in the small companies. They make various combinations for the purpose. Mejor types of business combination include holding companies, joint ventures, associates etc. Due to severe competition in the business all over the world, various instruments are used for the purpose of making different types of arrangements which will help to reduce the competition like amalgamation, absorption, making another company as a subsidiarv company. A holding company is a device for combining two or more corporates. One company holds more than 50% of the share capital of another company and controls the management of that company. A holding company is any company which holds more than half of the equity share capital of some other company or corporates or controls the composition of the Board of Directors of other company or corporates. The other company is known as a subsidiary company. Here, even though more than half of the sharecapital of the company is aquired by the other company the operations of the other company will be carried on.

Structure of the chapter:

6.1 Objectives:

By the end of this chapter the students will learn about

- Definition of holding body corporate
- Advantages and disadvantages of holding body corporate
- Legal provisions related to holding body corporate (Sec.212)
- Preparation of consolidated balance sheet

6.2 Definition Of Holding Body corporate :

A company shall be deemed to be a subsidiary of another but only if,

(a) That company controls the composition of its Board of Directors,

(b) that other exercises or controls more than half of the total voting power of such body corporate, that other holds more than half in nominal value of its equity share capital.

(c) The first mentioned body corporate is a subsidiary of any other body corporate which is that other's.subsidiary.

It has been clarified that the composition of a body corporate's Board of Directors shall be deemed to be controlled by another body corporate if, it can, at its discretion without the consent of any other person, appoint or remove the holders of all or a majority of the directorships.

6.4 Legal Provisions Relating To Accounts (Sec. 212) :

Following are the legal provisions related with the holding companies accounts.

Sec. 212 provides as follows :

There shall be attached to the Balance Sheet of a holding body corporate, the following documents in respect of such subsidiary or of each such subsidiary,

(A) a copy of the Balance Sheet of the subsidiary,

(B) a copy of its Profit & Loss Account,

(C) a copy of the report of its Board of Directors,

(D) a copy of the report of its auditors,

(E) a statement of the holding body corporate's interest in the subsidiary,
(i) The statement shall specify the extent of holding body corporate's interest in the subsidiary at the end of the financial year of the subsidiary body corporate

(ii) The statement shall specify the net aggregate sum of the subsidiary's profit after deducting its losses or vice versa so far as it concerns members of the holding body corporate and is not dealt with in the body corporate's accounts.

(1) for the financial year or years of the subsidiary; and

(2) for the previous financial years of the subsidiary since it became the holding body corporate's subsidiary.

(iii) The statement shall specify the net aggregate sum of the profits of the subsidiary after deducting its losses or vice versa, so far as those profits are dealt with, or provision is made for those losses in the body corporate's accounts.

(1) for the financial year or years of the subsidiary; and

(2) for the previous financial years of the subsidiary since it became the holding body corporate's subsidiary.

(F) Where the financial year or years of a subsidiary do not coincide with the financial year of the holding body corporate, a statement containing information on the following matters shall also be attached to the Balance Sheet of the holding body corporate :

(i) whether there has been any change and if so, what change in the holding body corporate's interest in the subsidiary between the end of the financial year of the subsidiary and the end of the holding body corporate's financial year,

(ii) details of any material changes which have occured between the end of the financial year of the subsidiary and the end of the holding body corporate's financial year in respect of :

(1) the subsidiary's fixed assets;

(2) its. investments;

(3) the moneys lent by it;

(4) the moneys borrowed by it for any purpose other than that of meeting current liabilities.

It has been provided in Section 212 (2) (c) "where the financial year of the subsidiary does not coincide with that of the holding body corporate, the financial year of the subsidiary shall not end on a day which precedes the day on which the holding body corporate's financial year ends by more than six months."

This provision makes it clear that the information relating to subsidiary body corporate attached to the holding body corporate's final accounts should not be more than six months old.

Provision of the listing agreement:

> Where the body corporate is listed on the stock exchange and also it is having subsidiary companies, it has to present consolidated sets of accounts in addition to the individual accounts of the holding companies.

6.5 Presenting Final Accounts Of Subsidiary Body corporate By A Holding Body corporate

The holding company is having more than 50% of the investment in the subsidiary company. Thus the shareholder of the holding company must have the knowledge of the assets and liabilities as well as profit or loss of the subsidiary company in which their funds are invested by their company. This is very healthy practice which provides the insight of the total profitability of the company as whole alongwith its subsidiary.

The accounts of the group as a whole is prepared for getting such insight. There are two techniques of presenting such accounts of subsidiary body corporate by a holding body corporate.

(1) The accounts of the subsidiary and holding companies are merged and one single financial statement with the group Balance Sheet and group Profit and Loss account is prepared.

(2) The holding company provides the fianancial statements of the subsidiary company as the supplementary information attached with the financial statement of the holding company.

Under the Indian Companies Act, 1956 only the first technique is adopted and holding corporates are not required to publish consolidated accounts.

6.6 Method of preparation of Consolidated Balance Sheet:

At the time preparing the consolidated balance sheet of the group company the following point must be kept in mind.

Interest :

The interest of the holding company in the assets and liabilities of the subsidiary company is to be worked out. The interest is to be calculated on the assets and liabilities held by the subsidiary company on the last day of the financial year. If the interest of the holding company is to be worked out on the basis of number of share held by the holding company on the last day of the financial year. If the holding company does not hold all the shares of the subsidiary company then the portion of the interest in the assets and liabilities of the share not held by the holding company is to be worked out and the same is known as "Minority Interest".

Capital Profits :

The holding company, if not holding the shares from the first day of the company when incorporated than the profit which is accumulated as reserve will have to be divided into two protions, ie. Capital Profit and Revenue Profit.

The balance of profit or any reserve representing accumulated profit, existing in the books of the subsidiary body corporate on the date of acquisition of its shares by holding body corporate is treated as capital profit. However, the money of the holding body corporate was not invested in these shares before the date of acquisition and as such, this part of profit is not a return for the money it invested. Hence, it is treated as capital profit. If the holding body corporate receives any dividend out of this capital profit, it is a capital revenue for the holding body corporate. It cannot credit this revenue to its Profit & Loss Account. This would be utilized by the holding body corporate in writing down the value of its investments.

Profit or Loss of Subsidiary Body corporate :

The profit and loss of the subsidiary company will be shared by holding company to the extend of the investment made by them in such subsidiary company.

Eliminating Investment Account:

The Assets & Liabilites of the subsidiary company will be incorporated in the group balance sheet. So, the investment in subsidiary is not required to be shown in the group balance sheet. All the inter-group transactions are to be eliminated. The consolidated balance sheet will not show any profit arising from the inter-group transaction nor will show any inter-group assets or liabilities.

Goodwill or Capital Reserve

When the holding body corporate acquires shares in subsidiary body corporate at a price higher than their face or nominal value, the shares are said to have been acquired at a premium. This is shown as 'Goodwill' or 'Cost of Control' in the consolidate B/S similarly when the shares are aquired at the price less than the nominal value of the share than this is the capital profit of a holding body corporate, it is transferred to "Capital Reserve Account".

Minority Interest: All the shares in the subsidiary company are generally not aquired by the holding company. If all the shares in the subsidiary company are not aquired by the holding company than the share held by other shareholder of the subsidiary company other than holding company represent the "Minority Interest". They are shown as liability in consolidated balance sheet.

Minority Interest is the total of share of minority shares holder in the nominal value of share capital + their share in Capital Profit + their share in Revenue Profit.

Share of Holding Co. in Profit and Reserves :

(1) The profit and reserves of the subsidiary company till the date of acquisition of the shares by holding company to the extend of the share held by the holding company will be considered as "Capital Profit".

(2) Any increase in the profit or reserves of the Subsidiary Co. after date

of purchase, will be-Revenue Profit to the extent of share of the Holding Company.

The share of the profit as calculated above will be added to the profit of Holding Company whether as reserve or profit as the case may be. Profit also includes negative profits.

Some special situations:

Purchase of shares in the middle of the year :

When the share of the subsidiary company is purchased between the year then the profit earned during the year is to be determined. The profit earned during the year is to be determined by deducting the closing balance from the opening balance of Profit and loss Account. The amount derived will be profit / loss earned / incurred during the year. The assumption is to be made that profit is earned consistently during the year. Thus it is distributed proportionately during the period and the revenue and capital profit is to be worked out.

Inter-Body corporate Transactions :

While preparing consolidated B/S, besides share capital of subsidiary and Investment of Holding Co. in the subsidiary, other inter-body corporate transactions like inter company advances, inter company debtor-creditors relations, inter company bills receivable and bills payable shall be eliminated.

Dividend :

Dividend Paid by Subsidiary Co. : As the holding company is the shareholder of the subsidiary company the dividend distributed by the subsidiary company will also be earned by the holding company. Such dividend earned will be bifurcated in to two parts :

1) Dividend from pre-acquisition profit
2) Dividend from the post-acquisition profit

Dividend from Pre-acquisition Profit : If the dividend is paid by the Subsidiary Co, out its profit earned befor the period from which the holding company becomes the shareholder than, it is said to be paid out of Capital Profit. Because profit of the pre-acquisition period is treated as Capital Profit from the viewpoint of Holding Co. The dividend received by the Holding Co. out of such profit is Capital Revenue and will reduce the Investment cost and cannot be credited to Profit and Loss A/c by the Holding Co. Thus the effect of such dividend will be that the Cost of Investment will reduced and the bank balance will increase.

Dividend from Post-acquisition Profit : Dividend paid by the Subsidiary Co. out its- profit earned after purchase of shares by the Holding Co., then it is considered as dividend paid out of Revenue Profit. Such dividend-received by the Holding Co. is a. revenue profits and can be legitimately be credited to its Profit & Loss Account. The same rule applies to Interim Dividend paid by the Subsidiary Co.

Proposed Dividend : The dividend proposed by the board of directors of the Subsidiary Co. is shown in its separate balance as "Proposed Dividend" on its liability side of B/S. But the Holding Co. does not make any entry in its books for such dividend, unless it is received. The Subsidiary Co. has revealed it as a liability, but for the viewpoint of group, the share of Holding Co. is an internal transaction and should be cancelled. However the proposed dividend for the minority shareholder will be shown as liabilities in the Group Balance Sheet.

The proposed dividend while preparing the Consolidated Balance Sheet will be treated as follows :-

1) The share of the proposed dividend of the Holding company will be eliminated.

2) The share of the proposed dividend of the Minority Shareholder will only be shown in the Consolidated Balance Sheet. The same can also be eliminated by showing the proposed dividend under the Minority Interest.

Unpaid Dividend : If the Subsidiary Co. has declared dividend but has not paid it, then it is shown by sub. co. in its balance sheet as a liability. The Holding Co. must have shown it as sum receivable in its own balance sheet. In the consolidated balance sheet, the share of Holding Co. is deducted from 'Unpaid Dividend' of sub. co. and deducted from 'Dividend Receivable' of the Holding Co.

Unrealized Profit in Stock :

In many cases the goods are sold by the Holding company to the subsidiary and vice versa. Such goods are sold at the market value. The same goods many times is included in the closing stock at market value only (ie. it includes the profit). Thus while preparing the consolidate Balance sheet such profit is to be eliminated. The same can be done by reducing the value of the closing stock and reduce the profit. The same is explained as below.

Thus the unrealized profit in the stock of goods sold by one body corporate of the group to another body corporate.

(1) It is to be deducted from the stock of buying co. and from the profit of the selling body corporate.

(2) The profit to be deducted must be equal to the share of holding co. in the subsidiary body corporate.

Revaluation of Assets and Liabilities :

Sometimes, the assets and liabilities of a subsidiary co. are revalued at the time of acquisition of shares and the holding body corporate pays the price on the basis of these new values. If such changes have not been recorded, then they must be considered while preparing consolidated balance sheet.

If the new values are in excess of the old book values, the difference is the Capital Profit and must be added to the intrinsic value, while computing goodwill.

The share of minority shareholders in this increase must also be calculated and added to the minority interest.

If the new values are lower than the old book values of assets, then it is a Capital Loss and must be deducted while calculating goodwill or capital reserve.

Depreciation :

The circumstances may arise when values of assets will increase at the beginning of the financial year or at anytime during the year and if the asset is depreciable, then the additional depreciation must be calculated on such an asset. Hence, the revenue profit of the subsidiary co. will also decrease.

The effect of increase in depreciation will be as follows while preparing consolidated balance sheet :

(1) It will be deducted from the revenue profit of the subsidiary body corporate.

(2) It will also be deducted from the Minority Interest, because their share in the revenue profit decreases.

In case when the value of the assets is decrease than the reverse of the above is to be done.

Bonus Shares by Subsidiary Body corporate :

Some time the subsidiary company will issue bonus shares after acquisition of shares, the Holding Co. receives proportionate bonus shares. If these shares are issued out of Pre-acquisition profits, it does not change goodwill or capital reserve nor does it affect minority interest. Only the number of shares increases and its paid-up value increases, but the general reserve out of which bonus shares are issued is reduced by similar sum.

Thus when bonus shares are issued out of profits before purchase of shares, then

(i) There is no change in goodwill or capital reserve.

(ii) There is- no change even in Minority Interest.

Preference Shares of Subsidiary Body corporate :

When the Preference Shares are issued by the Subsidiary Company :-

1) If the holding company do not purchase such shares :-

   In such case the entire share capital will be added to the minority interest.

2) If the holding company has acquired all such shares :-

   The preference share from the subsidiary company and the investment in pref. Share from the holding company will be eliminated. If the shares are purchased at price higher than the nominal price than the "Goodwill" is to be shown.

3) If the holding company has acquired few of the shares :-

   The preference share from the subsidiary company and the investment in pref. Share from the holding company will be eliminated to the extend of the shares held by the holding company. If the shares are purchased at price higher or lower than the nominal price than the difference will be transferred to "Goodwill" or "Capital Reserve" as the case may be.

The value of shares purchased by outside share-holders must be added to the Minority Interest.

When the preference shares are cumulative and if any dividend is in arrears on such shares, then provision must be made for such dividend out of profits.

Debentures of Subsidiary Body corporate :

If the Holding company has made investment in the debentures of the subsidiary company then the debentures from the subsidiary and the investment in debenture from the holding company is to be eliminated. If the debentures are purchased at price higher or lower than the nominal price than the difference will be transferred to "Goodwill" or "Capital Reserve" as the case may be.

Purchase and Sale of Shares of Sub. Co. by Holding Co. :

The shares in the subsidiary company may be sold and in such case the Cash Account will be debited and the Investment Account is credited. The Profit or loss will be treated as Capital Profit or Capital Loss and same will be carried to Capital Reserve Account in case of profit or will be added to Goodwill in case of loss.

Moreover, when during the year, the Holding Co. acquires some more shares, then all the calculations needed for preparing consolidated balance sheet must be done on the basis of the total sum of shares. But in respect of additional shares, the profit and reserves standing in the books of sub. co. on the date of purchase of these shares are Capital Profits.

6.7 Practical:

1. Bharti Limited acquired 3,000 shares of Rs. 100 each out of 4,000 shares of Gangu Limited on 1-1-2000. The profits of A Ltd. for the last four years were : 2000 Rs. 50,000; 2001 Rs. 60,000; 2002 Rs. 45,000; 2003 Rs. 56,000.

There was. a credit balance of Rs. 30,000 of Profit & Loss Account and General Reserve of Rs. 10,000 on 1-1-2000 in the books of Gangu Ltd. Gangu Ltd. had declared dividends at 10%, 12.5%, 9% and 10% respectively for .these years. The financial year of~ Gangu Ltd. ends on ' 31st December.

How will you show in the annual accounts of Niki Ltd. on 31-3-2003 the profit of Gangu Ltd. "dealt with" and "not dealt with" in accordance with Section 212 of the Indian Companies Act ?

Solution :

As the holding body corporate has acquired 3,000 shares out of 4,000 shares, its interest is 3/4th in subsidiary body corporate.

The "profit dealt with" and "not dealt with" will have to be shown separately for the year 2003 and for the period of previous 3 years from 1-1-2000 to 31-12-2002. Profit dealt with :

(a) Out of profits of 2003 :

Nominal value of shares purchased	Rs. 3,00,000
Dividend received = 3,00,000 × 10/100 =	Rs. 30,000
(= Profit dealt with)	

(b) Out of profit of previous years

2002 3,00,000 × 9% = 27,000

2001 3,00,000 × 12.5% = 37,500

2000 3,00,000 × 10% = 30,000

Rs. 94,500

Profit not dealt with :

(a) Out of profits of 2003 :

Share in profits = 56,000 × 3/4 = 42,000

Less : Profit dealt with

(as shown above) = 30,000

Profit Not Dealt with : Rs. 12,000

(b) Out of profits of previous years :

2002 : Share in profits = 45,000 × ¾ = 33,750

Less : Profit dealt with 27,000 Rs. 6,750

2001 : Share in profits = 60,000 × 3/4 = 45,000

Less : Profit dealt with 37,500 Rs. 7,500

2000 : Share in profits = 50,000 × 3/4 = 37,500

Less : Profit death with 30,000 Rs. 7,500

Total Profit not dealt with : Rs. 21,750

Note : The credit balance of Profit & Loss Account and General Reserve existing in the books of Gangu Ltd. on date of acquisition 1-1-2000 is Capital profit for the holding body corporate, whereas under Sec. 212, only revenue profit should be shown as 'Profit dealt with' and 'not dealt with'. Capital profit is not to be shown.

2. Sita Ltd. acquired all shares of Rina Ltd. on 1-4-2001. The Balance Sheet of both the corporates as on 31-3-2002 are as follows :

Liabilities	Sita Ltd. Rs.	Nita Ltd. Rs.	Assets	Sita Ltd. Rs.	Nita Ltd. Rs.
Share Capital	1,00,000	60,000	Sundry		
General			Assets	1,20,000	1,30,000
Reserve			Shares of		
(1-4-2002)	50,000	30,000	Nita Ltd.		
Profit and			(at cost)	1,10,000	-
Loss A/c	50,000	20,000			
Creditors	30,000	20,000			
	2,30,000	1,30,000		2,30,000	1,30,000

On 1-4-2001 the Profit and Loss Account of Nita Ltd. showed a credit balance of Rs. 6,000.

Prepare a Consolidated Balance Sheet as on 31st March, 2002.

Solution

(1) Here shares of Nita Ltd. are acquired on 1-4-2001. Hence, balance of reserves and profit and loss account on 1-4-2001 in the books of Nita Ltd. is Capital Profit. As all shares are acquired by Sita Ltd. the whole sum is considered as Capital Profit.

(2) Let us First Calculate Capital Reserve :

General Reserve balance on	Rs.
date of purchase of shares	30,000
Profit and Loss A/c balance on date	
of purchase of shares	6,000
Total Capital Profit	36,000

(3) Now We Calculate Revenue Profit :

All the profit earned by subsidiary after the acquisition of shares is treated as "Revenue Profit".

Closing balance of P and L A/c	20,000
P and L A/c balance on date of Purchase share	6,000
Revenue Profit	14,000

(4) We now Calculate Goodwill (Cost of Control) :

	Rs.
Cost of shares	1,10,000
Less : Face Value of shares	60,000
Apparent Goodwill	50,000
Less : Capital Profit	36,000
Goodwill	14,000

Alternatively :

Face Value of shares	60,000
+ Capital Profit (share of Holding Ltd.)	36,000
Intrinsic value of shares	96,000
Purchase price	1,10,000
Goodwill	14,000

Note : Any balance of P & L and reserves existing on the date of acquisition of shares is considered as Capital Profit to the extent of Holding Body corporate's share in subsidiary. In this case it is Rs. 30,000 general reserve and Rs. 6,000 balance of profit and loss = Rs. 36,000 which is capital profit. The whole balance of reserves and profit and loss account is totaled up and treated as capital revenue, because holding body corporate has acquired 100% shares in subsidiary. It is a wholly-owned subsidiary body corporate.

Consolidated Balance Sheet of Sita Ltd. and its Subsidiary Nita Ltd. as on 31st March, 2002

Liabilities	Rs,	Assets	Rs.
Share Capital	1,00,000	Goodwill	14,000
General Reserve	50,000	Sundry. Assets :	
Profit and Loss Account		Sita Ltd. 1,20,000	
Sita Ltd 50 000		Nita Ltd . 1 30 000	2 50 000
Nita Ltd. 14,000	64,000		
Creditors :			
Sita Ltd. 30,000			
Nita Ltd. 20,000	50,000		
	2,64,000		2,64,000

* Out of the closing balance of Profit and Loss A/c of Rs. 20,000, Rs. 6,000 has been treated as Capital Profit and so the difference of Rs. 14,000 is shown as Revenue Profit.

3. The following are the Balance Sheets of Hetvi Ltd. and Rajvi Ltd. as on 31st December 2003.

Liabilities	Hetvi Ltd. Rs.	Rajvi Ltd. Rs.	Assets	Hetvi Ltd. Rs.	Rajvi Ltd. Rs.
Share Capital :			Fixed Assets	4,80,000	2,50.000
Shares of Rs. 100 each	10,00,000	5,00,000	Investments in Rajvi Ltd.		
Reserves and				5,00,000	-
Surplus :			Current Assets	7,20,000	7,50,000.
General Reserve	1,00,000	1.50,000			
Profit and Loss A/c	1,60,000	1,50,000			
Current Liabilities	4,40,000	2.00,000			
	17,00.000	10,00,000		17,00,000	10,00,000

The following further information is furnished :

(1) Hetvi Ltd. acquired 3,000 shares in Rajvi Ltd. on 1-4-2003. The reserves and surplus position .of Rajvi Ltd. as on 1-1-2003 was as under :

(a) General Reserve Rs. 2,50,000

(b) Profit and Loss A/c balance Rs. 1,20,000

(2) on 1-7-2003 Rajvi Ltd. issued 1 share for every 4 shares held as bonus shares at a face value of Rs. 100 per share. No entry has been made in the books of Hetvi Ltd. for the receipt of these bonus shares.

(3) On 30-6-2003 Rajvi Ltd. declared a dividend out of its pre-acquisition profits of 25% on its then Capital Hetvi Ltd. credited the dividend to its Profit and Loss A/c.

(4) Hetvi Ltd. owed Rajvi Ltd. Rs. 50,000 for purchase of stock from Rajvi Ltd. The entire stock is held by Hetvi Ltd. on 31-12-2003. Rajvi Ltd. made a profit of 25% on cost.

(5) Hetvi Ltd. transferred a machine to Rajvi Ltd. for Rs. 1,00,000. The book value of the machine to Hetvi Ltd. was Rs. 80,000.

Prepare a Consolidated Balance Sheet as on 31-12-2003.

Solution

(1) The Holding Co. has not made any entry for bonus shares received. But the Subsidiary Co. had already recorded it. It means that in the balance sheet of sub. co. given, the bonus shares are involved in the share capital. The co. has issued bonus shares at the rate of 1 share for 4 shares held, So if there are five

shares at the year end, the old shares held would have been 4 shares. Thus the old share capital before issue of bonus shares must consists of 4,000 shares.

	Rs.
Share Capital after issue of bonus shares 5,000 × 100	= 5,00,000
Share Capital before issue of bonus shares 4,000 × 100	= 4,00,000
Bonus	1,00,000

(2) Dividend : Rajvi Ltd. has paid on 30-6-2003 25% dividend on old share capital before issuing bonus shares i.e. 25% dividend is paid on Rs. 4,00,000.

Total Dividend paid Rs. 4,00,000 × 25% = Rs. 1,00,000

Dividend recd, by Hetvi Ltd. out of this = 1,00,000 × 3/4 = Rs. 75,000

(3) Holding co. has acquired shares on 1-4-2003, when the share capital of Rajvi Ltd. consisted of 4,000 shares and Hetvi Ltd. acquired 3,000 shares out of it. So the share of Hetvi Ltd. is 3000/4000=3/4

Share of Minority shareholders =1/4

(4) It seems bonus shares are issued out of General Reserve, because the balance of general reserve which stood at Rs. 2,50,000 on 1-1-2003 has been reduced to Rs. 1,50,000 on 31-12-2003.

The issue of- bonus shares has no effect, except that while calculating goodwill, the capital profit will be taken at Rs. 1,00,000'less and share capital will be taken as Rs. 1,00,000 more.

(5) Unrealised Profit: Hetvi Ltd. has purchased goods of Rs. 50,000 from Rajvi Ltd. and the whole of it is lying in stock. The seller co. has charged a profit of 25% on cost price. Thus the selling price of Rs. 125 contains a profit of Rs. 25, So unrealised profit is

50,000 × 25/125= Rs. 10,000

Holding Co.'s share 10,000 × 3/4 = Rs. 7,500.

This would be deducted from stock of Hetvi Ltd. and from revenue profit of Rajvi Ltd.

(6) Unrealised Profit on Sale of Machinery : Hetvi Ltd. has sold a machine of Rs. 80,000 to Rajvi Ltd. at a price of Rs. 1,00,000. Thus it includes a profit of Rs. 20,000; of this the sum equal to Holding Co.'s share in Sub. Co. will be treated as unrealised profit.

Rs. 20,000 × 3/4 = Rs. 15,000

This will be deducted from (i) Fixed assets (machinery) of Rajvi Ltd. and (ii) from profit and loss account of Rajvi Ltd.

(A) Capital Profits (On the date of purchase of shares)

	Rs.
(1) General Reserve	2,50,000
Less : Bonus shares	1,00,000

	1,50,000
(2) Profit and Loss A/c	
Bal. on 1-1-2003	1,20,000
Less : Dividend	1,00,000
	20,000
Closing balance	1,50,000
	1,30,000

Out of which three months Profit up to 1-4-2003

Considered Capital Profit 1,30,000 × 3/12 = 32,500 + 20,000

opening balance =	52,500
	2,02,500

(B) Revenue Profits : (After date of purchase of shares)

(1) Reserve No addition

(2) Profit and Loss A/c

9 months' profit 1,30,000 × 9/12 =	97,500
(1) Goodwill or Capital Reserve :	
Share Capital (Including Bonus shares)	5,00,000 × 3/4 = 3,75,000
Capital Profits	2,02,500 ×3/4 = 1,51,875
Dividend received (Capital Dividend)	75,000
	6,01,875
Purchase Price	5,00,000
Capital Reserve	1,01,875
(2) Minority Interest :	
Share Capital	5,00,000 × ¼ = 1,25,000
Capital Profits	2,02,500 × 1/4 = 50,625
Revenue Profits	97,500 × 1/4 = 24,375
	2,00,000
(3) Revenue Reserve and Revenue Profits :	
(1) Revenue Reserve -	
(2) Revenue Profits	97,500 × 3/4 = 73,125

Consolidated Balance Sheet of Hetvi Ltd. and Rajvi Ltd. as on 31-12.2003

Liabilities	Rs.	Assets			Rs.

Share Capital : 10.000 Equity			Fixed Assets :		
Share of Rs. 100 each			Hetvi Ltd.	4,80,000	
fully paid up		10,00,000	Rajvi Ltd.	2,50,000	
Minority Interest		2,00,000		7.30,000	
Capital Reserve		1,01,875	- Unrealized		
General Reserve			Profit in		
Hetvi Ltd.		1,00,000	Machinery	15,000	7,15,000
Profit and Loss A/c : Hetvi Ltd. 1,60,000			Current Assets : Hetvi Ltd.	7,20,000	
- Capital Dividend	15,000		- Unrealized		
	85,000		Profits in		
Unrealized Profits			stock	7,500	
in Machinery	15,000			7,12,500	
	70,000		Rajvi Ltd.	7,50,000	
Rajvi Ltd. 73,125				14,62.500	
- Unrealized			- Internal	50,000	14,12.500
Profits in					
stock 7,500	65,625	1,35,625			
Current liabilities :					
Hetvi Ltd. 4,40,000					
- Internal	50,000				
	3,90,000				
Rajvi Ltd. 2.00,000		5.90.000			
		21,27,500			21,27,500

- Note : As capital profit has been calculated after deducting dividend, and the share in Capital Dividend has been added while calculating goodwill.

4. Akash Ltd. acquired 3,000 shares of Rs. 100 each of Dharti Ltd. on 30-6-2003 at a price of Rs. 5,20,000 out of total of 4,000 shares. There was general reserve of Rs.. 2,50,000 and profit and loss account of Rs. 20,000 in the books of Dharti Ltd. on that date. Dharti Ltd. issued bonus shares, at the rate of 1 share for every. 2 shares held out of its general reserve. The credit balance of profit and loss account on 31-12-2003 was Rs. 60,000.

Show necessary details for preparing consolidated balance sheet.

Solution :

The Subsidiary Co. has issued one share as bonus share for every 2 shares held. Hence it has issued 2,000 bonus shares against its 4,000 shares. Now its paid up share capital has been Rs. 6,00,000. The sum of bonus of Rs. 2,00,000 is transferred from general reserve and so its balance is reduced to Rs. 50,000 from Rs. 2,50,000.

So the Capital Profit would now be as follows :

(A) Capital Profits :	Rs
General Reserve (2,50,000 - 2,00,000 Bonus)	50,000
Profit and Loss A/c	20,000
	70,000

(B) Revenue Profits :	
Profit and Loss A/c (60,000 - 20.000)	40,000

(1) Goodwill or Capital Reserve :

Share in Share Capital Rs.	
(including bonus shares) .6,00,000 × 3/4 =	4,50,000
Share in Capital Profits 70,000 × 3/4 =	52,500
	5,02,500
Purchase Price	5,20,000
Goodwill	17,500

(2) Minority Interest : Rs.

Share Capital (Including Bonus Shares)	6,00,000 × 1/4 =	1,50,000
Share in Capital Profits	70,000 × 1/4 =	17,500
Share in Revenue Profits	40,000 × 1/4 =	10,000
		1,77,500

(3) Revenue Reserve and Revenue Profits :

(A) Revenue Reserve (No addition after) acquisition of shares)

(B) Revenue Profits (60,000 - 20,000) 40,000 × 3/4 = 30,000

5. Manu Ltd: acquired 6,000 shares of Rs. 10 each of Milap Ltd. on 31-3-2002. The following are-the Balance sheets on that date :

Liabilities	Manu Rs.	Milap Rs.	Assets	Manu Rs.	Milap Rs.
Share Capital :			Fixed Assets	2,53,000	1,28,000
Authorised,			Investment		
Subscribed,	4,00,000	1,20,000	in shares of		
Issued and			Milap Ltd.		
Paid up Capital :			(Cost Price)	1,00,000	-
30,000 shares			Stock of Goods	30,000	10,000
fully paid up	3,00,000	-	Deb tore	10,000	10,000
8,000 shares	-		Bank	10,000	7,000
fully paid up		80,000	Bills Receivable		
Capital Reserve	27,000	34,000	(Including		
General Reserve	20,000	10,000	Rs. 1,400		
Profit and Loss A/c	20,000	2,000	from Milap Ltd.)		
Bills Payable				2,000	-
(Including					
Rs. 1,400 to					
Manu Ltd.)		3,500			
Creditors	35,000	17,500			
Proposed					
Dividend	3,000 4,05,000	8.000 1,55,000		4,05,000	1,55,000

You are given the following information :

(1) On 1st April, 2002, Milap Ltd. utilized part of its Capital Reserve to make a bonus issue of one share for every four shares held.

(2) Stock in hand of Manu Ltd. includes Rs. 4,800 for goods at invoice price bought from Milap Ltd. when invoicing goods to Manu Ltd. Milap Ltd. adds 20 percent to cost.

You are required to prepare a Consolidated Balance Sheet as on 1-4-2002.

Solution :

(A) Bonus Shares :

The Sub. Co. has issued bonus shares on 1-4-2002, while the Holding Co. has acquired its shares on 31-3-2002. Thus bonus shares are issued from pre-acquisition profit which is the capital profit. This will be considered while calculating capital profit.

At the rate of one share for 4 shares held, 2000 shares are issued for 8,000 shares. Thus its total shares would be 10,000; share of Holding Co.

= 6000/8000 = ¾

(B) Unrealized Profits in Stock :

Rs. 100 cost + Rs. 20 profit = 120 sales price

Sales price of Milap = Cost price of Manu's stock

Rs. in stock Stock Profit

120 : 4,800 : 20 = Rs. 800

Share of Holding = 800 × 3/4 = Rs. 600

(C) Capital Profits : Rs. Capital Reserve	34,000
- Bonus shares (2,000 shares × Rs. 10)	20,000
	14,000
General Reserve	
	10,000
Profit and Loss A/c	2,000
+ Proposed Dividend	8,000
	10,000
	34,000

(D) Revenue Profits :

There is no revenue profit, as the balance sheet is to be prepared on the very next day of the acquisition of shares :

(1) Goodwill or Capital Reserve : Rs. Share in Share Capital (Including Bonus Shares)

	1,00,000 × 3/4 = 75,000	
Share in Capital Profits	34,000 × 3/4 = 25,500	
Intrinsic value of shares		
		1,00,500
- Purchase Price of shares		1,00,000
Capital Reserve		500

(2) Minority Interest :

Share in Share Capital (Including Bonus shares) Rs.

1,00,000 × 1/4 = 25,000

Share in Capital Profits (Including proposed dividend)

34,000 × 1/4 = 8,500

33,500

Note : Here, the share of minority shareholders in proposed dividend is involved in Minority Interest. Alternatively, this share of minority shareholders in proposed dividend may be shown separately as 'proposed dividend' in Con. B/s.

Consolidated Balance Sheet as on 1-1-2002				
Liabilities	Rs.	Assets		Rs.
Share Capital : 30,000		Fixed Assets :		
Shares of Rs. 10 each		Manu	2,53, 000	
fully paid up	3,00,000	Milap	1,28,000	3,81,000
Minority Interest	33,500	Stock		
Capital Reserve 27,000		Manu	30,000	
+ On buying		-Unrealized		
Shares 500	27,500	profits	600	
General Reserve			29,400	
Manu 20,000		Milap	10,000	39,400
Milap	20,000	Debtors :		
Profit , and Loss A/c		Manu	10,000	
Manu 20,000		Milap	10,000	20,000
- Unrealised		Bank :		
Profit 60C 19,400		Manu	10,000	
SnhriH	19,400	Milap	7,000	17,000
Bills Payable 3,500		Bills Receivable	2,000	
- Internal 1,400	2,100	- Internal	1,400	600
Creditors :				
Manu 35,000				
Milap 17,500	52,500			
Proposed Dividend				
Manu 3,000				
Milap	3,000			
	4,58,000			4,58,000

6. Aarti Ltd. acquired 4,500 shares of Rs. 10 each of Kirti Ltd. on 1-4-2001. The Balance Sheet of both the corporates as on 31-3-2003 are as follows :

Balance Sheet as on 31-3-2001

Liabilities	Aarti Ltd. R	Kirti Ltd. R	Assets	Aarti Ltd. R	Kirti Co. R

	Rs.	Rs.		Rs.	Rs.
Share Capital :			Sundry Assets	1,20,000	1,10,000
Shares of Rs. 10			Stock	30,000	20,000
each	1,00,000	60,000	Shares in Kirti Ltd	80,000	-
General Reserve	50,000	30,000			
Profit & Loss A/c	50,000	20,000			
Creditors	30,000	20,000			
	2,30,000	1,30,000		2,30,000	1,30,000

When shares were acquired by Aarti Ltd. in Kirti Ltd. on 1st April 2000, Kirti Ltd. had Rs. 20,000 General Reserve and Rs. 12,000 credit balance in profit and loss A/c.

From the above information, prepare Consolidated Balance Sheet as at 31st March, 2001.

Solution :

Some calculations will be made first before preparing Consolidated B/S.

(1) The share capital of Kirti Ltd. is Rs. 60,000 and each share has a face value of Rs. 10 and so the no. of shares must be Rs. 60,000 ÷ Rs. 10 = 6,000 shares. Of these, Aarti Ltd. holds 4,500 shares and so Holding Cols Interest = 4,500 Shares / 6000 shares = 3/4th share and so Minority Interest is 1/4th.

We shall now find out Capital Profit (i.e. Profit of Subsidiary Co. on the date of purchase of shares. Then we shall calculate Revenue Profit (i.e. Increase in Profit or Reserve of Subsidiary Co. after the date of purchase).

(A) Capital Profit (Balance on the date of purchase of shares) :

	Rs.
General Reserve	20,000
Profit and Loss A/c	12,000
	32,000

(B) Revenue Profit (Increase after date of purchase of shares)	Rs.
General Reserve (30,000 - 20,000)	10,000
Profit and Loss A/c (20,000 - 12,000)	8,000
	18,000

(1) Goodwill or Capital Reserve :	Rs.
Face value of shares 4,500 × Rs. 10 =	45,000

Share in capital profit 32,000 × 3/4 =	24,000
Intrinsic value of shares	69,000
Purchase Price	80,000
Goodwill (Cost of control)	11,000

(2) Minority Interest : Rs.

Share in Share Capital 60,000 × 1/4 =	15,000
Share in Capital Profit 32,000 × 1/4 =	8,000
Share in Revenue Profit 18,000 × 1/4 =	4,500
	27,500

Remember that minority shareholders are going to get their share in both capital profit and revenue profit.

(3) Revenue Reserve and Revenue Profit :

(Share of Holdings Co. in increase in Profit or Reserve after acquisition of shares)

(A) Reserves = Rs. 10,000 × 3/4 =	7,500
(B) Profit and Loss A/c = Rs. 8,000 × 3/4 =	6,000

Remember that the increase in the reserve of Subsidiary Co. after date of purchase is Revenue Reserve and the share of Holding Co. in such Reserve is to be shown in Consolidated B/S. Here the opening balance of reserve was Rs. 20,000, which has increased to Rs. 30,000 at the close of the year. Thus there is an increase of Rs. 10,000 which is revenue reserve.

Similar, calculation has been made for Revenue Profit.

Consolidated Balance Sheet as on 31-3 -2001					
Liabilities		Rs.	Assets		Rs.
Share Capital		1,00,000	Goodwill (As per		
Minority Interest :		27,500	Note 1)		11.000
General Reserve			Sundry Assets :		
Aarti Ltd.	50,000		Aarti Ltd.	1,20,000	
Kirti Ltd.	7,500	57,500	Kirti Ltd.	1,10.000	2.30.000
(As per Note 3)					
Profit and Loss A/c			Stock :		
Aarti Ltd.	50,000		Aarti Ltd.	30.000	
Kirti Ltd.	6,000	56,000	Kirti Ltd.	20,000	50,000
(As per Note 3)					
Creditors :					
Aarti Ltd.	30,000				
Kirti Ltd.	20,000	50,000			
		2,91,000			2,91,000

7. The financial year of Hiren Ltd., a holding body corporate, ends on 31-3-2002 and that of Biren Ltd., its subsidiary, ends on 31-12-2001.

The share capital of Biren Ltd. consists of 5,000 equity shares of Rs. 100 fully paid. On 1-1-2000 Hiren Ltd. acquired 3,000 equity shares in Biren Ltd. at a cost of RS; 4,50,000. It also purchased another 1,000 shares in Biren Ltd. on 15-1-2002. On 1-1-2000, when Hiren Ltd. acquired the shares in Biren Ltd., the books of Biren Ltd. disclosed a credit balance of Profit & Loss Account Rs. 10,000 and a Reserve of Rs. 25,000. Biren Ltd. made profits of Rs. 70,000 and Rs. 1,00,000 respectively for the years ending on 31-12-2000 and 31-12-2001. Biren Ltd. declared dividend at 10% for 2001 and at 12.5% for 2002 tree of tax.

Between 1-1-2002 and 31-3-2002, Biren Ltd. has :

(i) purchased a building for Rs. 60,000

(ii) issued 12% Debentures of Rs. 1,00,000

(iii) advanced a loan of Rs. 80,000 to Jaihind Ltd.

(iv) purchased 7% (2003) Gujarat Govt. Loan of Rs. 25,000.

You are required to prepare a statement, as required under Sec. .212, to be attached to the Balance Sheet of Hiren Ltd. as on 31-3-2002.

Solution :

Hiren Ltd. Statement pursuant to Sec. 212 of the Indian Companies Act, 1956

As required by Sec. 212 of Indian Companies Act, 1956, the following documents are attached herewith and the requisite information is given hereunder

(1) copy of the Balance Sheet of Biren Ltd. as on 31-12-2001.

(2) copy of the Profit & Loss Account of Biren Ltd. for the year ending 31-12-2001.

(3) copy of the report of its Board of Directors.

(4) copy of the report of its Auditors on the Accounts for the year ending 31-12-2001.

(5) The holding body corporate's interest in Biren Ltd. as on 31-12-2001 was as follows:

This body corporate held 3,000 shares of Rs. 100 each in Biren Ltd. on 31-12-2001 out of 5,000 shares issued by Biren Ltd., i.e. it had 60% interest in Biren Ltd.

(6) The Profits of Biren Ltd. dealt with in this body corporate's accounts were as under :

(i) For the year ending 31-12-2001 :

Dividend received = 5,00,000 × 12.5% × 3/5 = Rs. 37,500

Profit dealt with = Rs. 37,500

(ii) For the previous years : Dividend received = 5,00,000 × 10% = Rs. 50,000

× 3/5 = Rs. 30,000

Profit dealt with Rs. 30,000.

(7) The profit of Biren Ltd. not dealt with in this body corporate's accounts were as under :

Share of Hiren Ltd. in profits of Biren Ltd. for the year ending 31-12-2001

1,00,000 × 3/5	= Rs. 60,000
Less : Profit dealt with	= Rs. 37,500
Profit not dealt with :	= Rs. 22,500

Share of Hiren Ltd. in profits of Biren Ltd.

for the year ending 31-12-2000 .

70,000 x 3/5	= Rs. 42,000
Less : Profit dealt with	= Rs., 30,000
Profit not dealt with :	= Rs. 12,000

(8) Between the end of financial year (31-12-2001) of Biren Ltd. and the end of financial year (31-3-2002) of Hiren Ltd. the extent of this body corporate's interest in Biren Ltd. has changed. By acquisition of 1,000 more shares, its interest has now increased to 80%.

(9) Between 31-12-2001 and 31-3-2002, following material changes in Biren Ltd. have occurred :

(i) Biren Ltd. purchased a building for Rs. 60,000.

(ii) Biren Ltd. purchased Rs. 25,000 7% (2006) Guj. Govt. Loan,

(iii) Biren Ltd. has given a loan of Rs. 80,000 to Jaihind Ltd.

(iv) Biren Ltd has issued 12% Debentures of Rs. 1,00,000.

8. H Ltd. acquires all the shares of S Ltd. on 31st March, 1987 on which date the balance sheets of the two corporates are as under :

	H Ltd.	*Slid.*		*H Ltd.*	*Slid.*
	Rs.	Rs.		Rs.	Rs.
Share Capital:			Sundry Assets	4,80,000	2,60,000
Shares of Rs. 10 each.			100% Shares in S Ltd.	2,00,000	—
fully paid	5,00,000	2,00,000			
Reserves	1,00,000	—			
Creditors	80,000	60,000			
	6,80,000	2,60,000		6,80,000	2,60,000

Prepare a Consolidated Balance Sheet as at 31st March, 1987.

Solution :

100% shares in S Ltd. represent assets of Rs. 2,60,000 minus the liabilities of Rs. 60,000. Hence, while preparing the consolidated balance sheet of H Ltd. and S Ltd. the assets and liabilities of both the corporates will be added; the share capital of S Ltd. being cancelled against 'Shares in S Ltd.' shown as an asset by H Ltd. The consolidated balance sheet will appear as under :

Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd. as at 31st March, 1987

Share Capital :			Sundry Assets :		
Shares of Rs. 10 each.			HLtd.	4,80,000	
fully paid		5,00,000	SLtd.	2,60,000	7,40,000
Reserves		1,00,000			
Creditors : H Ltd.	80,000				
S Ltd.	60,000	1,40,000			
		7,40,000			7,40,000

The journal entry that H Ltd. may pass is :

			Rs.	Rs.
Sundry Assets		Dr.	2,60,000	
To Creditors				60,000
To Shares in S Ltd.				2,00,000

Cost of Control/Capital Reserve

In the abovementioned example, the shares held by II Ltd. represent S Ltd's net assets of Rs. 2,00,000 and H Ltd. acquires the shares for exactly Rs. 2,00,000. But H Ltd. may pay for the shares an sum which either is more or is less than Rs. 2,00,000. If it pays more, the excess sum paid is considered the payment for goodwill or cost of control. On the other hand if H Lid. pays less than Rs. 2,00,000 the excess of S Ltd.'s net assets (excluding Goodwill) out the cost of shares to H Ltd. is a capital profit and is shown as Capital Reserve in the consolidated balance sheet.

9: Following are the Balance Sheets of the Ravi Limited and Kavi Limited as at 31st December 2001 :

Liabilities	Ravi Ltd. Rs.	Kavi Ltd. Rs.	Assets	Ravi Ltd. Rs.	Kavi Ltd. Rs.
Share Capital :			Goodwill	1,00,000	22,000
Shares of Rs. 100			Land-Building	1,20,000	45,000
each fully paid up	5,00,000	1,50,000	Plant and		
General Reserve	1,20,000	25,000	Machinery	2,60,000	85,500
Profit and Loss A/c	64,500	22,000	Investments	1,50,000	-
Creditors	1,75,000	40,000	Stock	70,000	25.000
Current A/c of			Debtors	1,20,000	47,500
Kavi Ltd.	6,000	_	Current A/c		
-			of Ravi Ltd.	-	6,000
			Cash and Bank	45,500	6.000
	8,65,500	2,37,000		8,65,500	2,37,000

Prepare Consolidated Balance Sheet of two corporates as on 31st December, 2001 after considering the following information :

(1) Ravi Ltd. acquired 1,200 shares of Kavi Ltd. at a price of Rs. 1,44,000 on 30-6-2001. The books of Kavi Ltd. showed general reserve at Rs. 10,000 and cr. balance of profit and loss account at Rs. 8,000 on that date.

(2) The directors of Ravi Ltd. revalued land and buildings of Kavi Ltd. on the date of acquisition. Its book value was Rs." 50,000 on 1-1-2001 and was increased to Rs. 60,000. Depreciation is charged at 10% on land and building by Kavi Ltd. No effect has been given to such a change so far, but must be considered while preparing Consolidated Balance sheet.

Solution :

(i) Share of Holding Co. = 1,200 / 1,500 = 4/5 and Share of Minority Shareholders = 300 / 1,500 = 1/5

(ii) Increase in the Value of Land & Building :

The book value on 1-1-2001 is given at Rs. 50,000, while its book Value in the balance sheet on 31-12-2001 is Rs. 45,000. It means that depreciation of Rs. 5,000 has been charged. It is Rs. 5,000 on its book value of Rs. 50,000, which comes to 10%. Thus, Kavi Ltd. charges 10% depreciation.

	Rs.
Book value on 1-1-2001	50,000
Less : 10% Depreciation upto 30-6-2001	2,500
Depreciated value on 30-6-2001	47,500
New value on 30-6-2001	60,000
Increase in value of Land-Building	12,500

As the value has been increased during the year, the depreciation will also increase.

(B) Additional Depreciation :

	Rs.
Old Value Rs. 50,000	
10% Depreciation for six months	
from 1-7-2002 to 31-12-2001	2,500
New Value Rs. 60,000	
10% Depreciation for six months	
from 1-7-2002 to 31-12-2001	3,000
Additional Depreciation	500

(A) Capital Profits (On date of acquisition of shares)

	Rs.
General Reserve	10,000
Profit and Loss A/c	8,000
Increase in value of Assets	12,500
Total	30,500

(B) Revenue Profits (After date of acquisition of shares)

General Reserve (25,000 - 10,000)		15,000
Profit and Loss A/c (22,000 - 8,000) =	14,000	
Less : Additional Depreciation	500	13,500
		28,500

(1) Goodwill or Capital Reserve :

Rs.

Share of holding in share Capital 1,50,000 × 4/5 = 1,20,000

Share in Capital Profits 30,500 × 4/5 =	24,400
Intrinsic value of shares	1,44,400
Purchase price of shares	1,44,000
Capital Reserve	400

(2) Minority Interest : Rs.

Share in Share Capital 1,50,000 × 1/5 =	30,000
Share in Capital Profits 30,500 × 1/5 =	6,100
Share in Revenue Profits 28,500 × 1/5 =	5,700
	41,800

(3) Revenue Reserve and Revenue Profits :

(To be shown in ton. balance sheet)

Reserve (25,000 - 10,000) Rs. 15,000 × 4/5 = 12,000

Profit-and Loss A/c 14,000

- Additional Depreciation Rs. 13,500 × 4/5 = 10,800

Balance of General Reserve on 1-1-2001	Rs. 2,500
+ Addition for three months up to 1-4-2001	Rs. 1,250
Balance of General Reserve on 1-4-2001	Rs. 3,750

(iii) The opening balance of P & L A/c was Rs. 8,0.00, while its closing balance is Rs. 20,000. It means that profit earned during the year is Rs. 12,000 and so- increase in profit for 3 months up to 1-4-2001 is Rs. 3,000.

	Rs.
Balance on 1-1-1999	8,000
+ Profit for three months-up to 1-4-2012	3,000
Balance of Profit and Loss A/c on 1-4-2001	11,000
(A) Capital Profits :	Rs.
Balance of General Reserve on date	
of Purchase of shares 3,750 Balance of P and L A/c on date of	
Purchase	11,000
Capital Profits	14,750
(B) Revenue Profits :	
Addition to General Reserve after	
purchase of shares (5,000 - 1,250)	3,750
Addition to P and L A/c after	
purchase of shares (9 months' profit)	9,000
Revenue Profits	12,750

(1) Goodwill or Capital Reserve (Cost of Control) :

	Rs.
Share of Holding Co. in share Capital 15,000 × 4/5 =	12,000
Share of Holding Co. in Capital Profits 14,750 × 4/5 =	11,800
Intrinsic value of shares	23,800
Purchase Price	30,000
Goodwill	6,200

(2) Minority Interest :	Rs.
Share in Share capital 15,000 × 1/5 =	3,000
Share in Capital profits 14,750 × 1/5 =	2,950
Share in Revenue profits 12,750 × 1/5 =	2,550
	8,500

Note : Calculation of Minority Interest by Another Technique :

13. The Balance Sheets of Lallu Ltd. and Chaku Ltd, as on 31-12-2001 are as follows :

Liabilities	Lallu Ltd. Rs.	Chaku Ltd. Rs.	Assets	Lallu Ltd. Rs.	Chaku Ltd. Rs.
Share Capital			Freehold Assets	1,40,000	
Shares of Rs. 10			Machineries	20,000	8,000
each fully			1,200 shares		
paid up	1,50,000	15,000	in Chaku Ltd.	30,000	-
General Reserve	75,000	7,500	Investments	45,000	15,000
Profit and Loss A/c	25,000	20,000	Debtors	35,000	17.000
Creditors	45,000	4,500	Bills Receivable	4,000	
Bills Payable	5,000	6,000	Bank balance	26,000	8,000
Contingent					
liabilities					
Bill discounted by					
Lallu but					
not matured					
Rs. 2,000	3,00,000	53,000		3,00,000	53,000

Lallu Ltd. acquired shares of Chaku Ltd. on 1-4-2001. The books of Chaku Ltd. disclosed a reserve of Rs. 2,500 and credit balance of profit and loss account of Rs. 8,000 on 1-1-2001. All the bills accepted by Chaku Ltd. were drawn by Lallu Ltd., of which Lallu Ltd. has discounted bills of Rs. 2,000. The debtors of Lallu Ltd. include Rs. 3,000 receivable from Chaku Ltd. The monthly profit was evenly earned during the year.

From the above information, Prepare Consolidated Balance Sheet as on 31-12-2001.

Solution:

(i) Holding Cols share = 1200/1500 = 4/5

Share of Minority shareholders = 1/5

(ii) The Holding Co. acquires shares on 1-4-2001 but the balances of P & L A/c and General Reserve on that are not given. But their balances as on 1-1-2001 and on 31-12-2001 are given. On that basis we will determine their balances on the date of purchase.

General Reserve on 1-1-2001 was Rs. 2,500, while it is Rs. 7,500 on 31-12-2001, which shows that general reserve has increased by R. 5,000 during the year and increase for 3 months up to 1-4-2001 is Rs. 1,250 (5,000 × 3/12).

Liabilities		Rs.	*Assets*		Rs.
Share Capital :			Sundry Assets :		
Share of Rs 10 each fully paid		5,00,000	H Ltd.	4.90,000	
Capital Receive		10,000	S Ltd.	2,60,000	7.50,000
Other Reserves		1.00,000			
Creditors:					
H Ltd.	80,000				
S Ltd.	60,000	1,40,000			
		7,50,000			7,50,000

Balance Sheet as on 31-3-2002				
Liabilities	Rs.	Assets		Rs.
Share Capital -24,000 Shares		Goodwill		29,840
of Rs. 10 each ,	2,40,000	Plant and 'Machinery		
General Reserve :		Holding Co. 1	80,000	
Holding Co. 60,000		Sub. Co.	68,000	2,48,000
Subsidiary Co.	60,000	Stock :		
Profit & Loss A/c		Holding Co.	60,000	
Holding Co. 78,000		Sub. Co. 23,200		
-Unrealized Profit 1,600		-Unrealized Profit 1,600	21,600	81,600
76,400		Debtors : Holding Co.	19,000	
+ Subsidiary 8,000	84,400	Subsidiary Co.	18,000	37,000
Minority Interest	20,040	Share of Jyoti Ltd.		
Creditors : Holding Co. 18,000		Holding Co.	30,000	
Subsidiary Co. 11,000	29,000 4,33,440	Subsidiary Co.	7,000	37,000 4,33,440

12. Balance Sheets as at 31st March, 1987.

	H Ltd.	*S Ltd.*		*H Ltd.*	*S Ltd.*
	Rs.	Rs.		Rs.	Rs.
Share Capital:			Sundry Assets	4,90,000	2,60,000
Shares of Rs. 10			100% Shares in S Ltd.		
each fully paid	5,00,000	2,00,000	(at cost)	1,90,000	
Reserves	1,00,000				
Creditors	80,000	60,000			
	6,80,000	2,60,000		6,80,000	2,60,000

Prepare a Consolidated Balance Sheet as al 31st March, 1987

Solution : In this case, H Ltd. has acquired shares worth Rs. 2,00,000 for Rs 1.90,000 only. It has thus earned a capital profit of Rs. 10.000. The Consolidated Balance Sheet will appear as under :-

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March 1987.

Balance of Profit and Loss A/c	Rs. 8,000
Balance of General Reserve	Rs. 7,200
Total	Rs. 15,200

(B) Revenue Profits :

General Reserve (No addition) -	
Profit and Loss A/c (18,000 - 8,000)	10,000
Total	Rs. 10,000

Now we calculate our usual three points :

(1) Goodwill or Capital Reserve (On the date of purchase) : Rs.

Share in Share Capital 75,000 × 4/5 =	60,000
Share in Capital Profits 15,200 × 4/5 =	12,160
Intrinsic Value	72,160
Purchase Price	1,02,000
Goodwill (Cost of Control)	29,840

(2) Minority Interest (As on the date of Balance Sheet) : Rs.

Share in Share Capital 75,000 × 1/5 =	15,000
Share m Capital Profits 15,200 × 1/5 =	3,040
Share in Revenue Profits 10,000 × 1/5 =	2,000
	20,040

(3) Revenue Reserve and Revenue Profit (To be shown in Con. B/S)

(A) General Reserve (No addition)

(B) Profit 10,000 × 4/5 =	8,000

11. Following are the Balance Sheets of Shailesh Ltd. and Prashant Ltd. as on 31-3-2002

Liabilities	Siailesh Ltd. Rs.	Prashant Ltd. Rs.	Assets	Shailesh Ltd. Rs.	Prashant Ltd. Rs.
Share Capital			Plant & Machines	1 80 000	68000
Shares of Rs. 10 each	*2,40,000*	*75,000*	Stock	60,000	23,200
General Reserve	*60,000*	*7,200*	Debtors	24,000	18,000
Profit & Loss A/c	*78,000*	*18,000*	6,000 Shares of		
Creditors	*18,000*	*16,000*	Prashant Ltd.	1,02,000	-
			Shares of		
	3,96,000	*1,16,200*		30,000 3,96,000	7,000 1,16,200

Prepare Consolidated Balance Sheet as on 31-3-2002 after considering the following information :

(1) When Shailesh Ltd. purchased shares of Prashant Ltd. the books of Prashant Ltd. showed Profit & Loss A/c (Cr. bal.) of Rs. 8,000 and general reserve Rs. 7,200.

(2) Out of the goods purchased by Prashant Ltd. from Shailesh Ltd., goods of Rs. 12,000 are still in stock, Shailesh Ltd. charges a profit of 20% on cost.

(3) Debtors of Shailesh Ltd. include Rs. 5,000 due from Prashant Ltd.

Solution :

(1) The subsidiary body corporate buys some goods from the Holding Co., on which the latter adds a profit of 20% on cost. The Sub. Co. has still in stock, goods of Rs. 12,000 out of it. The profit added by the holding co. in this stock. is 'Unrealized Profit' from the viewpoint of the group of these two corporates. Hence, this revenue will be deducted from the profit of selling co. (Holding Co.) and from the stock of buying *co.* (here, Sub. Co.). The whole of such profit is not deducted. But profit to the extent of Holding Co.'s share in the subsidiary co only is deducted.

For Stock	Rs-. Unrealized Profits	
Rs. 120	20 .	
12,000 .	?	20 X 12,000 / 120 = Rs. 2,000

Unrealized Profit = Rs. 2,000 × 4/5 Holding's share = Rs. 1,600 which will be deducted from profit of holding co. and from the stock of subsidiary co.

(A) Capital Profits (On the date of purchase of shares)

10. Balance Sheets as at 31st March, 1987

	H Lid.	*S Ltd.*		*H Ltd.*	*S Ltd.*
	Rs.	Rs.		Rs.	Rs.
Share Capital :			Sundry Assets	4,70.000	2,60,000
Shares of Rs. 10 each,			100% Shares in S Ltd.		
fully paid	5,00,000	2,00,000	(at cost)	2,10,000	
Reserves	1,00,000				
Creditors	80,000	60,000			
	6,80,000	2,60,000		6,80,000	2,60,000

Prepare a Consolidated Balance Sheet as at 31st March, 1987.

Solution:

In this case, H Ltd. has paid Rs. 10,000 for Goodwill. The Consolidated Balance Sheet will appear as follows :-

Liabilities		Rs.	*Assets*	Rs.
Share Capital :			Goodwill or cost of control	10,000
Shares of Rs. 10 each, fully paid		5,00,000	Other Assets :	
Reserves		1,00,000	H Ltd. 4,70,000	
Creditors :			S Ltd. 2,60,000	7,30,000
H Ltd.	80,000			
SLtd.	60,000	1,40,000		
		7,40,000		7,40,000

Consolidated Balance Sheet as on 31-12-2001

Liabilities	Rs.	Assets		Rs.
Share Capital : 5,000 shares		Goodwill		
of Rs. 100 each	5,00,000	Ravi	1,00,000	
Minority Interest	41,800	Kavi	22,000	
General Reserve :			1,22,000	
Ravi 1,20,000		Capital Reserve	400	1,21,600
Kavi 12,000	1,32,000	Land and Building		
Profit and Loss A/c		Ravi	1,20,000	
Ravi 64,500		Kavi (New		
Kavi 10 800	75,300	Value) 60000		
Creditors :		Dep. (New)		
Ravi 1,75,000		for six months 3,000	57,000	1,77,000
Kavi 40,000	2,15,000	Plant and Machinery		
		Ravi	2,60,000	
		Kavi	85.500	3,45,500
		Investments		6,000
		Stock : Ravi	70.000	
		Kavi	25,000	95,000
		Debtors : Ravi	1,20,000	
		Kavi	47,500	1,67.500
		Cash and Bank :		
		Ravi	45.500	
		Kavi	6,000	51.500
	9,64,100			9,64,100

	Rs.
Share in share capital 15,000 × 1/5 =	3,000
General Reserve 7,500 × 1/5 =	1,500
(Balance as per B/s)	
Profit and Loss A/c 20,000 × 1/5 =	4,000
(Balance as per B/s)	8,500

Here, both the balances of General Reserve and P & L A/c have been taken from B/S, because they contain both revenue profits and capital profits.

(3) Revenue Reserve and Revenue Profit (Share of Holding Co.)

(1) Revenue Reserve (7,500 - 3,750) = 3,750 × 4/5 =	3,000
(2) Revenue Profit (20,000 - 11,000) = 9,000 × 4/5 =	7,200

Consolidated Balance Sheet as on 31-12-2001

Liabilities		Rs.	Assets		Rs.
Share Capital 15,000			Goodwill		6,200
Equity shares of			Freehold Assets		1,40,000
Rs. 10 each fully			Machineries :		
paid up		1,50,000	Lallu	20,000	
General Reserve :			Varnan	8,000	28,000
Lallu	75,000		Investments : Varnan		5,000
Varnan	3,000	78,000	Stock :		
Minority Interest		8,500	Lallu	45,000	
			Varnan	15,000	60,000
Profit and Loss A/c			Debtors :		
Lallu	25,000		Lallu 35,000		
Varnan	7,200	32,200	- Internal		
Creditors :			Transaction 3,000	32,000	
Lallu	45,000		Chaku	17,000	49,000
Varnan	4,500		Bills Receivable	4,000	
- Inter Co.			Less : Not		
Transaction 3,000	1,500	46,500	Discounted	4,000	
Bills payable			Bank balance :		

Lallu	5,000		Lallu	26,000	
Varnan 6,000			Chaku	8,000	34,000
- not discounted 4,000	2,000	7,000			
		3,22,200			3,22,200

Notes : (1) All the bills payable of Rs. 6,000 of Subsidiary Co. are drawn by Holding Co. and so they are bills receivable of Holding Co. As they are internal transactions, they will be cancelled from consolidated b/s. But out of these, bills of Rs. 2,000 are discounted by the Holding Co., which have gone out of the group and so no longer internal indebtedness. As it is the liability of the group, it cannot be cancelled. But those bills which are still not discounted (bills of Rs. 4,000) will be cancelled.

Remember, "All bills drawn and accepted in the group and still on hand must be deducted from both sides."

(2) Bills of Rs. 2,000 accepted by subsidiary are discounted by the Holding Co. and shown by it as Contingent Liability in its separate balance sheet. But in the consolidated b/s, it is shown as actual liability of the group and so it will not be shown as Contingent Liability. Remember that "internal bills discounted will not be shown as Contingent Liability in the Con. B/S."

14. Balance Sheets as at 31st March, 1987

	H Ltd.	S Ltd.		H Ltd.	S. Ltd.
	Rs.	Rs.		Rs.	Rs.
Share Capital :			Sundry Assets	5,60,000	2,60,000
Shares of Rs. 10 each.			60% Shares in S Ltd.		
fully paid	5,00,000	2,00,00 0	(at cost)	1,20,000	
Reserves	1,00,000				
Creditors	80,000	60,000			
	6,80,000			6,80,000	2,60,000

Prepare a Consolidated Balance Sheet as at 31st March, 1987.

Solution.:

Consolidated Balance Sheet of H Ltd, and its subsidiary S Ltd, as at 31st March, 1987

Liabilities		Rs.	Assets		Rs.
Share Capital:			Sundry Assets:		
Shares of Rs. 10 each, fully paid		5,00,000	H Ltd.	5,60,000	
Minority Interest			S Ltd.	2,60,000	8,20,000
Rs. 2,00,000 x 40/100=Rs. 80,000		80,000			
Reserves		1,00,000			
Creditors:					
H Ltd.	80,000				
S Ltd.	60.000	1.40,000			
		8,20,000			8,20,000

15. Balance Sheets as at 31st March, 1987

	H Ltd.	S Ltd.		H Ltd.	S. Ltd.
	Rs.	Rs.		Rs.	Rs.
Share Capital:			Sundry Assets	5,50,000	2,60,000
Shares of Rs. 10 each,			60% Shares in S Ltd.		
fully paid	5,00,000	2,00,000	(at cost)	1,30,000	
Reserves	1,00,000				
Creditors	80,000	60,000			
	6,80,000	2,60,000		6,80,000	2,60,000

Prepare a Consolidated Balance Sheet as at 31st March, 1987

Solution :

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 1987

Liabilities		Rs.	*Assets*		Rs.
Share Capital:			Goodwill		10,000
Shares of Rs. 10 each, fully paid		5,00,000	Other Assets:		
Minority Interest		80,000	H Ltd.	5,50,00	
Reserves		1,00,000	S Ltd.	2,60,000	8,10,000
Creditors:					
H Ltd.	80,000				
S Ltd.	60,000	1,40,000			
		8,20,000			8,20,000

Liabilities		Rs.	*Assets*		Rs.
Share Capital:			Sundry Assets:		
Shares of Rs. 10 each, fully paid		5,00,000	HLtd.	4,36,000	
Reserves		1,00,000	SLtd.	3,04,000	7,40,000
Creditors:					
HLtd.	80,000				
SLtd	60,000	1,40,000			
		7,40,000			7,40,000

16. Balance Sheets as at 31st March, 1987.

	H Ltd.	S Ltd.		H Ltd.	S. Ltd.
	Rs.	Rs.		Rs.	Rs.
Share Capital:			Sundry Assets	4,26,000	3,04,000
Shares of Rs. 10 each,			100% Shares in S Ltd.		
fully paid	5,00,000	2,00,000	acquired on 31st March,		
Reserves	1,00,000	50,000	1989 (cost)	2,54,000	
Creditors	80,000	60,000	Preliminary Expenses		6,000
	6,80,000	3,10,000		6,80,000	3,10,000

Prepare a Consolidated Balance Sheet as at 31 st March, 1987.

Solution :

Calculation of Goodwill or Cost of Control Sum paid for		Rs.
100% shares in S Ltd.	Rs.	2,54,000
Less : Paid up value of 100% shares in S Ltd.	2,00,000	
Add 100% of Reserves of S Ltd. on the date of acquisition	50,000	
	2,50,000	
Less 100% of unwritten off Preliminary Expenses of S Ltd. as		
on the date of acquisition	6,000	2,44,000
Goodwill or Cost of Control		10,000

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 1987

Liabilities		Rs.	*Assets*		Rs.
Share Capital:			Cost of Control or Goodwill		10,000
Shares of Rs. 10 each, fully paid		5,00,000	Other Assets :		
Reserves		1,00,000	H Ltd.	4,26,000	
Creditors:			S Ltd.	3,04,000	7,40,000
H Ltd.	80,000				
S Ltd.	60,000	1,40,000			
		7,40,000			7,40,000

17. Balance Sheets as at 31st March, 1987

	H Ltd.	S Ltd.		H Ltd.	S. Ltd.
	Rs.	Rs.		Rs.	Rs.
Share Capital:			Sundry Assets	4,46,000	3,04,000
Shares of Rs. 10 each, fully paid	5,00,000	2,00,000	100% Shares in S Ltd. acquired on 31st March		
Reserves	1,00,000	50,000	1989 (cost)	2,34,000	
Creditors	80,000	60,000	Preliminary Expenses		6,000
	6,80,000	3,10,000		6,80,000	3,10,000

Prepare a Consolidated Balance Sheet as at 31st March, 1987.

Solution: Calculation of Capital Reserve on acquisition of shares :-	Rs.
Paid up value of 100% shares in S Ltd.	2,00,000
Add 100% of Reserves of S Ltd. on the date of acquisition	50,000
	2,50,000
Less 100% of unwritten off Preliminary Expenses of	Rs.
S Ltd. as on the date of acquisition	6.000
	2,44,000
Less Sum paid for 100% shares of S Ltd.	2,34,000
Capital Reserve	10,000

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 1987

Liabilities		Rs.	*Assets*		Rs.
Share Capital:			Sundry Assets		
Shares of Rs. 10 each, fully paid		5,00,000	H Ltd.	4,46,000	
Capital Reserve		10,000	S Ltd.	3,04.000	7,50,000
Other Reserves		1,00,000			
Creditors:					
H Ltd.	80,000				
S Ltd.	60,000	1,40,000			
		7,50,000			7,50.000

The minority shareholders are also entitled to their proportionate share of the profits and reserves of the subsidiary body corporate and have to bear their share of losses suffered by the subsidiary body corporate. Thus the minority interest is increased by the profits and decreased by the losses of the subsidiary body corporate.

18. Balance Sheets as at 31st March, 1987

	H Ltd.	S Ltd.		H Ltd.	S. Ltd.
	Rs.	Rs.		Rs.	Rs.
Share Capital:			Fixed Assets	3,00,000	1,00,000
Shares of Rs. 10 each.			60% Shares in S Ltd.		
fully paid	5,00,000	2,00.000	acquired on 31st March,		
Reserves	1,00,000	50,000	1989 (cost)	1,62,400	
Creditors	80,000	60,000	Current Assets	2,17,600	2,04,000
			Preliminary Expenses		6,000
	6,80,000	3,10,000		6,80,000	3,10,000

On 31st March 1987 S Ltd. revalued its fixed assets at Rs. 1,10,000. Prepare the consolidated balance sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 1987.

Solution : *Working Notes :*

(i) Calculation of Goodwill or Cost of Control :		
		Rs.
Sum paid for 60% Shares in S Ltd.	Rs.	1,62,400
Less Paid up value of 60% Shares in S Ltd.	1,20,000	
Add 60% Reserves of S Ltd. as on the date of		
acquisition Rs. 50,000 X 60/100	30,000	
60% of appreciation in the value of fixed assets on		
revaluation (Rs. 1, 10,000 -Rs. 1,00,000) X 60/100	6,000	
	1,56,000	
Less 60% of Preliminary Expenses Rs. 6,000 X 60/100	3,600	1,52,400
		10,000

(ii)	*Calculation of minority interest :*	
	Paid up value of 40% shares of S Ltd.	80,000
	Add 40% of Reserves of S Ltd. as on the date of consolidation Rs. 50,000 X 40/100	20,000
	40% of appreciation in lhe value of fixed assets of S Ltd. Rs. 10.000 x 40/100	4,000
		1,04,000
	Less 40% of Preliminary Expenses Rs. 6,000 X 40/100	2,400
		1,01,600

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 1987

Liabilities		Rs.	*Assets*		Rs.
Share Capital:			Goodwill		10,000
Shares of Rs. 10 each. fully paid		5,00,000	Other Fixed Assets :		
Minority Interest		1,01,600	H Ltd.	3,00,000	
Reserves		1,00,000	S Ltd.	1,10,000	4,10,000
Creditors:			Current Assets:		
H Ltd.	80,000		H Ltd.	2,17,600	
S Ltd.	60,000	1,40,000	S Ltd.	2,04,000	4,21,600
		8,41,600			8,41,600

19. Following are the Balance Sheets of Holding Ltd. and Subsidiary Ltd. as on 31st March, 2003, Prepare consolidated balance sheet as on that date.

Balance Sheet of Holding Ltd. on 31-3-2002

	Rs.		Rs.
Share Capital 24,000		Building (at cost)	1,50,000
Shares of Rs. 10 each	2,40,000	Plant and Machinery	60,000
General Reserve	50,000	Shares of Subsidiary	
Profit and Loss A/c	26,000	Ltd. (4,000 shares of	
Creditors	30,000	Rs. 10 each)	50,000
		Stock	35,000
		Debtors	45,000
		Bank balance	6,000
	3,46,000		3,46,000

Balance Sheet of Subsidiary Ltd as on 31-3-2001

	Rs.		Rs.
Share Capital : 6,000 shares		Building (at cost	
of Rs. 10 each	60,000	Rs. 60,000 less	
General Reserve		Depreciation)	55,000
(1-4-9$)	12,000	Plant and Machinery	20,000
Profit and Loss A/c	21,000	Stock	5,000
Creditors	7,000	Debtors	15,000
		Bank balance	5,000
	1,00,000		1,00,000

On 1-4-2001 when Holding Ltd. acquired in subsidiary Co. the profit and loss account of Subsidiary Co. showed a credit balance of Rs. 12,000. Subsidiary Ltd. declared and paid dividend for 2000-01 at 5% on its paid-up share capital on 30-9-2001. Holding Ltd. credited the dividend received by it to its profit and loss account.

Solution ;

(1) Share of Holding Ltd. in Sub. Ltd. = 2/3 ' Share of minority shareholders = 1/3

(2) The Subsidiary Ltd. has paid dividend for 2000-01 out of its pre-acquisition profit and the Holding Ltd. has credited it to profit and loss account.

(i) Dividend paid by Sub. Ltd. = 60,000 × 5% = Rs. 3,000.

(ii) Dividend received by Holding Ltd. = Rs. 3,000 × 2/3 = Rs. 2,000. As this is a capital profit, it will be deducted from its P & L A/c balance, because Holding Ltd. has wrongly credited it to P & L A/c.

Calculation of Capital Profits (On the date of purchase of shares) :

General Reserve		12,000
Profit and Loss A/c (Op. balance 12,000 - Dividend 3,000)		9,000
		Rs. 21,000

Revenue Profit (Earned after purchase of shares) :

General Reserve-		
Profit and Loss A/c : Closing balance	21,000	
- Opening balance (Capital Profits)	9,000	12,000
Revenue Profits		Rs. 12,000

(A) Goodwill or Capital Reserve :	Rs.
(1) Share of Holding Co. in Share Capital 60,000 × 2/3 =	40,000
(2) Share of Holding Co. in Capital Prof its 21,000 × 2/3 =	14,000
(3) Capital Dividend Reed. 3,000 × 2/3 =	2,000
Intrinsic value of shares	56,000
- Purchase Price of Shares	50,000
Capital Reserve	6,000
(B) Minority Interest :	Rs.
' Share Capital 60,000 × 1/3 =	20,000
Capital Profits 21,000 × 1/3 =	7,000
Revenue Profits 12,000 × 1/3 =	4,000
	31,000

OR

Share Capital (As per Balance Sheet) 60,000 × 1/3 =	20,000
General Reserve (As per Balance Sheet) 12,000 × 1/3 =	4,000
Profit and Loss A/c (As per B/S) 21,000 × 1/3 =	7,000
	31,000

(3) Revenue Profits and Revenue Reserve (Share of Holding Co.) : (To be shown in Consolidated B/S) Rs.

(A) Reserves : No Increase -

(B) Profit and Loss A/c : 12,000 × 2/3 = 8,000

Liabilities	Rs.	Assets		Rs.
Share Capital :		Buildings		
24,000 Shares of		Holding 1,50,000		
Rs. 10 each fully		Subsidiary 55,000		2,05,000
paid up	2,40,000	Plant and Machinery		
Capital Reserve	6,000	Holding 60,000		
Minority Interest	31,000	Subsidiary 20,000		80,000
General Reserve		Stock :		
Holding 50,000		Holding 35,000		
Subsidiary -	50,000	Subsidiary 5,000		40,000
Profit and Loss A/c :		Debtors :		
Holding 26,000		Holding	45,000	
-Dividend		Subsidiary.	15,000	60,000
received 2,000		Bank balance		
24,000		Holding-	6,000	
Subsidiary 8,000	32,000	Subsidiary	5,000	11,000
Creditors :				
Holding 30,000				
Subsidiary - 7,000	37,000			
	3,96,000			3,96,000

20. Balance Sheets as at 31st March, 1987

	H Ltd.	S Ltd.		H Ltd.	S. Ltd.
	Rs.	Rs.		Rs.	Rs.
Share Capital:			Fixed Assets	3,00,000	1,00,000
Shares of Rs. 10 each, fully paid	5,00,000	2,00,000	60% Shares in S Ltd. at cost	1,62,400	
General Reserves	1,00,000	50,000	Current Assets	2,77,600	2,39,000
Profit and Loss Account	60,000	35,000	Preliminary Expenses		6,000
Creditors	80,000	60,000			
	7,40,000	3,45,000		7,40,000	3,45,000

H Ltd. acquired the shares on 1st April 1985 on which date General Reserve and Profit and Loss Account of S Ltd. showed balances of Rs. 40,000 and Rs. 8,000 respectively. No part of Preliminary Expenses was written off during the year ending 31st March, 1987.

Prepare the consolidated balance sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 1987.

Solution :

(i) Capital Profits of the subsidiary i.e. profits earned prior to acquisition *of shares :*

	Rs
General Reserve	40,000
Profit & Loss Account	8,000
	48,000
Less Preliminary Expenses	6,000
	42,000

(ii)Revenue profits of the subsidiary i.e profits earned after the acquisition of shares:

Profit & Loss Account			
	Rs.		Rs.
To General Reserve			
(Rs. 50,000 - Rs. 40,000)	10,000	By Balance b/fd	8,000
To Balance c/d	35,000	By Profit for the year	37,000
	45,000		45,000

(iii) Calculation of Cost of Control or Goodwill :

		Rs.
Sum paid for 60% Shares of S Ltd.	Rs.	1,62,400
Less Paid up value of 60% Shares of S Ltd.	1,20,000	
Add 60% of Capital Profits i.e. profits prior to acquisition, Rs. 42,000 X 60/100	25,200	1,45,200
		17,200

(iv) Calculation of minority interest:

Paid up value of 40% shares of S Ltd.
80,000

Add 40% of Capital Profits = Rs. 42,000 X 40/100
16,800

Add 40% of Revenue Profits = Rs. 37,000 X 40/100
14,800

1,11,600

Alternatively, minority interest may be calculated as follows :-

	Rs
Paid up value of 40% shares of S Ltd.	80,000
Add 40% of General Reserve as on 31.3.1989 Rs. 50,000x40/100	20,000
Add 40% of Profit & Loss Account as on 31.3.1989 Rs. 35,000 X 40/100	14,000
	1,14,000
Less 40% of Preliminary Expenses Rs. 6,000 X 40/100	2,400
	1,11,600

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as at 31st March, 1987

Liabilities		Rs.	*Assets*		Rs.
Share Capital:			Goodwill		17,200
Shares of Rs. 10 each, fully paid		5,00,000	Oilier Fixed Assets :		
Minority Interest		1,11,600	H Ltd.	3,00,000	
General Reserve		1,00,000	S Ltd.	1,00,000	4,00,000
Profit & Loss Account :			Current Assets :		
H Ltd.	60,000		H Ltd.	2,77,600	
H Ltd.'s share of revenue profits of S Ltd. 37,000 X 60/100	22,200	82,200	S Ltd.	2,39,000	5,16,600
Creditors :					
H Ltd.	80,000				
S Ltd.	60,000	1,40,000			
		9,33,800			9,33,800

21. Bharat Ltd. acquired 80% of shares of Dhiru Ltd. on 1-4-2001. The Balance Sheets of both the corporates as at 31st March, 2002 are given below :

Liabilities	Bharat Ltd. Rs.	Dhiru Ltd. Rs.	Assets	Bharat Ltd. Rs.	Dhiru Ltd. Rs.
Share Capital :			Fixed Assets	2,50,000	1,30,000
Equity shares			Shares of		
of Rs. 10 each	3,00,000	1,00,000	Dhiru Ltd.	95,000	_
6 % Pref. shares			Stock	35,000	30,000
Of Rs. 100 each	_	40,000	Debtors	20,000	35,000
Share Premium	12,000	_	Due from		
General Reserve	30,000	20,000	Dhiru Ltd.	4,500	_
Profit and Loss A/c	15,000	10,000	Bank balance	27,500	19,000
12% Debentures	50,000	30,000	Debentures of		
Current liabilities	50,000	10,000	Dhiru Ltd. (Cost	25,000	_
Paid to Bharat Ltd.	_	4,000			
	4,57,000	2,14,000		4,57,000	2,14,000

Prepare consolidated Balance Sheet of both the corporates as on 31-3-

2002 after considering the following information :

(a) Profit of Dhiru Ltd. for the year ending 31st March, 2002,"but there has been no increase in the general reserve since 1-4-2001.

(b) Dhiru Ltd. has dispatched a cheque of Rs. 500 to Dhiru Ltd. on 25-3-2002 to Bharat Ltd., which the latter received on 2-4-2002.

(c) Preference shareholders have no voting rights and are not entitled to take part in additional profit. No provision for dividend on these shares has been made for the year ending on 31-3-2002.

Solution :

The holding body corporate has not acquired any of the preference shares of Subsidiary Body corporate and so the whole of preference share capital will be added to Minority Interest. As the preference shareholders have no voting rights, the share of Holding Body corporate in sub. co. will be calculated on the basis of equity shares only.

share of Homing Co. in SUB Co. Minority interest = 2/10

(A) Capital Profits (On the date of acquisition of shares)

General Reserve		Rs. 20,000
Profit and Loss A/c (Closing balance		
10,000 - Profit during the year 4,000)		
= Opening balance (On date of purchase)		Rs. 6,000
		Rs. 26,000

(B) Revenue Profits (After the date of purchase of shares)

General Reserve No addition -Profit and Loss A/c		4,000
Less : Pref. Dividend	2,400	1,600
		1,600

(1) Goodwill or Capital Reserve : Rs.

Share in Share Capital	1,00,000 80,000	×	8/10	=
Share in Capital Profits	26,000 20,800	×	8/10	=
Intrinsic Value	1,00,800			
Purchase Price	95.000			
Capital Reserve	5,800			

(2) Minority Interest :

Share in Share Capital	1,00,000 20,000	×	2/10	=

Pref. Share Capital Full share = 40,000

Pref. Dividend Full share = 2,400

Share in Capital Profits 26,000 × 2/10 = 5,200

Share in Revenue Profits 1,600 × 2/10 = 320

67,920

(3) Revenue Profits :

(To be shown in Con. B/S) 1,600 × 8/10 = 1,280

Consolidated Balance Sheet as on 31.3.2002

Liabilities	Rs.	Assets		Rs.
Share Capital : 30,000		Fixed Assets :		
Equity shares of Rs. 10		Bharat Ltd.	2,50,000	
each fully paid up	3,00,000	Dhiru Ltd.	1,30,000	3,80,000
Capital Reserve	5,800	Stock :		
Minority Interest	67,920	Bharat Ltd.	35,000	
Share Premium	12,000	Dhiru Ltd.	30,000	65,000
General Reserve :		Debtors :		
Bharat Ltd. 30,000		Bharat Ltd.	20,000	
Dhiru Ltd.	30,000	Dhiru Ltd.	35,000	55,000
Profit and Loss A/c		Cash in transit		500
Bharat Ltd. 15,000		Bank balance		
Dhiru Ltd. 1,280	16,280	Bharat Ltd.	27,500	
12% Debentures :		Dhiru Ltd.	19,000	46,500
Bharat Ltd. 50,000				
Dhiru Ltd. 5 000	55 000			
Current Liabilities :				
Bharat Ltd. 50,000				
Dhiru Ltd. 10,000	60,000			
	5,47,000			5,47,000

Notes : (1) As the type of preference shares is not stated, it must be assumed to be cumulative shares.

(2) From the balance sheets given it is seen that the sub. co. has to pay Rs. 4,000 to Holding Co., but the b/s, shows the sum due to be Rs. 4,500. This is because a cheque of Rs. 500 sent by sub. co. has not reached the Holding Co. till

the date of balance sheet. This sum will be shown as Cash-in-transit or Remittance in transit in the con. b/s and is deducted from both sides as internal wings.

22. Following are the balance sheets of Ursh Ltd. and its subsidiary Niki Ltd. as at 31st March, 1987.

	Ursh Ltd.	Niki Ltd.		Ursh Ltd.	Niki Ltd.
	Rs.	Rs.		Rs.	Rs.
Share Capital :			Machinery	3,00,000	1,00,000
Shares of Rs. 10 each,			Furniture	70,000	45,000
fully paid	6,00,000	2,00,000	70% Shares in Niki Ltd. at cost	2,60,000	
General Reserve	1,50,000	70,000	Stock	1,75,000	1,89,000
Profit and Loss Account	70,000	50,000	Debtors	55,000	30,000
Creditors	90,000	60,000	Cash at Bank	50,000	10,000
			Preliminary Expenses	---	6,000
	9,10,000	3,80,000		9,10,000	3,80,000

Ursh Ltd. acquired the shares of Niki Ltd. on 30th June 1986. On 1st April, 1986 Niki Ltd.'s General Reserve and Profit and Loss Account stood at Rs. 60,000 and Rs. 20,000 respectively. No part of Preliminary Expenses was written off during the year ended 31st March, 1987

Prepare the consolidated balance sheet of Ursh Ltd. and its subsidiary Niki Ltd. as at 31st March, 1987.

Solution :

Working Notes

(i) In the books of Niki Ltd.

Profit and Loss Appropriation Account for the year ended 31st March, 1987

	Rs.		Rs.
To General Reserve			
(Rs. 70,000 - Rs. 60,000)	10,000	By Balance b/fd	20,000
To Balance c/d	50,000	By Net Profit for the year	
		(Balancing figure)	40,000
	60,000		60,000
		By Balance b/d	50,000

Assuming that the profits during the current year have been evenly earned. Profit for the first three months

i.e.upto30th June, 1986, the date of acquisition = Rs. 40,000 X 3/12 = Rs. 10,000. Profits for the remaining nine months

= Rs. 40,000 - Rs. 10,000 = Rs. 30,000.

Hence revenue profits of Niki Ltd. i.e. profits earned after

the acquisition of shares by Ursh Ltd. = Rs. 30,000

Ursh Ltd.'s share = Rs. 30.000 X 70/100 = Rs. 21,000

Minority shareholders' share = Rs. 30.000 X 30/100 = Rs. 9,000 *(ii) Capital Profits*

		Rs.
General Reserve on 1st April, 1986		60,000
Profit & Loss Account on 1st April, 1986 .		20,000
Profits earned up to 30th June, 1986		10,000
		90,000
Less Preliminary Expenses		6,000
		84,000
h. Ltd's share = Rs. 84,000 X 70/100 = Rs. 58,800		
Minority shareholder's share = Rs. 84,000 X 30/100 = Rs. 25,200		
(ii) Calculation of cost of control :		Rs.
Sum paid for 70% shares of Niki Ltd.		2,60,000
Less		
Paid up value of 70% shares of Niki Ltd.	1,40,000	
Add Ursh Ltd.'s share of capital profits	58,800	1,98,800
		61,200
(iv) Calculation of minority interest :		Rs.
Paid up value of 30% shares		60,000
Add minority shareholders' share of capital profits		25,200
Add minority shareholders' share of revenue profits		9,000
		94,200
Alternatively		Rs.
Paid up value of 30% shares		60,000
30% of General Reserve, Rs. 70,000 X 30/100		21,000
30% of Profit & Loss Account, Rs. 50,000 X 30/1 00 =		15,000
		96,000
Less 30% of Preliminary Expenses, Rs. 6,000 X 30/100		1,800
		94,200

Consolidated Balance Sheet of Ursh Ltd. and its subsidiary Niki Ltd. as at 31st March, 1987

Liabilities		Rs.	*Assets*		Rs.
Share Capital :			Goodwill		61,200
60,000 Shares of Rs. 10 each, fully paid		6,00,000	Machinery :	Rs.	
Minority Interest		94,200	Ursh Ltd.	3,00,000	
General Reserve		1,50,000	Niki Ltd.	1,00,000	4,00,000
Profits & Loss Account:	Rs.		Furniture :		
Ursh Ltd.	70,000		Ursh Ltd.	70,000	
Add Share in			Niki Ltd.	45,000	1,15,000
Niki Ltd.'s profits	21,000	91,000	Stock :		
Creditors :			Ursh Ltd.	1,75,000	
Ursh Ltd.	90,000		Niki Ltd.	1,89.000	3,64,000
Niki Ltd.	60,000	1,50,000	Debtors :		
			Ursh Ltd.	55,000	
			Niki Ltd.	30,000	85,000
			Cash at Bank :		
			Ursh Ltd.	50,000	
			Niki Ltd.	10,000	60,000
		10,85,200			10,85,200

23. Following are the balance sheets of Jitendra Ltd. and Shailendra Ltd. as on 31-12-2002. Jitendra Ltd. had purchased 8,000 shares of Rs. 10 each of Shailendra Ltd, on 1-1-2001.

Liabilities	Jitendra Ltd. Rs.	Shailendra Ltd. Rs.	Assets	Jitendra Ltd. Rs.	Shailendra Ltd. Rs.
Share Capital :			Land-building	80,000	1,20,000
Shares of Rs. 10			Investments		
each	1,20,000	1,00,000	Shares of		
General Reserve			Shailendra Ltd.	1,04,000	-
(1-1-1999)	24,000	20,000	Stock	24,000	30,000
Profit and Loss A/c	68,000	56,000	Debtors	20,000	40,000
Creditors	20,000	6,000	Bank balance	4,000	2,000
Proposed Dividend	2,32,000	1 0,000 1,92,000		2,32,000	1,92,000

The credit balance of Profit and Loss Account of Shailendra Ltd. as on 1-1-2001 was Rs. 16,000. hailendra Ltd. has paid 10% dividend during the year for the year 2000. Jitendra Ltd. has credited dividend received by it to its profit and loss account. Jitendra Ltd. has not made any entry for the proposed dividend of Shailendra Ltd. at 10%.

From the above information, Prepare Consolidated Balance Sheet as on 31-12-2001.

Solution :

(1) Share of holding Co. = 8000/10000 = 4/5

Share of Minority Shareholders = 1/5

(2) Dividend paid by Subsidiary Body corporate :

Rs. 1,00,000 × 10% = Rs. 10,000

Dividend received by holding Co. Rs. 10,000 × 4/5 = Rs. 8,000. [This capital dividend must be deducted from P & L A/c of holding Co. Jitendra Ltd. and must be added while computing goodwill.)

(2) Proposed Dividend for Subsidiary Body corporate :

Out of proposed dividend of Rs. 10,000, the share of holding Co. Rs. 8,000 must be deducted from proposed dividend and must be added back to, P & L A/c of Sub. Co.

(A).Capital Profits (On the date of purchase of shares) :

		Rs.
General Reserve .		20,000
Profit and Loss A/c	16,000	
Less : Dividend paid*	10,000	6,000

Capital Profit		26,000
(B) Revenue Profits : (After buying of shares) :		
General Reserve (No addition) -		
Profit and Loss A/c (Increase after purchase of shares)		
Closing balance		56,000
+ Proposed Dividend		10,000
		66,000
- Opening balance		
(After dividend = 16,000 - 10,000)		6,000
Revenue Profit		60,000
(1) Goodwill or Capital Reserve :		Rs.
Share in Share Capital	1,00,000 × 8/10 =	80,000
Share in Capital Profits	26,000 × 8/10 =	20,800
Capital dividend received	10,000 × 8/10 =	8,000
Intrinsic value of shares		1,08,800
- Purchase price of shares		1,04,000
Capital Reserve		4,800
(2) Minority Interest :		Rs.
Share in Share Capital	1,00,000 × 2/10 =	20,000
Share in Capital Profit	26,000 × 2/10 =	5,200
Share in Revenue Profit* .	60,000 × 2/10 =	12,000
		37,200
- Proposed Dividend	10,000 × 2/10	2,000
		35,200
(3) Revenue Reserve and Revenue Profits :		
(To be shown in Consolidated B/S)		Rs.
(A) Reserve : No addition		
(B) Revenue Profits :	60,000 × 8/10	48,000

* If this dividend is not deducted, then it should not be added while calculating goodwill.

• As this profit of Rs. 60,000 contains the sum of proposed dividend, it has been deducted just thereafter.

Consolidated Balance Sheet of Jitendra Ltd, and Shailendra Ltd. as on 31-12-2001

Liabilities	Rs.	Assets		Rs.
Share Capital : 12,000		Land and Building		
Shares of Rs. 10 each		Jitendra	80.000	
fully paid	1,20,000	Shailendra	1.20,000	2.00,000
Capital Reserve	4,800	Stock :		
vlinority Interest	35,200	Jitendra	24,000	
General Reserve		Shailendra	30,000	54,000
Jitendra 24,000		Debtors :		
Shailendra	24,000	Jitendra	20,000	
Profit & Loss A/c		Shailendra	40,000	60.000
Jitendra 68,000		Bank balance :		
Less : Capital Dividend 8,000		Jitendra	4,000	
60,000		Shailendra	2,000	
Shailendra 48.000	1.08,000			
Creditors :				
Jitendra 20,000				
Shailendra 6,000	26,000			
Proposed Dividend 10,000				
-Share of holding Co. 8,000	2,000 3,20,000			3,20.000

24. On 1st April 1987 Ursh Ltd. acquired 80% equity shares and 30% preference shares of S Lid. for Rs.1,95,000 and Rs. 30,500 respectively on which date Niki Ltd.'s General Reserve and Profit and Loss Account showed balances of Rs. 30,000 and Rs. 4,000 respectively. On 31st March, 1987 the balance sheets of the two corporates stood as follows:-

	Ursh Ltd.	Niki Ltd.		Ursh Lid.	Niki Ltd.
	Rs.	Rs.		Rs.	Rs.
Equity Share Capital	10,00,000	2,00,000	Sundry Assets	13,54,500	4,76,000
10% Preference Share			80% Equity Shares in Niki Ltd.	1,95,000	
Capital	—	1,00,000	30% Preference Shares		
General Reserve	3,00,000	40,000	in Niki Ltd.	30,500	
Profit and Loss Account	1,00,000	39,000			
Creditors	1,80,000	97,000			
	15,80,000	4,76,000		15,80,000	4,76,000

You are required to draw the consolidated balance sheet as at 31st March, 1987 assuming that on 1st April, 1986 there we're no arrears of preference dividend.

Solution :			
(i) In Niki Ltd.'s Ledger			
Profit and Loss Appropriation Account			
	Rs.		Rs.
To General Reserve		By Balance b/fd	4,000
(Rs. 40,000 - Rs. 30,000)	10,000	By Net Profit for the year	
To Balance c/d	39,000	(balancing figure)	45,000
	49,000		49,000
			Rs.
Revenue Profit			45,000
Less Preference Dividend on Rs. 1,00,000 @ 10% per annum for 1 year			10,000
Remaining profit			35,000

holding body corporate's share = Rs. 35,000 X 80/100 = Rs. 28,000

Minority shareholders' share = Rs. 35,000 x 20/100 = Rs. 7,000

holding body corporate's share in preference dividend

= Rs. 10,000 X 30/100 = Rs. 3,000

Minority shareholders' share in preference dividend

= Rs. 10.000 X 70/100 = Rs. 7,000

holding body corporate's total share = Rs. 28,000 + Rs. 3,000 = Rs. 31,000

(ii) *Capital Profits :*

		Rs.
General Reserve as on 1st April, 1988		30,000
Profit & Loss Account as on 1st April, 1988		4,000
		34,000

Ursh Ltd.'s share = Rs. 34,000 X 80/100 = Rs. 27,200

Minority interest = Rs. 34,000 X 20/100 = Rs. 6,800

(iii) *Calculation of Cost of Control or Goodwill :*

Sum paid for acquiring equity shares		1,95,000
Sum paid for acquiring preference shares	Rs.	30,500
		2,25,500
Less Paid up value of 80% equity shares	1,60,000	
Paid up value of 30% preference shares	30,000	
Ursh Ltd.'s share of capital profits	27,200	2,17,200
		8,300

(iv) Calculation of minority interest :

Paid up value of 20% equity shares	40,000
Share in capital profits	6,800
Share in revenue profits in addition to preference dividend	7,000
Paid up value of 70% preference shares	70,000
Share in preference dividend	7,000
	1,30,800

Consolidated Balance Sheet of Ursh Ltd. and its subsidiary Niki Ltd. as at 31st March, 1987

Liabilities		Rs.	*Assets*		Rs.
Equity Share Capital		10,00,000	Goodwill		8,300
Minority Interest		1,30,800	Other Assets		
General Reserve		3,00,000	Ursh Ltd.	13,54,500	
Profit and Loss Account :			Niki Ltd.	4,76,000	18,30,500
Ursh Ltd.	1,00,000				
Add share in					

Niki Ltd.'s profits	31.000	1,31,000			
Creditors :					
Ursh Ltd.	1,80,000				
Niki Ltd.	97,000	2,77,000			
		18,38,800			18,38,800

6.8 Practical Exercise:

1. Nishu Ltd. acquired 7,000 Equity shares of Vinee Ltd. on 1-10-2002 and additional 2,000 shares on 31-12-2002 for Rs. 40,000. The following are the balance sheets of both the corporates at 31-3-2003.

Liabilities	Nishu Ltd. Rs.	Vinee Ltd. Rs.	Assets	Nishu Ltd. Rs.	Vinee Ltd. Rs.
Equity			Goodwill	1.26,000	46,000
Share Capital			Land-Building	95,000	47,000
Shares of Rs. 10 each	33,000	1,00,000	Machinery (-10%		
6% Mortgage			Depreciation)	45,000	50,400
Debentures	76,000	1,30,000	Furniture (-5%		
Creditors	30,000	40,000	Depreciation)	1,000	500
Reserves	27,000	30,000	9,000 Equity		
Profit and			Shares of		
Loss A/c	60,000	20,000	Vinee Ltd.	1,20,000	-
			Stock	48,000	1,38,000
			Debtors	57,000	35,000
			Investments	26.000	-
			Bank	6.000	3,100
	5,24,000	3,20,000		5,24,000	3,20,000

Prepare Consolidated Balance Sheet of both the corporates after considering the following information :

(1) The balance sheet of Vinee Ltd. on 31-3-2002 disclosed following balances : Machinery Rs. 56,000, Reserves Rs. 30,000 and P & L A/c (Cr.) Rs. 8,000. The profit of Vinee Ltd. was earned evenly during the year.

(2) Directors of Nishu Ltd. revalued the machinery of Vinee Ltd. at Rs. 60,000 on 1-10-2002 but has not been recorded in the Books.

(3) The creditors of Nishu Ltd. include Rs. 15,000 due to Vinee Ltd. for purchase of goods after acquisition of shares. Vinee Ltd. charges a profit of 10% on cost on its sales. Stock of Nishu Ltd. on 31-3-2003 include goods of Rs. 30,000 purchased from Vinee Ltd.

(4) Creditors of Vinee Ltd. include bills payable of Rs. 6,000 drawn by Nishu Ltd., which Nishu Ltd. had discounted.

2. On 30-6-99 Mark Niki Ltd. acquired 4,000 equity shares of Rs. 100 each for Rs. 4,80,000 in Apex Ltd. Issued and subscribed capital of Apex Ltd. consisted of 5,000 shares of Rs. 100 each. Apex Ltd. earned the profits as follows :

1999 Rs. 90,000; 2000 Rs. 90,000; 2001 Rs. 1,00,000 and 2002 Rs. 1,10,000

Apex Ltd. declared and paid dividends at 12% free of tax for all these four years. The last final accounts were prepared as on 31-12-2002 and the annual accounts of MarkNiki Ltd. were prepared on 31-3-2003. From the information, prepare a statement in pursuant to Sec. 212 of the Indian Companies Act to be attached to the annual accounts of MarkNiki Ltd. on 31-3-2003.

There had been no change in fixed assets, investments, loans and advances of MarkNiki Ltd. between 31-12-2002 and 31-3-2003, neither has there been any change in the interest of MarkNiki Ltd. in Apex Ltd.

3. A Ltd. is a holding body corporate which holds a controlling interest in B Ltd. The holding body corporate prepared its annual accounts on 31-3-2003 and B Ltd. prepared its final accounts on 31-12-2002.

The share capital of subsidiary is divided into 10,000 shares of Rs. 100 each of which, A Ltd, holds 6,000 shares. In addition, A Ltd. purchased 2,000 shares in B Ltd. on 1-2-2003.

When the holding body corporate acquired 6,000 shares on 1-1-2001, there was a General Reserve of Rs 40,000 and a credit balance of Profit & loss Account Rs. 10,000 in the books of the subsidiary body corporate. B Ltd. earned profits of Rs. 1,20,000 and Rs. 1,60,000 respectively for the year ending on 31-12-2001 and 31-12-2002 and it declared a dividend at 10% for the both these years.

Between 31-12-2002 and 31-3-2003, B Ltd. purchased machinery worth Rs. 1,00,000 and had issued 12% Debentures of Rs. 1,00,000. Also, it has advanced a loan of Rs. 20,000 to C Ltd. and has purchased Surat Municipal Corporation Bond of Rs. 25,000,

You are required to prepare a statement in pursuant to Sec. 212 of the Indian Companies Act, 1956 to be attached to the annual account of A Ltd.

4. Bhabhut Limited acquired 6,000 shares of Rs. 100 each out of 8,000 shares of Gajanand Limited on 1-1-1999. The profits of Gajanand -Ltd. for the last four years were : 1999 Rs. 92,000, 2000 Rs. 1,00,000, 2001 Rs. 84,000 and 2002 Rs. 1,08,000 respectively.

There was a credit balance of Rs. 28,500 of Profit, and Loss Account and Reserve of Rs. 9,550 on 1-1-1999 in the books of Gajanand Ltd. Gajanand Ltd. had declared dividends at 10 1/2%, 11%, 10% and 12% respectively for these years. This financial year of Gajanand Ltd. ends on i 31st December.

How will you show in the annual accounts of Bhabhut Ltd. on 31-3-2003 the profit of Gajanand Ltd. "Dealt with' and 'Not Dealt with in accordance with Section 212 of the Indian Companies Act.

5. Balance Sheet of Saumil and Shyamal Ltd. . as on 31-3-99 are as under :

Liabilities	Saumil Rs.	Shyamal Rs.	Asset's	Saumil	Shyamal
Issued and paid up Capital :			Fixed Assets Investments : .	Rs. 5,50,000	Rs. 4,10,000
7% Pref. shares of Rs. 100 each	_	1,00,000	16,000 Equity shares of Shyamal Ltd.	2,50,000	
Equity shares of Rs. 10 each	5,00,000	2,00,000	500 Pref. Shares 100 Debentures	55,000	-
Capital Reserve	_	1,00,000	Of Rs. 100 each	11,000	
General Reserve	1,40,000	50,000	Stock	60,000	1,00,000
Profit and Loss A/c	2,10,000	80,000	Debtors	1,10,000	1,70,000
"10% 500 Debentures			Bank balance	70,000	40,000
Of Rs. 100 each	-	50,000	Bills Receivable		
Outstanding Interest	-	5,000	(including		
Bill Payable			Rs. 2,000 of		
(Accepted for			Shyamal)	4,000	-
Saumil Ltd.)	-	10,000			
Creditors	1,80,000	93,000			
Proposed Dividend :					
Preference	-	8,000			
Equity	60,000	24,000			
	11,10,000	7,20,000		11,10,000	7,20,000

Additional Information:

(1) Saumil Ltd. had purchased shares and debentures of Shyamal Ltd. as on 1st July 1998.

(2) There were balances of Rs. 40,000 of general reserve and Rs. 20,000 of Profit and Loss A/c of Shyamal Ltd. as on 31st March, 1998.

(3) The balance of profit and loss A/c Rs. 20,000 as on 31st March, 1998 was after providing for preference share dividend of Rs. 8,000 for the year 1997-98 and proposed equity share dividend of Rs. 20,000, these were subsequently paid and credited to profit and loss A/c of Saumil Ltd.

(4) Shyamal Ltd. had issued one bonus share against every two equity shares held from Capital Reserve as on 31-3-1999. The balance sheet does not show this transaction.

(5) The creditors of Saumil Ltd. include purchase of Rs. 30,000 from Shyamal Ltd., on which Shyamal Ltd.- charged profit of 20% on cost. The stock of Saumil Ltd. involved Rs. 12,000 goods purchased from Shyamal Ltd.

(6) There is no accounting entry for debenture interest due and for proposed dividend on shares of Shyamal Ltd. for the year ended 31-3-99.

Prepare consolidated balance sheet of Saumil and Shyamal Ltd. as on 31-3-99

6. Following are the balance sheets of Ursh Ltd. and its subsidiary Niki Ltd. as at 31st March, 1989.

	Ursh Ltd.	Niki Ltd.		Ursh Ltd.	Niki Ltd.
	Rs.	Rs.		Rs.	Rs.
Share Capital :			Machinery	3,00,000	1,00,000
Shares of Rs. 10			Furniture	70,000	45,000
each, fully paid	6,00,000	2,00,000	70% Shares in Niki Ltd. at cost	2,60,000	
General Reserve	1,50,000	80,000	Stock	1,75,000	1,89,000
Profit and Loss Account	70,000	50,000	Debtors	55,000	30,000
Creditors	90,000	60,000	Cash at Bank	50,000	10,000
			Preliminary Expenses	—	16,000
	9,10,000	3,90,000		9,10,000	3,90,000

Ursh Ltd. acquired the shares of Niki Ltd. on 30th June 1988. On 1st April, 1988 Niki Ltd.'s General Reserve and Profit and Loss Account stood at Rs. 60,000 and Rs. 20,000 respectively. No part of Preliminary Expenses was written off during the year ended 31st March, 1989

Prepare the consolidated balance sheet of Ursh Ltd. and its subsidiary Niki Ltd. as at 31st March, 1989.

7: From the following balance sheets of Ursh Ltd. and its subsidiary Niki Ltd. as at 31st March, 1989 and the additional information provided thereafter, prepare a Consolidated Balance Sheet of the two corporates as at that date:

	Ursh Ltd	Niki Ltd.	-	Ursh Ltd.	Niki Ltd.
	Rs.	Rs.		Rs.	Rs.
Share Capital:			Fixed Assets	11,62,000	1,80,000
Shares pf Rs. 10 each.			70% Shares of Niki Ltd.,		
fully paid	10.00,000	2,00,000	at cost	1,42,000	
General Reserve	3,10,000	—	Current Assets	3,86,000	1,29,000
Profit & Loss Account	1.50,000-	45,000	Preliminary Expenses		5,000
Creditors	2,30,000	69,000			
	1 6,90.000	3,14,000		16,90,000	3,14,000

Ursh Ltd. acquired the shares on 31st December, 1988. On 1st April, 1988 Niki Ltd.'s Profit and Loss Account showed a debit balance of Rs. 8,000. On 31st March, 1989 Niki Ltd. decided to revalue its Fixed Assets at Rs. 2,00,000.

8. On 1st April 1988 Ursh Ltd. acquired 80% equity shares and 30% preference shares of Niki Ltd. for Rs.1,95,000 and Rs. 30,500 respectively on which dale Niki Ltd.'s General Reserve and Profit and Loss Account showed balances of Rs. 30,000 and Rs. 4,000 respectively. On 31st Marrh, 1989 the balance sheets of the two corporates stood as follows:—

	Ursh Ltd.	Niki Ltd..		Ursh Ltd.	S. Ltd.
	Rs.	Rs.		Rs.	Rs.
Equity Share Capital	10,00,000	2,00,000	Sundry Assets	13,54,500	4,77,000
10% Preference Share			80% Equity Shares in Niki Ltd.	1.95,000	
Capital	—	1,00,000	30% Preference Shares in Niki Ltd.		
General Reserve	3,00,000	40,000		30,500	
Profit and Loss Account	1,00,000	40,000			
Creditors	1,80,000	97,000			
	15,80,000	4,77,000		15,80,000	4,77,000

You are required to draw the consolidated balance sheet as at 31st March, 1989 assuming that on 1st April, 1988 there we're no arrears of preference dividend.

9. Ursh Ltd. acquired 90 per cent of the equity shares in Niki Ltd. on September 30, 1988 at a cost of Rs. 6,00,000. No balance sheet was prepared on the date of acquisition. The Balance Sheets of Niki Ltd. as at 31st March, 1988 and 31st March, .1989 were as follows :—

	As at	*As at*		*As at*	*As at*
Liabilities	*31.3.1988*	*31.3.1989*	*Assets*	*31.3.1988*	*31.3.1989*
	Rs.	Rs.		Rs.	Rs.
Issued & Subscribed			Goodwill	1,00,000	1,00,000
Share Capital :			Tangible Assets	6,80,000	8,57,000
20,000 Equity Shares of					
Rs. 10 each	2,00,000	2,00,000			
General Reserve	4,00,000	4,40,000			
Profit and .Loss Account	1,00,000	1,74,000			
Creditors	80,000	1,00,000			
Proposed Dividend		43,000			
	7,80,000	9,57,000		7,80,000	9,57,000

The Balance Sheet of Ursh Ltd. as at 31st March, 1989 was as under :—

Liabilities		Rs.	*Assets*		Rs.
Issued & Subscribed Share Capital :			Sundry Assets		33,00,000
2,00,000 Equity Shares of Rs. 10 each		20,00,000	18,000 Equity Shares of		
Share Premium		2,00,000	Rs. 10 each in Niki Ltd.		6,00,000
General Reserve		10,00,000			
Profit and Loss Account		4,00,000			
Creditors		3,00,000			
		39,00,000			39,00,000

Ursh Ltd. has not yet passed entries for the dividend proposed by Niki Ltd. Prepare the Consolidated Balance Sheet as at 31st March, 1989.

10. Ursh Ltd. acquired 80 per cent of both classes of shares in Niki Ltd. as on 1st April, 1988 at a total cost of Rs. 5,60,000. The balance sheets of both the corporates as at 31st March, 1989 were as follows :—

Balance Sheet of Ursh Ltd. as at 31st March, 1989

Liabilities	Rs.	*Assets*	Rs.
Share Capital Authorised	7,50,000	Plant and Machinery	5,15,000
Issued & Subscribed :		Furniture, Fixtures and Fittings	1,50,000
75,000 Shares of Rs. 10 each	7,50,000	Investments	5,60,000
General Reserve	4,75,000	Stock *(iii)*	1,70,000
Profit and Loss Account (i)	4,00,000	Debtors	1,40,000
Creditors *(ii)*	85,000	Cash at Bank	1,75,000
	17,10,000		17,10,000

(i) Includes dividend @ 16% per annum from Niki Ltd. The dividend was for the year ended 31st March, 1988. (II) Includes Rs. 30,000 for purchases from Niki Ltd. on which the latter body corporate made a profit of Rs. 7,500. *(iii)* Includes Rs. 15,000 of stock at cost purchased from Niki Ltd. part of the Rs. 30,000 purchases mentioned in (II) above.

Balance Sheet of Niki Ltd. as at 31st March, 1989

Liabilities	Rs.	*Assets*	Rs.
Share Capital :.		Plant and Machinery	1,50,000
1,000 14% Preference Shares of		Furniture, Fixtures and Fittings	1,35,500
Rs. 100 each, fully paid	1.00,000	Stock	1,01,000
15,000 Equity Shares of Rs. 10 each,		Debtors	79,000
fully paid	1,50,000	Cash at Bank	65,000
General Reserve as on 1st April, 1988	10,000		
Profit & Loss Account	1.80,000		
Creditors	90,500		
	5,30,500		5,30,500

The balance in Profit and Loss Account of Niki Ltd. on 1st April, 1988 was Rs. 80,000 out of which dividend @ 16% per annum for full year ended 31st March, 1988 was paid on fully paid equity shares of Rs. 1,50,000. The dividend in respect of preference shares for the year 1988-89 was still payable as on 31st March, 1989.

Prepare Consolidated Balance Sheet as at 31st March, 1989.

11. The balance sheets of Chaku Ltd. and its subsidiary Anubhav Ltd. as at 31st March, 1989 are as follows :

Liabilities	*Chaku Ltd.* Rs.	*Aubhav Ltd.* Rs.	*Assets*	*Chaku Ltd.* Rs.	*Aubhav Ltd.* Rs.
Share Capital :			Building	2,80,000	58,000
Equity Shares of Rs. 10 each	4,00,000	1,00,000	Plant and Machinery	2,00,000	52,000
General Reserve (1.4.88)	2,80,000	4,000	Furniture & Fixtures	15,000	7,000
Profit and Loss A/c	1,70,000	72,000	investments	2,00,000	—
Sundry Creditors	80,000	35,000	Stock in trade	75,000	42,000
			Sundry Debtors	90,000	32,000
			Cash & Bank balances	70,000	20,000
	9,30,000	2,11,000		9,30,000	2,11,000

Prepare a consolidated balance sheet together with work sheet, having regard to the following :

(i) Chaku Ltd. had acquired in Anubhav Ltd. 8,000 shares as at 1st July, 1988 at a cost of Rs 2,00,000.

(ii) Stock in trade of Chaku Ltd. includes Rs. 6,000 relating to stock in trade at cost purchased from Anubhav Ltd. which follows the practice of charging 25% extra on the cost for determining the sale price,

(iii) Sundry reditors of Chaku Ltd. include Rs. 10,000 on account of purchases from Anubhav Ltd.

(iv) Profit and Loss Account of Chaku Ltd. includes interim dividend declared after 1st July, 1988 at the rate Of 10% from Anubhav Ltd.

(v) Balance in Profit and Loss Account as at 1st April, 1988 in Anubhav Ltd. was Rs. 56,000, an interim dividend of 10% having been paid during the year out of the said undistributed profits,

(vi) Profits during the year 1988-89 have been earned on uniform basis throughout the year.

12. The following balance sheets are presented to you:

Balance Sheets on 31st March 1989

	Ursh Ltd.	*Niki Ltd.*		*Ursh Ltd.*	*Niki Ltd.*
	Rs.	Rs.		Rs.	Rs.
Share Capital :			Fixed Assets	3,50,000	1,50,000
Shares of Rs. 100 each	5,00,000	2,00,000	Stock-in-trade	90,000	40,000
General Reserve	1,00,000		Debtors	60,000	30,000

P. and L. Account	80,000		14% Debentures in Niki Ltd.		
14% Debentures		1,00,000	acquired at par	60,000	
Trade Creditors	85,000	45,000	Shares in Niki Ltd. 1,500 @ Rs. 80	1,30,000	
			Cash at Bank	75,000	25,000
			Profit and Loss Account		1,00,000
	7,65,000	3,45,000		7,65,000	3,45,000

Ursh Ltd. acquired the shares on 1st August 1988. The Profit and Loss Account of *S* Ltr[1]. showed a debit balance of Rs. 1,50,000 on 1st April, 1988. During June 1988, goods costing Rs. 6,000 were destroyed against which the insurer paid only Rs. 2,000. Trade creditors of *Niki Ltd.* include Rs. 20,000 for goods supplied by *Ursh Ltd.* on which *Ursh Ltd.* made a profit of F *t.* 2,000. half of the goods were still in stock on 31 st March, 1989.

Prepare the consolidated Balance Sheet.

13. The balance sheets of harry Ltd. and its subsidiary Suman Ltd. as at 31st March, 1989 are as Allows :—

Balance Sheet of harry Ltd. as on 31st March, 1989

Liabilities	Rs.	*Assets*	Rs.
Share Capital	1,00,000	Goodwill	20,000
General Reserve	34,000	Land & Buildings	76,000
Profit & Loss A/c	11,200	Investments*	28,800
Bills Payable	41,000	Stock	52,100
Sundry Creditors	63,900	Sundry Debtors & advances (including	
		loan to Suman Ltd. : Rs. 1,000)	58,000
		Cash and Bank	15,200
	2.50,100		2.50.100

*The investment consists of 2,400 shares of Rs. 10 each fully paid in its subsidiary Suman Ltd. which were acquired on Ist'July, 1988.

Balance Sheet of Suman Ltd. as on 31st March, 1989

Liabilities	Rs.	*Assets*	Rs.
Share Capital (d)	30,000	Goodwill	4,400
General Reserve (e)	5,000	Plant & Machinery (a)	29,000
Profit & Loss A/c (e)	4,400	Stock	6,000
Loan	21,000	Sundry Debtors	12,500
Sundry Creditors	28,400	Bills Receivable (b)	30,000
		Cash and Bank (c)	6,900
	88.800		88,800

(a) On 1st April, 1988 the plant and machinery were revalued at Rs. 32,000 which should be taken in the consolidated balance sheet. Ignore depreciation. There were no additions or deletions to plant during the year.

(b) Total bills receivable were Rs. 41,000 (all accepted by harry Ltd.) of which bills for Rs. 11,000 had been discounted with the banker and were yet to mature.

(c) Cash and Bank Balances were arrived at after sending a cheque for Rs. 1,000 to harry Ltd. on account of repayment of loan.

(d) Share Capital of Suman Ltd. consists of 3,000 equity shares of Rs. 10 each.

(e) Balances as on 1st April, 1988 :

Profit & Loss Account	Rs. 1,200
General Reserve	Rs. 4,000

Prepare a consolidated balance sheet as on 31st March, 1989. Workings will be part of your answer.

14. On 1st April, 1988, X. Limited acquired 90 per cent of the shares of Y. Limited and 80 per cent of the shares of Z. Limited. With a view to increasing its holdings in Z. Limited, X. Limited disposed of 4,000 shares in Y. Limited at price of Rs. 16 per share on 30th September, 1988 and on the said date purchased further 10 per cent of the shares of Z. Limited in exchange for the proceeds received on the sale of shares of Y. Limited.

The following are the Balance Sheets of the three corporates as at 31st March, 1989 in a condensed form :—

	X.Ltd.	Y.Ltd.	Z.Ltd.
Assets	Rs.	Rs.	Rs.
Fixed Assets	1,20,000	3,80,000	3,40,000
Investments : —			
Shares in Y. Ltd.	4,40,000		
. Shares in Z. Ltd.	4,28,000		
Current Assets	2,27,000	2,40,000	4,10,000
Loans and Advances	95,000	26,000	—
	13,10,000	6,46,000	7,50,000
Liabilities			
Share Capital			
Equity Shares of Rs. 10 each	7,00,000	4,00,000	2,00,000
Profit & Loss Account	2,33,000	1,10,000	3,50,000
Creditors	3,77,000	1;36,000	2,00,000
	13,10,000	6,46,000	7.50,000

Each of the corporates has maintained a consolidated Profit and Loss Account which shows the following position:—

	X. Ltd.	*Y.Ltd.*	*Z. Ltd.*
	Rs.	*Rs.*	*Rs.*
Balance as on 1st April, 1988	*2,63,000*	*1,20,000*	*2,90,000*
Net Profit for the year 1988-89	*40,000*	*30.000*	*80,000*
	3,03,000	*1,50,000*	*3,70,000*
Less Dividend	*70,000*	*40,000*	*20,000*
	2,33,000	*1,10,000*	*3,50,000*

The investment accounts in the books of Z. Ltd. are carried at cost except that the account representing the investment in Y. Ltd. which has been credited with the proceeds of the 4,000 shares .sold, viz., Rs. 64,000.

You are required to prepare ,(1) the consolidated balance sheet as at 31st March, 1989, and (2) the supporting work: sheet

15. You are given the following balance sheets as on March 31,1989 :—

	P Ltd.	*Q Ltd.*	*R Ltd.*
	Rs.	Rs.	Rs.
Liabilities Side : —			

Share Capital (Shares of Rs. 10 each fully paid)	20,00,000	10,00,000	8,00,000
Share Premium Account	2,00,000	50,000	—
General Reserve	6,00,000	3,00,000	2,00,000
Profit and Loss Account	2,50,000	1, 80,000	1,20,000
Creditors	3,00,000	2,00.000	1,40,000
P. Ltd.	—	52,000	30,000
	33,50,000	17,82,000	12,90,000
Assets Side—			
Fixed Assets (cost *less* depreciation)	15,00,000	9,00,000	9,70,000
Investments	13,00,000	5,82,000	—
Current Assets	4,50,000	3,00,000	3,00,000
QLtd.	70,000	—	—
RLtd.	30,000	—	
Preliminary Expenses	—	—	20,000
	33,50,000	17,82,000	12,90,000

P Ltd. had acquired 80,000 shares in Q Ltd. at a total cost of Rs. 11,00,000 on 1st October, 1987. On 1st April 1988, P Ltd, and Q Ltd. purchased respectively 10,000 and 50,000 shares in R Ltd. at Rs. 11.60 per share.

Particulars about General Reserve and the Profit and Loss Account are as given below:—

	PLtd.	*QLtd.*	*RLtd.*
	Rs.	Rs.	Rs.
General Reserve as on April 1, 1987	5,50,000	2,50,000	2,00,000
Profit and Loss Account Balance on April 1, 1987	50,000	40,000	20,000
Profit during 1987-88	1,70,000	1,00,000	1,00,000
Dividend paid in November 1988 in respect of 1987-88	10%	13%	10%

P Ltd. and Q Ltd. have credited the dividends received by them to their Profit and Loss Accounts. Increases in reserves were made in 1988-89.

16. The balance sheets of Niki Lid. and J Ltd. as on March 31,1989 are given below:—

Liabilities	*Niki Ltd.*	*J Ltd.*	*Assets*	*Niki Ltd.*	*J Ltd*
	Rs.	Rs.		*Rs.*	*Rs.*
Share Capital :			Goodwill	*1,26,000*	*46,000*
Equity (Rs. 10 shares)	1,80,000	1,00,000	Land & Buildings	*95,000*	*47,000*
14% Preference	1,50,000	80.000	Plant & Machinery	*45,000*	*50.400*
Share Premium (Equity Shares)	36,000	—	Fixtures	*1.000*	*500*
Reserve	26,000	30,000	Government Securities	*26,000*	--
Profit & Loss. Account	72,000	25,200	9,000 Equity Shares in J Ltd.	*1,20,000*	—
14% Debentures	40,000	50,000	2,000 Equity Shares in S. Ltd.	—	*24,000*
Creditors	19,000	34,800	Stock	*48,000*	*1,14,000*
			Book Debts	*55,000*	*35.000*
			Cash	*7,000*	*3,100*
	5,23,000	3,20,000		*5,23,000*	*3,20,000*

J Ltd. acquired he shares in Niki Ltd. on 1st April, 3988 when it made a fresh issue of shares. Niki Ltd. acquired she-shares n 3 Ltd. on 1 st October, 1988. Some of the figures on 1st April, 1988 were :

	Niki Ltd.	*J. Ltd*
	Rs.	*Rs.*
Reserve	*26,000*	*30,000*
P. &L. Account	*15,000 (Dr.)*	*8,000*
Plant and Machinery	*50,000*	*56,000*

As on the date of acquisition of control, Niki Ltd. valued the Plant and Machinery of J Ltd. At Rs. 60,000. Creditors of Niki Ltd. include Rs. 15,000 due to J Ltd. the stock of Niki Ltd. includes goods of the value of Rs. 33,000 supplied by J Ltd. at cost plus 10%.

Prepare the consolidated balance sheet of the group as on 31st March, 1989, taking into account the enhanced value of Plant and Machinery of J Ltd.