

Corporate Accounting

Unit-4 Holding and Subsidiary companies

PROBLEM 1. (Where all shares are held by the Holding Company). H Ltd. acquired all the shares in S Ltd. on 1st January, 2018 and liabilities and assets of the two companies on 31st March, 2018 were as follows :

	<i>H Ltd.</i> ₹	<i>S Ltd.</i> ₹
Liabilities		
Share Capital	50,000	30,000
Reserve on 1-4-2017	20,000	15,000
Surplus A/c	25,000	10,000
Sundry Creditors	20,000	15,000
	1,15,000	70,000
Assets		
Sundry Assets	65,000	70,000
All Shares in S Ltd. at cost	50,000	—
	1,15,000	70,000

Surplus Account of S Ltd. had a credit balance of ₹ 3,000 on 1st April, 2017. Prepare a Consolidated Balance Sheet as on 31st March, 2018.

SOLUTION

CONSOLIDATED BALANCE SHEET OF H LTD. AND ITS SUBSIDIARY S LTD.
as on 31-3-2018

I. Equity and Liabilities	₹
(1) Shareholders' Funds	
(a) Share Capital	50,000
(b) Reserves and Surplus :	
Capital Reserve	(3) 3,250
Reserve	20,000
Surplus Account	(4) 26,750
Shareholders' Funds	1,00,000

(2) Non-current Liabilities**(3) Current Liabilities**

Sundry Creditors : H Ltd.
S Ltd.

₹
20,000
15,000

Nil

35,000

1,35,000

Total Equity and Liabilities (1) + (2) + (3)

II. Assets**Non-Current Assets and Current Assets**

Sundry Assets

H Ltd.
S Ltd.

₹
65,000
70,000

1,35,000

Total Assets

1,35,000

Working Notes :**(1) Analysis of Capital Profit** / Pre-aquisition Profit

Balance of Reserve on 1-4-2017

₹ 15,000

Balance of Surplus A/c as on 1-4-2017

3,000

Share of Profit for 9 months (i.e. 3/4 of ₹ 7,000) of Pre-aquisition Period

5,250

23,250

The whole amount belongs to H Ltd. as it is a case of wholly owned subsidiary company.

(2) Analysis of Revenue Profit / Post-aquisition PeriodProfit for 3 months from 1-1-2018 to 31-3-2018 $\left(₹ 7,000 \times \frac{3}{12} \right)$

1,750

(3) Calculation of Capital Reserve

Cost of Investments in shares of S Ltd.

₹ 50,000

Less : Paid up value of 3,000 shares of ₹ 10 each

₹ 30,000

Share of Capital Profit

₹ 23,250

53,250

Capital Reserve

3,250

(4) Balance of Surplus A/c of H Ltd.

Balance given in B/s

25,000

Add : Share of Revenue Profit (2)

1,750

26,750

Note. There is no non-controlling interest as all shares have been acquired by H Ltd.

PROBLEM 2. (Where Non-controlling Interest and Cost of Control are to be calculated).
From the following Balance Sheets of Exe Ltd. and Wye Ltd. as on 31st March, 2018 work out :
(1) Net amount due to Non-controlling Interest and (2) Cost of Control.

I. Equity and Liabilities**(1) Shareholders' Funds****(a) Share Capital :**

Shares of ₹ 100 each

(b) Reserves and Surplus :

(i) General Reserve

(ii) Surplus A/c

(2) Current Liabilities

Creditors

Exe Ltd.

Wye Ltd.

₹

₹

15,00,000

5,00,000

1,50,000

c.l. 1,00,000

2,00,000

75,000

1,87,500

1,20,000

Total

20,37,500

7,95,000

Less : Share of
minority int.

II. Assets

Sundry Assets

Investment :

4,000 Shares of ₹ 100 each

Total

14,77,500

7,95,000

5,60,000

—

20,37,500

7,95,000

The assets of Wye Ltd. included equipments worth ₹ 1,50,000 which was revalued at ₹ 1,25,000. The investments of Exe Ltd. were in shares of Wye Ltd. and were acquired on 31st March, 2018.

SOLUTION

(1) Non-controlling Interest

Paid up value of 1,000 shares @ ₹ 100

Add : 1/5th share of preacquisition profit (i)

Share of Capital Profit (i) Share of Capital Profit

1,00,000

35,000

Less : 1/5th share of loss on revaluation of equipment

1/5 of ₹ 25,000 (i.e. ₹ 1,50,000 – ₹ 1,25,000)

1,35,000

5,000

1,30,000

(2) Cost of Control

Intrinsic value of shares in Wye Ltd. :

4,000 shares of ₹ 100

Add : 4/5th share of preacquisition profit (i)

Share of Capital Profit (i)

4,00,000

1,40,000

Less : 4/5th share of loss on revaluation of equipments (4/5 of ₹ 25,000)

5,40,000

20,000

Intrinsic value of 4,000 shares

5,20,000

Cost of Goodwill = Amount Paid – Intrinsic Value

= ₹ 5,60,000 – ₹ 5,20,000 = ₹ 40,000

Cost of Investment

5,60,000

Note : (i) Preacquisition Profits and Reserves

General Reserve in Wye Ltd. as on 31-3-2018

Surplus A/c in Wye Ltd. as on 31-3-2018

1,00,000

75,000

1,75,000

Less : Share of Non-controlling Interest (1/5)

35,000

Holding Co.'s Share

1,40,000

PROBLEM 3. (Where there is debit balance in Surplus A/c) On 31st March 2018, liabilities and assets of A Ltd. and B Ltd. stood as follows :

	A Ltd.	B Ltd.
Liabilities	₹	₹
Share Capital of ₹ 10 each fully paid up	12,50,000	5,00,000
Reserves & Surplus	2,50,000	1,10,000
Current Liabilities	2,00,000	1,50,000
	17,00,000	7,60,000
Assets		
Sundry Assets	12,94,000	7,60,000
60% Shares in 'B' Ltd. acquired on 1st July, 2017 (cost)	4,06,000	—
	17,00,000	7,60,000

Additional Information :

(1) At the time of acquisition Surplus Account in the books of 'B' Ltd., showed a debit balance of ₹ 75,000.

Prepare a Consolidated Balance Sheet as at 31st March, 2018.

SOLUTION**Working Notes****(1) Analysis of Profit of 'B' Ltd.**

	Capital Profit	Revenue Profit
Surplus A/c (Loss)	₹	₹
Reserves & Surplus	(75,000)	
As on 31-3-18	1,10,000	
Add : Loss at the beginning of the year	75,000	
	<u>1,85,000</u>	
	46,250	1,38,750
	(for 3 months from 1-4-2017 to 30-6-2017)	(for 9 months from 1-7-2017 to 31-3-2018)
Less : Share of Non-controlling Interest (2/5)	(28,750)	1,38,750
A. Ltd.'s Share	(11,500)	55,500
	<u>(17,250)</u>	<u>83,250</u>

(2) Calculation of Goodwill

Cost of Investment

Less : Face Value of Shares (60% of ₹ 5,00,000)

Less : Share of Capital Loss

Goodwill

	₹
	4,06,000
	3,00,000
	17,250
	<u>2,82,750</u>
	<u>1,23,250</u>

(3) Calculation of Non-controlling Interest

Shares with Outsiders (40% of ₹ 5,00,000)

Add : Share of Revenue Profit

Less : Share of Capital Loss

Non-controlling Interest

	₹
	2,00,000
	55,500
	<u>2,55,500</u>
	<u>11,500</u>
	<u>2,44,000</u>

CONSOLIDATED BALANCE SHEET OF A LTD. AND ITS SUBSIDIARY B LTD.
as on 31-3-2018

I. Equity and Liabilities**(1) Shareholders' Funds****(a) Share Capital**

1,25,000 Equity Shares of ₹ 10 each fully paid up

12,50,000

(b) Reserves and Surplus :

Surplus A/c (A Ltd.)

Add : Share of Surplus of B Ltd. (1)

₹ 2,50,000

83,250

3,33,250

(2) Non-Current Liabilities

2,44,000

(3) Current Liabilities :

A Ltd.	₹	2,00,000	
B Ltd.		1,50,000	
			3,50,000
Total Equity and Liabilities			21,77,250

II. Assets**(1) Non-Current Assets**

Fixed Assets :

Tangible Assets :		₹	
(Other Fixed Assets)	A Ltd.	12,94,000	
	B Ltd.	7,60,000	

Intangible Asset :

Goodwill [See Note (2)]

20,54,000
1,23,250

(2) Current Assets

Total Assets

—
21,77,250

PROBLEM 4. (Simple). From the Balance Sheets given below prepare a Consolidated Balance Sheet of Moti Ltd. and its subsidiary company, Chotti Ltd. as on 31-3-2018 :

	Moti Ltd. ₹	Chotti Ltd. ₹
I. Equity and Liabilities		
(1) <i>Shareholders' Funds</i>		
(a) <i>Share Capital :</i>		
Equity Shares of ₹ 10 each	1,20,000	30,000
(b) <i>Reserves and Surplus :</i>		
(i) General Reserve	25,000	6,000
(ii) Surplus Account	12,000	9,000
(2) <i>Current Liabilities</i>		
Trade Creditors	15,000	5,000
Total	1,72,000	50,000
II. Assets		
(1) <i>Non-current Assets</i>		
(a) <i>Fixed Assets :</i>		
(i) Freehold Building at Cost	72,000	25,000
(ii) Plant & Machinery	30,000	10,000
(b) <i>Investment : 2,000 Shares in Chotti Ltd.</i>	25,000	—
(2) <i>Current Assets</i>		
Stock at Cost	18,000	3,000
Trade Debtors	22,000	7,000
Bank Balance	5,000	5,000
Total	1,72,000	50,000

At the date of acquisition by Moti Ltd. of its holding of 2,000 shares in Chotti Ltd. the latter company had undistributed profits and reserve amounting to ₹ 5,000, none of which has been distributed since the date of acquisition.

SOLUTION**CONSOLIDATED BALANCE SHEET OF MOTI LTD. AND ITS SUBSIDIARY CHHOTI LTD.**
as at 31st March, 2018

			₹
I. Equity and Liabilities			
(1) Shareholders' Funds			
(a) Share Capital			
Authorised, Issued and Paid-up Capital : 12,000 Equity Shares of ₹ 10 each fully paid			1,20,000
(b) Reserves and Surplus :			
General Reserve			25,000
Surplus Account : Moti Ltd			12,000
Add : Share of Surplus of Chhoti Ltd, [See Note (3)]			6,667
Non-controlling Interest [See Working Note (4)]			18,667
(2) Non-Current Liabilities			15,000
(3) Current Liabilities :			-
Trade Creditors : Moti Ltd.			15,000
Chhoti Ltd.			5,000
Total Equity and Liabilities			20,000
			1,98,667
II. Assets			
(1) Non-Current Assets			
Tangible Assets :			
Freehold Buildings at Cost : Moti Ltd.			72,000
Chhoti Ltd.			25,000
Plant & Machinery : Moti Ltd.			30,000
Chhoti Ltd.			10,000
Intangible Asset : Goodwill [See Note (2)]			40,000
(2) Current Assets			1,667
Stock at Cost : Moti Ltd.			18,000
Chhoti Ltd			3,000
Trade Debtors : Moti Ltd.			22,000
Chhoti Ltd.			7,000
Bank Balance : Moti Ltd.			5,000
Chhoti Ltd.			5,000
Total Assets (1) + (2)			10,000
			1,98,667

Working Notes :

(1) Calculation of Capital (or Pre-acquisition) Profits :			₹
General Reserve and Surplus Balance of Chhoti Ltd. before Consolidation			5,000
Holding Company's share 2/3 (i.e. ₹ 5,000 × 2/3)			3,333
Share of Non-controlling Interest 1/3 (i.e. ₹ 5,000 × 1/3)			1,667
(2) Calculation of Goodwill or Cost of Control :			₹
Amount paid for the shares in Chhoti Ltd.			25,000
Less : Face value of 2,000 shares acquired			20,000
Holding Company's share of capital profits			3,333
Cost of Control or Goodwill			23,333
			1,667

(3) Calculation of Revenue Profits :

	General Reserve	Surplus Account	Total
	₹	₹	₹
Balance as given	1,000	9,000	10,000
Holding Company's Share 2/3	667	6,000	6,667
Outsiders' Share 1/3	333	3,000	3,333

(4) Calculation of Non-controlling Interest :

Face value of shares held by non-controlling shareholders	10,000
Add : 1/3 share of capital profits	1,667
1/3 share of revenue profits	3,333
	15,000

PROBLEM 5. (Inter Company Owings and Stock Reserve). Following are the Balance Sheets of H Ltd. and its subsidiary S Ltd. as at 31st March, 2018 :

	H Ltd. ₹	S Ltd. ₹
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital :		
Fully paid Equity Shares of ₹ 10 each	6,00,000	2,00,000
(b) Reserves and Surplus :		
(i) General Reserve	3,40,000	80,000
(ii) Surplus Account	1,00,000	60,000
(2) Current Liabilities		
Creditors	70,000	35,000
Total	11,10,000	3,75,000
II. Assets		
(1) Non-current Assets		
(a) Fixed Assets :		
(i) Machinery	3,90,000	1,35,000
(ii) Furniture	80,000	40,000
(b) Investment : 80% Shares in S Ltd. at Cost	3,40,000	—
(2) Current Assets		
Stock	1,80,000	1,20,000
Debtors	50,000	30,000
Cash at Bank	70,000	50,000
Total	11,10,000	3,75,000

Following additional information is provided to you :

(i) Surplus Account of S Ltd. stood at ₹ 30,000 on 1st April, 2017 whereas General Reserve has remained unchanged since that date.

(ii) H Ltd. acquired 80% shares in S Ltd. on 1st October, 2017 for ₹ 3,40,000 as mentioned above.

(iii) Included in Debtors of S Ltd. is a sum of ₹ 10,000 due from H Ltd. for goods sold at a profit of 25% on cost price. Till 31st March, 2018 only one half of the goods had been sold while the remaining goods were lying in the godowns of H Ltd. as on that date.

You are required to prepare a Consolidated Balance Sheet as at 31st March, 2018. Show all calculations clearly.

SOLUTION 5

CONSOLIDATED BALANCE SHEET OF H LTD. AND IS SUBSIDIARY S LTD.

as on 31-3-2018

		₹
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital		
60,000 Equity Shares of ₹ 10 each fully paid		6,00,000
(b) Reserves and Surplus :		
General Reserve	3,40,000	
Surplus Account [See Note (5)]	1,11,000	
		4,51,000
Shareholders' Funds		10,51,000
Non-controlling Interest [See Working Note (4)]		68,000
(2) Non-Current Liabilities		
(3) Current Liabilities :		
Creditors : H Ltd.	70,000	
S Ltd.	35,000	
	1,05,000	
Less : Inter Company Owings	10,000	
		95,000
Total Equity and Liabilities		12,14,000
II. Assets		
(1) Non-Current Assets		
Tangible Assets :		
Machinery : H Ltd.	3,90,000	
S Ltd.	1,35,000	
		5,25,000
Furniture : H Ltd.	80,000	
S Ltd.	40,000	
		1,20,000
Intangible Asset : Goodwill [See Note (3)]		80,000
(2) Current Assets		
Stock : H Ltd.	1,80,000	
S Ltd.	1,20,000	
	3,00,000	
Less : Stock Reserve (5)	1,000	
		2,99,000
Debtors : H Ltd.	50,000	
S Ltd.	30,000	
	80,000	
Less : Inter Company Owings	10,000	
		70,000
Cash at Bank : H Ltd.	70,000	
S Ltd.	50,000	
		1,20,000
Total Assets		12,14,000

Working Notes :

(1) Analysis of Capital Profit

General Reserve on 1-4-2017

Surplus A/c on 1-4-2017

Profit from 1-4-2017 to 30-9-2017 $\left(₹ 30,000 \times \frac{1}{2} \right) \frac{6}{12}$

Less : Share of Non-controlling Interest (20%)

Holding Co. Share

(2) Analysis of Revenue Profit

Profit from 1-10-2017 to 31-3-2018

Less : Share of Non-controlling Interest 20%

Holding Co. Share

(3) Calculation of Cost of Control

Cost of Investment

Less : Paid up value of shares (80% of ₹ 2,00,000)

Share of capital profit

Goodwill

(4) Calculation of Non-controlling Interest

Paid up value of shares with Minority (20% of ₹ 2,00,000 Share Capital)

Add : Share of Capital Profit

Share of Revenue Profit

(5) Balance of Surplus A/c of H Ltd.

Balance given in B/S

Add : Share of Revenue Profit

Less : Stock Reserve $\left(₹ 5,000 \times \frac{25}{125} \right)$

PROBLEM 6. (Where loss is given in the beginning) Liabilities and assets of H Ltd. and its subsidiary S Ltd. as on 31st March, 2018 were as follows :

	H. Ltd. ₹	S. Ltd. ₹
Equity and Liabilities		
Share Capital : (Shares of ₹ 1 each)	10,00,000	6,00,000
General Reserve	4,00,000	—
Surplus Account	4,00,000	1,80,000
Creditors	2,00,000	2,20,000
	20,00,000	10,00,000
Assets		
Sundry Assets	16,00,000	10,00,000
Investment in S Ltd. (4,00,000 shares)	4,00,000	—
	20,00,000	10,00,000

The shares were purchased by H Ltd. in S Ltd. on 30th September, 2017.

On 1st April, 2017, Surplus Account of S Ltd. showed a loss of ₹ 3,00,000 which was written off out of the profits earned during the year. Profits were earned uniformly for the year 2017-18.

Prepare a Consolidated Balance Sheet of H Ltd. and S Ltd. as on 31st March, 2018 giving all workings.

SOLUTION 6

CONSOLIDATED BALANCE SHEET OF H LTD. AND ITS SUBSIDIARY S LTD.

as on 31st March, 2018

I. Equity and Liabilities			₹
(1) Shareholders' Funds			
(a) Share Capital			
10,00,000 shares of ₹ 1 each fully paid			10,00,000
(b) Reserves and Surplus :			
General Reserve			4,00,000
Surplus Account		₹ 4,00,000	
Add : Share of Revenue Profit of S Ltd.			
[See Working Note (1)]		1,60,000	
			5,60,000
Total Shareholders' Funds			19,60,000
Non-controlling Interest [See Working Note (4)]			2,60,000
(2) Non-Current Liabilities			
(3) Current Liabilities :			
Creditors : H Ltd.		₹ 2,00,000	
S Ltd.		2,20,000	
			4,20,000
Total Equity and Liabilities			26,40,000
II. Assets			
(1) Non-Current Assets			
Intangible Asset			
Goodwill or Cost of Control [See Note (3)]			40,000
(2) Current Assets : (Sundry Assets assumed as Current Assets)			
H Ltd.		₹ 16,00,000	
S Ltd.		10,00,000	
			26,00,000
Total Assets			26,40,000

Working Notes :

(1) Calculation of Revenue Profits of S Ltd.

SURPLUS ACCOUNT OF S LTD.

To Balance b/d	₹	By Profit for the year 2017-18	₹
(Loss on 1st April 2017)	3,00,000	(Balancing figure)	4,80,000
To Balance c/d	1,80,000		
	4,80,000		4,80,000

Shares were purchased on 30th September, 2017. Therefore, revenue profit for 6 months from 1st October, 2017 to 31st March, 2018 is ₹ 2,40,000 (i.e. $\frac{1}{2} \times ₹ 4,80,000$) and half profit ₹ 2,40,000 pertaining to 1st April, 2017 to 30th September, 2017 is capital profit.

Total shares of S Ltd.	6,00,000
Number of shares acquired by H Ltd.	4,00,000
Share of Revenue Profit of H Ltd. $\left(\frac{4,00,000}{6,00,000} \times ₹ 2,40,000 \right)$	₹ 1,60,000
Share of Revenue Profit of Non-controlling Shareholders $\left(\frac{2,00,000}{6,00,000} \times ₹ 2,40,000 \right)$	₹ 80,000

(2) Calculation of Capital Loss of S Ltd.

Debit balance (i.e. loss) of Surplus Account of S Ltd. as on 1-4-2017	3,00,000
Less : Capital Profit earned by S Ltd. from 1-4-2017 to 30-9-2017	2,40,000
Capital Loss	60,000

$\frac{2}{3}$ Share of Capital Loss of H Ltd. $\left(\frac{4,00,000}{6,00,000} \times ₹ 60,000 \right)$	40,000
$\frac{1}{3}$ Share of Capital Loss of Non-controlling Shareholders	20,000

(3) Calculation of Goodwill or Cost of Control

Amount paid for acquiring shares of S Ltd.	₹ 4,00,000
Less : Face value of 4,00,000 shares of ₹ 1 each	4,00,000
Less : Share of capital loss (2)	40,000
Goodwill or Cost of Control	3,60,000

(4) Calculation of Non-controlling Interest

Face value of 2,00,000 shares of ₹ 1 each	2,00,000
Add : Share of revenue profit (1)	80,000
	2,80,000
Less : Share of capital loss (2)	20,000
Non-controlling Interest	2,60,000

PROBLEM 7. (Revaluation of Assets, Elimination of Common Transactions and Stock Reserve). Prepare a Consolidated Balance Sheet from the following Balance Sheets of two companies.

BALANCE SHEETS OF H AND S COMPANIES
as on 31st March, 2018

	H ₹	S ₹
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital :		
Equity Shares of ₹ 10 each	10,000	2,000
(b) Reserves and Surplus :		
(i) Reserve Fund	1,000	600
(ii) Surplus Account	4,000	1,200
(2) Current Liabilities		
Trade Payables :		
(i) Creditors	2,000	1,200
(ii) Bills Payable	—	300
Total	17,000	5,300
II. Assets		
(1) Non-current Assets		
(a) Sundry Fixed Assets	8,000	1,200
(b) Investment : 150 Shares in S at Cost	1,500	—

(2) Current Assets		
(a) Stock	6,100	2,400
(b) Trade Receivables :		
(i) Debtors	1,300	1,700
(ii) Bills Receivable	100	—
Total	17,000	5,300

Additional information :

- Company S has earned all the profits only since the above 150 shares were acquired by H.
- On the date of acquisition of these 150 shares by H Company S had got reserves of ₹ 600.
- Bills Payable of S are in favour of Company H which had discounted ₹ 200 of them.
- Sundry assets of S are under valued by ₹ 200.
- Stock of H includes goods of ₹ 500 purchased from S at a profit to company S of 25% on cost.

SOLUTION 7

CONSOLIDATED BALANCE SHEET OF H AND ITS SUBSIDIARY S
as on 31st March, 2018

I. Equity and Liabilities

(1) Shareholders' Funds

(a) Share Capital		
1,000 Equity Shares of ₹ 10 each fully paid up		10,000
(b) Reserves and Surplus :		
Capital Reserve [See Working Note (3)]	₹ 600	
Reserve Fund	₹ 1,000	
① Surplus Account	4,000	
Share of Revenue Profit of S [See Working Note (2)]	900	
	4,900	
Less : Unrealised Profit $\left(\frac{25}{125} \times ₹ 500 \right)$	100	
		4,800

Non-controlling Interest [See Working Note (4)]

(2) Non-Current Liabilities

(3) Current Liabilities :

Creditors :	H		
	S		
		2,000	
		1,200	
			3,200
Bills Payable :	S	300	
	Less : Held by H	100	
			200

Total Equity and Liabilities

20,800

II. Assets

(1) Non-Current Assets

Sundry Assets :	H	8,000
	S (₹ 1,200 + ₹ 200 under valued)	1,400

9,400

(2) **Current Assets**

Stock : H
S

Less : Unrealised Profit $\left(\frac{25}{125} \times ₹ 500 \right)$

Sundry Debtors :

H
S

Total Assets

6,100

2,400

8,500

100

1,300

1,700

8,400

3,000

20,800

Working Notes :

Out of 200 shares of 5,150 shares are acquired by H

Therefore % of shares acquired by H = $\frac{150}{200} \times 100 = 75\%$

% of shares acquired by non-controlling shareholders = $\frac{50}{200} \times 100 = 25\%$

(1) **Analysis of Capital Profit**

Reserves of S

Increase in Sundry Assets of S

Less : Share of Non-controlling Interest $\left(₹ 800 \times \frac{25}{100} \right)$

Holding Co. Share

(2) **Analysis of Revenue Profit**

Surplus A/c of S as at 31-3-2018

Less : Share of Non-controlling Interest $\left(₹ 1,200 \times \frac{25}{100} \right)$

Holding Co. Share

(3) **Calculation of Cost of Control or Capital Reserve**

Amount paid for 150 shares in S

Less : Paid up value of 150 shares of ₹ 10 each

Share of Capital Profit

Capital Reserve

(4) **Calculation of Non-controlling Interest :**

Face value of 50 shares of ₹ 10 each held by outsiders

Share of Capital Profit

Share of Revenue Profit

Non-controlling Interest

₹

600

200

800

200

600

1,200

300

900

₹

1,500

1,500

600

2,100

600

₹

500

200

300

1,000

PROBLEM 8. (Revaluation of assets alongwith debit balance in Surplus A/c). When H Ltd. purchased 24,000 equity shares in S Ltd. on 1-4-2017, S Ltd. had ₹ 22,500 in general reserve and ₹ 37,500 (Dr.) in Surplus Account. From their Balance Sheets on 31-3-2018 given as below, prepare a Consolidated Balance Sheet.

I. **Equity and Liabilities**

(1) **Shareholders' Funds**

(a) **Share Capital :**

Equity Shares of ₹ 10 each

H Ltd.
₹

S Ltd.
₹

7,50,000

3,00,000

- (b) Reserves and Surplus :
 (i) General Reserve
 (ii) Surplus Account
 (2) Current Liabilities
 Creditors

	90,000	7,500
	60,000	(-) 67,500
	1,05,000	31,500
Total	10,05,000	2,71,500
<hr/>		
	6,75,000	1,50,000
	2,10,000	-
	1,20,000	1,21,500
Total	10,05,000	2,71,500

II. Assets

- (1) Non-current Assets
 (a) Fixed Assets
 (b) Investment in S Ltd.
 (2) Current Assets

Fixed asset standing in the books of S Ltd. at ₹ 90,000 was considered worth ₹ 75,000 on the date of purchase of control for the purpose of determining the value of shares ; 20% depreciation has been written off since acquisition. Stock of H Ltd. includes ₹ 30,000 on which S Ltd. made ₹ 7,500 profit.

SOLUTION 8

Working Notes :

No. of shares of S Ltd.

No. of shares of S. Ltd. acquired by H Ltd.

Proportion of shares acquired by H Ltd. $\left(\frac{24,000}{30,000}\right)$

Proportion of shares held by non-controlling shareholders $\left(\frac{6,000}{30,000}\right)$

(1) Calculation of Capital Loss

Surplus A/c on 1-4-2017

Less : General Reserve on 1-4-2017

₹
30,000
24,000
4
5
1
5
₹
37,500 (Dr.)
22,500

Add : Overvaluation of Fixed Asset (₹ 90,000 – ₹ 75,000)

Capital Loss

H Ltd.'s Share $\left(\frac{4}{5} \times ₹ 30,000\right)$

Non-controlling Interest's Share $\left(\frac{1}{5} \times ₹ 30,000\right)$

15,000
15,000
30,000

24,000

6,000

(2) Calculation of Revenue Loss

Surplus A/c 31-3-2018

Less : Surplus A/c on 1-4-2017

₹
67,500 (Dr.)
37,500 (Dr.)
30,000

Add : General Reserve on 1-4-2017

Less : General Reserve on 31-3-2018

₹ 22,500
₹ 7,500

15,000

45,000

Less : Depreciation on Overvaluation of Fixed Assets (20% of ₹ 15,000)

Revenue Loss (i.e., Loss since acquisition)

H Ltd's Share of Revenue Loss $\left(\frac{4}{5} \times ₹ 42,000\right)$

Share of Non-controlling Shareholders $\frac{1}{5} \times ₹ 42,000$

3,000

42,000

33,600

8,400

(3) Calculation of Capital Reserve

Cost of Investment in S Ltd.

Less : Face Value of 24,000 Shares

Less : Capital Loss (H Ltd.'s Share)

₹ 2,40,000

₹ 24,000

₹
2,10,000

Capital Reserve on Consolidation

2,16,000

6,000

(4) Calculation of Non-controlling Interest

Face Value of 6,000 Shares of ₹ 10 each

Less : Share of Capital Loss

Share of Revenue Loss

₹ 6,000

₹ 8,400

₹
60,000

14,400

Non-controlling Interest

45,600

CONSOLIDATED BALANCE SHEET OF H LTD. AND ITS SUBSIDIARY S LTD.
as at 31st March, 2018

I. Equity and Liabilities

(1) Shareholders' Funds

(a) Share Capital

75,000 Equity Shares of ₹ 10 each fully paid

₹
7,50,000

(b) Reserves and Surplus :

Capital Reserve [See Working Note (3)]

General Reserve

6,000

90,000

Surplus Account (H Ltd.)

₹
60,000

Less : Share of Revenue Loss of S Ltd.

[See Working Note (2)]

33,600

26,400

Less : Unrealised Profit on Stock

7,500

18,900

Total Shareholders' Funds

8,64,900

Non-controlling Interest [See Working Note (4)]

45,600

(2) Non-Current Liabilities

(3) Current Liabilities :

Creditors : H Ltd.

₹
1,05,000

S Ltd.

31,500

1,36,500

Total Equity and Liabilities

10,47,000

II. Assets

(1) Non-Current Assets

Fixed Assets :

H Ltd.

₹
6,75,000

S Ltd.

1,50,000

8,25,000

Less : Overvaluation

15,000

8,10,000

Add : 20% Depreciation on Overvaluation written back

3,000

8,13,000

(2) Current Assets :	H Ltd.	1,20,000	
	S Ltd.	1,21,500	
		2,41,500	
	Less : Unrealised Profit on Stock	7,500	
			2,34,000
	Total Assets		10,47,000

PROBLEM 9. (Where proposed dividend is given in the Balance Sheet). Big Ltd. acquired 90% of the Equity shares in Small Ltd. on September 30, 2017 at a cost of ₹ 60,000. No Balance Sheet was prepared at the date of acquisition. Liabilities and assets of Small Ltd. as at 31-3-2017 and 31-3-2018 were as follows :

	31-3-2017 ₹	31-3-2018 ₹
Liabilities		
Issued Capital :		
2,000 Equity Shares of ₹ 10 each	20,000	20,000
Revenue Reserve	40,000	44,000
Surplus A/c	10,000	17,400
Proposed Dividend	—	4,200
	70,000	85,600
Assets		
Net Assets	60,000	75,600
Goodwill	10,000	10,000
	70,000	85,600

Big Ltd.'s liabilities and assets on 31-3-2018 were :

	31-3-2018 ₹
Liabilities	
Share Capital :	
20,000 Equity Shares of ₹ 10 each	2,00,000
Reserves :	
Capital	₹
Revenue	20,000
	1,00,000
Surplus A/c	1,20,000
	40,000
	3,60,000
Assets	
Net Assets	
Subsidiary Co. 1,800 shares of ₹ 10 each in Small Ltd.	3,00,000
	60,000
	3,60,000

Big Ltd. has not passed entries for the dividend proposed by Small Ltd. Prepare a Consolidated Balance Sheet of Big Ltd. as at 31-3-2018.

SOLUTION

CONSOLIDATED BALANCE SHEET OF BIG LTD. AND ITS SUBSIDIARY SMALL LTD. as at 31st March, 2018

		₹
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital		
20,000 Equity Shares of ₹ 10 each fully paid		2,00,000
(b) Reserves and Surplus :		
Capital Reserve	₹ 20,000	
Add : Capital Reserve on Consolidation [See Note (4)]	20	
		20,020
Revenue Reserve		1,00,000
Surplus A/c	40,000	
Add : Share in Small Ltd. [See Working Note (2)]	7,020	
		47,020
Shareholders' Funds		3,67,040
Non-controlling Interest [See Working Note (5)]		8,560
Total Equity and Liabilities		3,75,600
II. Assets		
Net Assets :		
Big Ltd.	₹ 3,00,000	
Small Ltd.	75,600	
		3,75,600

Working Notes :

(1) Proportion of Holding Company's Share		₹
Total number of shares of Small Ltd.		2,000
Number of shares acquired by Big Ltd.		1,800
Proportion of holding company's share	$\left(\frac{1,800}{2,000}\right)$	$\frac{9}{10}$
Proportion of non-controlling interest	$\left(\frac{200}{2,000}\right)$	$\frac{1}{10}$
(2) Calculation of Revenue Profit		₹
Balance of Surplus A/c as on 31-3-2018		17,400
Less : Balance as on 31-3-2017		10,000
		7,400
Add : Transfer to Reserve during the year 2017-18 (₹ 44,000 – ₹ 40,000)		4,000
		11,400
Add : Proposed dividend		4,200
		15,600
Profit for the year 2017-18		
Less : $\frac{1}{2}$ of ₹ 15,600 treated as capital profit because shares of		
Small Ltd. were acquired by Big Ltd. on 30-9-2017		7,800
		Revenue Profit
		7,800

Big Ltd.'s Share $\left(₹ 7,800 \times \frac{9}{10} \right)$	7,020
Non-controlling Interest's Share $\left(₹ 7,800 \times \frac{1}{10} \right)$	780

(3) Calculation of Capital Profit

Surplus A/c as on 31-3-2017	10,000
Revenue Reserve as on 31-3-2017	40,000
	<u>50,000</u>
Add : $\frac{1}{2}$ of profit ₹ 15,600 (i.e. ₹ 4,000 + ₹ 7,400 + ₹ 4,200) for 2017-2018 treated as capital profit	7,800
Capital Profit	<u>57,800</u>

Big Ltd.'s Share $\left(₹ 57,800 \times \frac{9}{10} \right)$	52,020
Non-controlling Interest's Share $\left(₹ 57,800 \times \frac{1}{10} \right)$	5,780

(4) Calculation of Capital Reserve on Consolidation

Amount paid for acquiring shares of Small Ltd.	₹ 60,000
Less : Face value of 1,800 shares of ₹ 10 each	18,000
Share of Capital Profit	<u>52,020</u>
	<u>70,020</u>
Less : Adjustment of Small Ltd.'s goodwill as shown in Balance Sheet	10,020
Capital Reserve on Consolidation	<u>10,000</u>
	<u>20</u>

(5) Calculation of Non-controlling Interest

Face Value of 200 Shares of ₹ 10 each	2,000
Add : 1/10 Share of Capital Profit	5,780
1/10 Share of Revenue Profit	780
	<u>8,560</u>

PROBLEM 10. (Revaluation of Assets). Skyjack Ltd. acquired 6,000 Equity Shares in Hijack Ltd. on October 1, 2017. On March 31, 2018 Balance Sheet of Hijack Ltd. was as under :

I. Equity and Liabilities

(1) Shareholders' Funds

(a) Share Capital :

Equity Shares of ₹ 100 each

8% Preference Shares of ₹ 100 each

(b) Reserves and Surplus :

(i) General Reserve

(ii) Surplus Account :

Balance April 1, 2017

Profit for 2017-18

(2) Current Liabilities

Sundry Creditors

Total

	₹
	10,00,000
	2,00,000
	2,20,000
	₹ 60,000
	1,80,000
	<u>2,40,000</u>
	1,60,000
	<u>18,20,000</u>

II. Assets

(1) Non-current Assets

Fixed Assets :

(i) Land & Buildings at Cost

5,00,000

(ii) Machinery :

Balance 1-4-2017

₹ 5,00,000

Less : Depreciation

50,000

4,50,000

(2) Current Assets

(a) Stock at Cost

2,80,000

(b) Debtors

2,20,000

(c) Cash at Bank

3,70,000

Total

18,20,000

As on the date of acquisition Skyjack Ltd. found the land and buildings overvalued by ₹ 40,000 and the value of Machinery to be ₹ 6,00,000. In preparing the Consolidated Balance Sheet, it was decided to use the proper values of assets. Ascertain Capital Profits, Revenue Profits and Non-controlling Interest showing the details of working.

SOLUTION 10

Calculation of Profits :

	Capital Profits	Revenue Profits
	₹	₹
General Reserve		
Surplus A/c Balance on 1-4-2017	2,20,000	
Profit for the year 2017-18	60,000	
Less : 8% Preference Dividend on ₹ 2,00,000 Preference Share Capital	1,80,000	
	16,000	
	1,64,000	
Less : Half of ₹ 1,64,000 i.e. Profit upto 30-9-2017 taken as capital profit and balance half taken as revenue profit earned after 30-9-2017		82,000
Increase in Value of Machinery :		
Book Value on 1-4-2017 :	5,00,000	
Less : Depreciation @ 10% for half year from 1-4-2017 to 30-9-2017	25,000	
Book Value on 30-9-2017	4,75,000	
Increased Value	6,00,000	
Increase in Value i.e. Capital Profit	1,25,000	
	1,25,000	
	4,87,000	
Less : Depreciation @ 10% p.a. for 6 months from 1-10-2017 to 31-3-2018 on ₹ 1,25,000 increase in the value of machinery (Depreciation on the rest of the machinery is already provided. Depreciation on ₹ 5,00,000 machinery is given to be ₹ 50,000, so rate of depreciation is 10% p.a.)		6,250
Less : Reduction in Value of Land & Building	40,000	
	4,47,000	75,750

Less : 2/5th share belonging to non-controlling shareholders as they are having 4,000 equity shares out of 10,000

equity shares (i.e. $\frac{4,000}{10,000} = \frac{2}{5}$ th share)

1,78,800

30,300

(₹ 4,47,000 × $\frac{2}{5}$)

(₹ 75,750 × $\frac{2}{5}$)

Share of Skyjack Ltd. is 3/5th as it has acquired 6,000 equity shares out of 10,000 equity shares

2,68,200

45,450

Calculation of Non-controlling Interest

Paid up value of 8% Preference Shares

8% Dividend for the year 2017-18

Paid up value of 4,000 Equity Shares of ₹ 100 each

2/5th Share of Capital Profits as calculated above

2/5th Share of Revenue Profits as calculated above

Total Non-controlling Interest

₹

2,00,000

16,000

4,00,000

1,78,800

30,300

8,25,100

PROBLEM 11. (Bonus Shares). S Ltd. has the capital of ₹ 75,00,000 in shares of ₹ 100 each out of which H Ltd. purchased 60% shares at ₹ 70,00,000. The profits of S Ltd. at the time of purchase of shares by H Ltd. were ₹ 40,00,000. S Ltd. decided to make a bonus issue out of pre-acquisition profits of one share of ₹ 100 each fully paid for every three shares held. Calculate the cost of control of acquiring shares of S Ltd. before the issue of bonus shares and after the issue of bonus shares.

SOLUTION

Calculation of Cost of Control before the Issue of Bonus Shares

Amount paid for acquiring shares of S Ltd.

₹

70,00,000

Less : Face value of 45,000 shares of ₹ 100 each

45,00,000

Share of pre-acquisition profit (₹ 40,00,000 × $\frac{60}{100}$)

24,00,000

69,00,000

Cost of Control

1,00,000

Calculation of Cost of Control after the Issue of Bonus Shares

Cost of shares acquired

₹ 70,00,000

Less : Paid-up value of shares held :

Value of 45,000 shares held before issue of bonus shares

45,00,000

Add : Bonus shares @ 1 for every 3 held (i.e., ₹ 45,00,000 × $\frac{1}{3}$)

15,00,000

60,00,000

10,00,000

Less : Share in capital profit :

Pre-acquisition profits of S Ltd.

40,00,000

Less : Profits utilised for issue of bonus shares @ 1 share for every 3 shares held (i.e., total value of shares of S Ltd. ₹ 75,00,000, so bonus shares are for (₹ 75,00,000 × $\frac{1}{3}$ = ₹ 25,00,000)

25,00,000

15,00,000

Holding company's share of capital profit is 60%

(i.e., ₹ 15,00,000 × $\frac{60}{100}$)

9,00,000

Cost of Control

1,00,000

PROBLEM 12. (Revaluation of Assets, Bonus Shares, Inter Co. Owings & Stock Reserve).
Prepare Consolidated Balance Sheet in the books of H Co. Ltd. from the following Balance Sheets of H Co. and S Co. and given information as at 31-3-2018 :

	H Co. ₹	S Co. ₹
I. Equity and Liabilities		
(1) <i>Shareholders' Funds</i>		
(a) <i>Share Capital :</i>		
(i) <i>Equity Share Capital (₹100 per share)</i>	11,00,000	2,00,000
(ii) <i>Preference Share Capital</i>	1,00,000	40,000
(b) <i>Reserves and Surplus :</i>		
(i) <i>Reserves</i>	4,00,000	1,50,000
(ii) <i>Surplus Account</i>	2,00,000	50,000
(2) <i>Current Liabilities</i>		
(a) <i>Creditors</i>	3,00,000	1,00,000
(b) <i>Proposed Dividend</i>	—	40,000
Total	21,00,000	5,80,000
II. Assets		
(1) <i>Non-current Assets</i>		
(a) <i>Fixed Assets :</i>		
(i) <i>Tangible Assets :</i>		
Machinery	6,00,000	1,80,000
Furniture	1,00,000	34,000
(ii) <i>Intangible Assets :</i>		
Goodwill	20,000	10,000
Commission on Shares	—	10,000
(b) <i>Investment : 1,600 Shares in S Ltd.</i>	3,20,000	—
(2) <i>Current Assets</i>	10,60,000	3,46,000
Total	21,00,000	5,80,000

Information :

- On the date of acquisition of shares by H Co., Reserves and Surplus Account of S Company stood at ₹ 50,000 and ₹ 30,000 respectively.
- Machinery (Book value ₹ 2,00,000) of S Co. was revalued at ₹ 3,00,000 by H Co.
- Furniture (Book value ₹ 40,000) of S Co. was revalued at ₹ 30,000 by H Co.
- S Co. made a bonus issue during the year out of pre-acquisition profits for ₹ 40,000 not recorded in the books.
- Included in the Creditors of S Co. is ₹ 20,000 for goods supplied by H Co. Also included in the stock of S Ltd. are goods to the value of ₹ 8,000 which were supplied by H Co. at a profit of 25% on sales.

SOLUTION 12

CONSOLIDATED BALANCE SHEET OF H CO. AND ITS SUBSIDIARY S CO.

as at March 31, 2018

	₹
I. Equity and Liabilities	
(1) <i>Shareholders' Funds</i>	
(a) <i>Share Capital</i>	
Pref. Share Capital	1,00,000
Equity Share Capital (₹ 100 per share)	11,00,000

(b) **Reserves and Surplus :**

Reserves

Surplus Account [See Working Note (5)]

Total Shareholders' Funds

Non-controlling Interest [See Working Note (4)]

(2) **Non-current Liabilities**

(3) **Current Liabilities**

Creditors : H Co.

S Co.

Less : Inter Co. Owings

Total Equity and Liabilities

II. Assets

(1) **Non-Current Assets**

Machinery : H Co.

S Co.

Add : Increase in Value

Less : 10% Depreciation [See Note (2)] on
₹ 1,00,000 Increased Value

Furniture : H Co.

S Co.

Less : Decrease in Value

Add : Excess Depreciation @ 15%
[See Working note (2)] on ₹ 10,000
Reduced Value Written Back

Intangible Asset :

Goodwill : H Co.

S Co.

Cost of Control [See Working Note (3)]

(2) **Current Assets**

Other Assets :

H Co.

S Co.

Less : Inter Co. Owings 20,000
Stock Reserve
(25/100 × ₹ 8,000) 2,000

Total Assets

Working Notes :

(1) **Analysis of Capital Profit**

General Reserve

Surplus A/c

Less : Bonus from pre-acquisition profit	40,000
Less : Commission on Issue of Shares	40,000
	10,000
Add : Capital Profit on Machinery	30,000
	1,00,000
Less: Loss on Furniture	1,30,000
	10,000
	1,20,000
Holding Co. Share (4/5)	96,000
Non-controlling Interest (1/5)	24,000
(2) Analysis of Revenue Profit	
Current Year Profit (₹ 50,000 – ₹ 30,000)	₹ 20,000
General Reserve (₹ 1,50,000 – ₹ 50,000)	1,00,000
Add : Excess Dep. on Furniture (15% on ₹ 10,000) written back	1,500
	1,21,500
Less : Additional Depreciation on Machinery (10% on ₹ 1,00,000)	10,000
	1,11,500
Add : Proposed Dividend	40,000
	1,51,500
Holding Co. Share (4/5 of ₹ 1,51,500)	1,21,200
Share of Non-controlling Interest (1/5 of ₹ 1,51,500)	30,300

Note : Rate of Depreciation :

Machinery : Book Value ₹ 2,00,000 – ₹ 1,80,000 Value in Balance Sheet
= ₹ 20,000 Dep.

$$\therefore \text{Rate} = \frac{\text{₹ } 20,000}{\text{₹ } 2,00,000} \times 100 = 10\%$$

$$\text{Similarly, Rate of Depreciation for Furniture} = \frac{\text{₹ } 40,000 - \text{₹ } 34,000}{\text{₹ } 40,000} \times 100 = 15\%$$

(3) **Cost of Control**

Cost of Investment	₹ 3,20,000
Less : F.V. of Shares	1,60,000
Bonus Shares (4/5 of ₹ 40,000)	32,000
Capital Profit	96,000
	2,88,000
Goodwill	32,000

(4) **Non-controlling Interest**

F.V. of Shares	₹ 40,000
F.V. of Pref. Shares	40,000
Share of Capital Profit	24,000
Bonus Shares $\left(\frac{1}{5} \times \text{₹ } 40,000\right)$	8,000
Share of Revenue Profit	30,300
	1,42,300

(5) **Surplus A/c of Holding Co.**

Surplus Account's Balance	₹ 2,00,000
Add : Share of Revenue Profit	1,21,200
	3,21,200
Less : Stock Reserve $\left(\text{₹ } 8,000 \times \frac{25}{100}\right)$	2,000
	3,19,200

PROBLEM 13. (Bonus Issue) Liabilities and assets of H Ltd. and S Ltd. on 31st March, 2018 are as follows :

	H Ltd.	S Ltd.
Liabilities	₹	₹
Share Capital—Shares of ₹ 10 each	5,00,000	1,00,000
Reserves	80,000	30,000
Surplus A/c	60,000	40,000
	<u>6,40,000</u>	<u>1,70,000</u>
Assets		
Assets	5,00,000	1,70,000
8,000 Shares in S Ltd.	1,40,000	—
	<u>6,40,000</u>	<u>1,70,000</u>

S Ltd. had the credit balance of ₹ 30,000 in the Reserves when H Ltd. acquired shares in S Ltd. It decided to make a bonus issue out of post-acquisition profits of two shares of ₹ 10 each fully paid for every five shares held. Calculate the cost of control before the issue of bonus shares and after the issue of bonus shares. Also make the Consolidated Balance Sheet after the issue of bonus shares.

SOLUTION

(1) Analysis of Capital Profit

Reserves	₹ 30,000
Less : Share of Non-controlling Interest	6,000
Holding Co. Share	<u>24,000</u>

(2) Analysis of Revenue Profit

Balance in Surplus A/c	₹ 40,000
Less : Bonus Issue $\left(₹ 1,00,000 \times \frac{2}{5} \right)$	<u>40,000</u>
	x

(3) Cost of Control before the Issue of Bonus Shares.

Cost of Shares in S Ltd.	₹ 1,40,000
Less : Face value of 8,000 shares of ₹ 10 each	80,000
Share in capital profits	<u>24,000</u>
	1,04,000
Cost of Control or Goodwill	<u>36,000</u>

(4) Cost of Control after the Issue of Bonus Shares

Cost of 8,000 shares in S. Ltd.	₹ 1,40,000
Less : Face value of 8,000 shares of ₹ 10 each held before the issue of bonus shares	80,000
Face value of 3,200 $\left(i.e. 8,000 \times \frac{2}{5} \right)$ bonus shares of ₹ 10 each	32,000
Share of Capital Profit	<u>24,000</u>
	1,36,000
Cost of Control or Goodwill	<u>4,000</u>

(5) **Calculation of Non-controlling Interest**

Share capital held by outsiders before issue of bonus shares—
—2,000 shares of ₹ 10 each

₹
20,000

Add : 800 $\left\{ \text{i.e. } 2,000 \times \frac{2}{5} \right\}$ bonus shares of ₹ 10 each

8,000

Share in Reserves $\left\{ ₹ 30,000 \times \frac{2,000}{10,000} \right\}$

6,000

34,000

CONSOLIDATED BALANCE SHEET OF H LTD. AND ITS SUBSIDIARY S LTD.
as at 31st March, 2018

I. Equity and Liabilities		₹
(1) Shareholders' Funds		
(a) Share Capital		
50,000 shares of ₹ 10 each fully paid-up		5,00,000
(b) Reserves and Surplus :		
Reserves		80,000
Surplus Account		60,000
Total Shareholders' Funds		6,40,000
Non-controlling Interest [See Working Note (5)]		34,000
(2) Non-Current Liabilities		—
(3) Current Liabilities		—
Total Equity and Liabilities		6,74,000
II. Assets		
(1) Non-Current Assets		
Fixed Assets :		₹
Tangible Assets :		
H Ltd.	5,00,000	
S Ltd.	1,70,000	
	<u>6,70,000</u>	
Intangible Asset : Goodwill [See Working Note (4)]		4,000
(2) Current Assets		—
Total Assets		6,74,000

PROBLEM 14. (Bonus, Revaluation of Assets and Elimination of Common Transactions). A limited company acquired 1,600 ordinary shares of B Ltd. of ₹ 100 each on 31st March, 2018. Balance Sheets of A Ltd. and B Ltd. as on that date were as follows :

	A Ltd. ₹	B Ltd. ₹
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital :		
Equity Shares of ₹ 100 each fully paid-up	5,00,000	2,00,000
(b) Reserves and Surplus :		
(i) Capital Reserve	—	1,20,000
(ii) General Reserve	2,40,000	—
(iii) Surplus Account	57,200	36,000

(2) Current Liabilities			
(a) Trade Payables :			
(i) Creditors		47,100	9,000
(ii) Bills Payable (including ₹ 4,000 to A Ltd.)		—	8,400
(b) Bank Overdraft		80,000	—
Total		9,24,300	3,73,400
II. Assets			
(1) Non-current Assets			
(a) Fixed Assets :			
(i) Land & Building		1,50,000	1,80,000
(ii) Plant & Machinery		2,40,000	1,09,400
(b) Investment in B Ltd. at Cost		3,40,000	—
(2) Current Assets			
(a) Stocks		1,20,000	36,000
(b) Sundry Debtors		44,000	40,000
(c) Bills Receivable			
(including ₹ 3,000 from B Ltd.)		15,800	—
(d) Cash & Bank Balance		14,500	8,000
Total		9,24,300	3,73,400

You are supplied the following information :

(1) B Ltd. has made a bonus issue on 31st March, 2018 of one equity share for every two shares held by its shareholders. Effect has yet to be given in the accounts for this issue.

(2) The directors are advised that Land and Buildings of B Ltd. are undervalued by ₹ 20,000 and Plant and Machinery of B Ltd. overvalued by ₹ 10,000. These assets have to be adjusted accordingly.

(3) Sundry creditors of A Ltd. include ₹ 12,000 due to B Ltd.

You are required to prepare the Consolidated Balance Sheet as at 31st March, 2018 together with the adjustment work sheet.

SOLUTION

CONSOLIDATED BALANCE SHEET OF A LTD. AND ITS SUBSIDIARY B LTD.
as on 31st March, 2018

I. Equity and Liabilities		₹
(1) Shareholders' Funds		
(a) Share Capital		
5,000 Equity Shares of ₹ 100 each fully paid up		5,00,000
(b) Reserves and Surplus :		
General Reserve		2,40,000
Surplus Account		57,200
Total Shareholders' Funds		7,97,200
Non-controlling Interest [See Working Note (3)]		73,200
(2) Non-Current Liabilities		
Unsecured Loan : Bank Overdraft		80,000
(3) Current Liabilities		
Creditors : A Ltd.		47,100
B Ltd.		9,000
		56,100

Less : Mutual Owings

12,000

Bills Payable : B Ltd.

8,400

Less : Mutual Owings

3,000

44,100

Total Equity and Liabilities

5,400

9,99,900

II. Assets

(1) Non-Current Assets

Fixed Assets :

(i) Tangible Assets :

Land & Buildings :

A Ltd.

₹
1,50,000

B Ltd.

(₹ 1,80,000 + ₹ 20,000)

2,00,000

Plant & Machinery :

A Ltd.

2,40,000

B Ltd.

(₹ 1,09,400 – ₹ 10,000)

99,400

3,50,000

(ii) Intangible Asset : Goodwill [See Working Note (2)]

3,39,400

(2) Current Assets

Stocks : A Ltd.

1,20,000

B Ltd.

36,000

Sundry Debtors : A Ltd.

44,000

B Ltd.

40,000

1,56,000

Less : Mutual Owings

84,000

12,000

Bills Receivable : A Ltd.

15,800

Less : Mutual Owings

3,000

72,000

Cash and Bank Balances :

A Ltd.

14,500

B Ltd.

8,000

12,800

22,500

Total Assets

9,99,900

(1) Analysis of Capital Profit

Capital Reserve Balance

1,20,000

Less : Bonus Issue

1,00,000

20,000

Add : Revaluation of Land & Building

20,000

Add : Surplus Balance

36,000

76,000

Less : Reduction in value of Plant & Machinery

10,000

Total Capital Profit

66,000

Less : Share of Non-controlling Interest (1/5 of ₹ 66,000)

13,200

Holding Co. Share

52,800

(2) Calculation of Cost of Control or Goodwill

Cost of shares of B Ltd.

₹
3,40,000

Less : Face value of 1,600 shares of ₹ 100 each

1,60,000

Face value of 800 (i.e. $1,600 \times \frac{1}{2}$) bonus shares of ₹ 100 each	80,000
Share of Capital Profit	52,800
	<u>2,92,800</u>
Goodwill	47,200
	<u>₹</u>
(3) Calculation of Non-controlling Interest	
Face value of 400 shares of ₹ 100 each held by non-controlling shareholders	40,000
Add : Face value of 200 (i.e. $400 \times \frac{1}{2}$) bonus shares of ₹ 100 each	20,000
Add : Share of Non-controlling Interest in Capital Profit	13,200
Non-controlling Interest	<u>73,200</u>

PROBLEM 15. (Dividend, Fictitious Assets & Remittance in Transit). On April 1, 2017 S Ltd. issued 10% Preference Shares of ₹ 1,00,000 at par. On this date, S Ltd.'s General Reserve and Surplus Account showed balances of ₹ 80,000 and ₹ 50,000 respectively. On July 5, 2017 S Ltd. paid a final dividend of 12% on equity shares for the year ended 31st March, 2017.

On April 1, 2017 H Ltd. acquired 80% equity shares in S Ltd. for ₹ 3,00,000. On this date machinery of S Ltd. was revalued at ₹ 2,40,000. No entry for this was made in the books of S Ltd.

On March 31, 2018, Balance Sheets of H Ltd. and its subsidiary S Ltd. stood as follows :

	H Ltd. ₹	S Ltd. ₹
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital :		
(i) Equity Share Capital	8,00,000	3,00,000
(ii) 10% Preference Share Capital	—	1,00,000
(b) Reserves and Surplus :		
(i) General Reserve	4,00,000	1,50,000
(ii) Surplus Account	2,00,000	90,000
(2) Non-current Liabilities		
Loans	1,10,000	—
(3) Current Liabilities		
Trade Payables :		
(i) Creditors	1,70,000	76,000
(ii) Bills Payable	—	4,000
Total	<u>16,80,000</u>	<u>7,20,000</u>
II. Assets		
(1) Non-current Assets		
(a) Fixed Assets :		
(i) Tangible Assets :		
Machinery	6,25,000	2,70,000
Furniture	85,000	50,000
(ii) Intangible Assets :		
Commission on Issue of Shares	—	10,000
(b) Investment : Shares in S Ltd.	3,00,000	—
(2) Current Assets		
(a) Stock	4,00,000	1,90,000
(b) Debtors	1,50,000	80,000
(c) Bank	1,20,000	1,10,000
(d) Loan to H Ltd.	—	10,000
Total	<u>16,80,000</u>	<u>7,20,000</u>

Following further information is furnished :

- (i) S Ltd. provides depreciation on Machinery @ 10% on written down value. No machine was sold or purchased during the year.
- (ii) H Ltd. remitted a cheque of ₹ 10,000 to S Ltd. on 27th March, 2018, for repayment of loan, which was received by S Ltd. in April 2018.
- (iii) No part of commission on issue of shares was written off during the year.

Prepare Consolidated Balance Sheet of H Ltd. and S Ltd as at 31st March, 2018.

SOLUTION

CONSOLIDATED BALANCE SHEET OF H LTD. AND ITS SUBSIDIARY S LTD.

as on 31-3-2018

I. Equity and Liabilities		₹
(1) Shareholders' Funds		
(a) Share Capital		
Equity Share Capital		8,00,000
(b) Reserves and Surplus :		
General Reserve		4,00,000
Surplus Account [See Working Note (5)]		2,84,000
Shareholders' Funds		14,84,000
Non-controlling Interest [See Working Note (4)]		2,05,000
(2) Non-Current Liabilities		
Long-term Borrowings : Loans		1,10,000
(3) Current Liabilities		
Creditors : H Ltd.	1,70,000	
S Ltd.	66,000	
		2,36,000
Bills Payable (S Ltd.)		4,000
Total Equity and Liabilities		20,39,000
II. Assets		
(1) Non-Current Assets		
Fixed Assets :		
(i) Tangible Assets :		
Machinery : H Ltd.	6,25,000	
S Ltd.	2,70,000	
	8,95,000	
Less : Machinery of S Ltd. Reduced	50,000	
	8,45,000	
Add : Additional Depreciation on ₹ 50,000 @ 10% written back	5,000	
		8,50,000
Furniture : H Ltd.	85,000	
S Ltd.	50,000	
		1,35,000
(ii) Intangible Asset :		
Goodwill [See Working Note (3)]		4,000
(2) Current Assets		
Stock : H Ltd.	4,00,000	
S Ltd.	1,90,000	
		5,90,000
Debtors : H Ltd.	1,50,000	
S Ltd.	80,000	
		2,30,000

Cash and Cash Equivalents :

Bank : H Ltd.

S Ltd.

Remittance in Transit

1,20,000

1,10,000

10,000

Total Assets (1) + (2)

2,40,000

20,49,000

Working Notes :

(1) Analysis of Capital Profit

Balance of Surplus A/c on 1-4-2017

50,000

Less : Dividend @ 12% on ₹ 3,00,000

36,000

Add : General Reserve Balance on 1-4-2017

14,000

80,000

Less : Loss on Revaluation of Machinery

94,000

Value of Machinery on 1-4-2017 $\left(₹ 2,70,000 \times \frac{100}{90} \right)$

3,00,000

Less : Revalued Figure

2,50,000

50,000

Less : Commission on Issue of Shares

44,000

10,000

Less : Share of Non-controlling Interest (20%)

34,000

Holding Co. Share

6,800

27,200

(2) Analysis of Revenue Profit

Profit earned during the year (₹ 90,000 – ₹ 14,000)

76,000

Add : Saving in Dep. $\left(₹ 50,000 \times \frac{10}{100} \right)$

5,000

Less : Preference Dividend (10% on ₹ 1,00,000)

81,000

10,000

Increase in General Reserve (1,50,000 – 80,000)

71,000

70,000

Less : Share of Non-controlling Interest (20%)

1,41,000

Holding Co. Share

28,200

1,12,800

(3) Calculation of Cost of Control or Goodwill

Cost of Investment

₹

3,00,000

Less : Paid up Value of Shares

2,40,000

Share of Capital Profit

27,200

Dividend from Pre-acquisition Profit (12% on ₹ 2,40,000)

28,800

2,96,000

Goodwill

4,000

(4) Calculation of Non-controlling Interest

Paid-up Value of Equity Shares held :

₹

60,000

Add : Share of Capital Profit

6,800

Add : Share of Revenue Profit

28,200

Add : Paid-up Value of Preference Shares

1,00,000

Dividend due on Preference Shares

10,000

1,10,000

2,05,000

(5) **Surplus A/c of Holding Co.**

Balance

₹

2,00,000

Add: Share of Revenue Profit of Holding Co. (2)

1,12,800

3,12,800

Less: Dividend Wrongly Credited to Surplus A/c

28,800

2,84,000

PROBLEM 16. (Treatment of Dividend). Holders Ltd. acquired 4,000 shares of ₹ 10 each on 30-9-2017 for ₹ 52,000 in Subs. Ltd. Holders Ltd. received 10% dividend for 2016-17, but the dividend received has been credited to Profit for the year of Holders Ltd. Following are the liabilities and assets as at 31-3-2018.

	Holders Ltd.	Subs. Ltd.
Liabilities	₹	₹
Equity Share Capital in ₹ 10 Shares	60,000	50,000
General Reserve (1-4-2017)	12,000	10,000
Surplus A/c :		
Balance on (1-4-2017)	4,000	8,000
Profit for the year	30,000	20,000
Sundry Creditors and Provisions	10,000	8,000
	<u>1,16,000</u>	<u>96,000</u>
Assets		
Investments in Subs. Ltd. (4,000 shares)	52,000	—
Sundry Assets	64,000	96,000
	<u>1,16,000</u>	<u>96,000</u>

Prepare Consolidated Balance Sheet as at 31-3-2018.

SOLUTION 16

Total shares of Subsidiary Ltd. $\left(\frac{₹ 50,000}{₹ 10} \right)$ 5,000

Shares acquired by Holders Ltd. 4,000

Proportion of shares held by Holders Ltd. $\left(\frac{4,000}{5,000} \right)$ $\frac{4}{5}$

Proportion of shares of Subs. Ltd. held by non-controlling shareholders $\left(\frac{5,000 - 4,000}{5,000} \right)$ $\frac{1}{5}$

(1) **Calculation of Capital Profits**

General Reserve of Subs. Ltd. as on 1-4-2017 10,000

Balance of Surplus A/c of Subs. Ltd. as on 1-4-2017 8,000

Profit earned by Subs. Ltd. for 6 months from 1-4-2017 to 30-9-2017

$\left(\frac{1}{2} \text{ of } ₹ 20,000 \text{ profit for 2017} \right)$ 10,000

Capital Profits 28,000

Holders Ltd.'s Share ₹ 28,000 × 4/5 22,400

Non-controlling Shareholders' Share ₹ 28,000 × 1/5 5,600

(2) **Calculation of Revenue Profit**
Profit earned by Subs. Ltd. for 6 months from 1-10-2017 to 31-3-2018

$\left(\frac{1}{2} \text{ of } ₹ 20,000 \text{ profit for 2017-18}\right)$

Share of Holders Ltd. ₹ 10,000 × 4/5

Share of Minority Shareholders ₹ 10,000 × 1/5

10,000
8,000
2,000

(3) **Calculation of Capital Reserve**

Cost of acquiring 4,000 shares of Subs. Ltd.

Less : Face value of 4,000 shares held

Share of Capital Profit

Dividend for 2016-17 (10% of ₹ 40,000)

₹ 40,000

22,400

4,000

₹ 52,000

Capital Reserve on Consolidation

66,400

14,400

(4) **Calculation of Non-controlling Interest**

Share Capital (1,000 shares of ₹ 10 each)

Share of Capital Profit

Share of Revenue Profit

₹ 10,000

5,600

2,000

17,600

(5) **Balance of Surplus Account of Holders Ltd.**

Balance on 1-4-2017

Profit for the year

Less : Dividend received from Subs. Ltd.

Add : Share of Revenue Profit from Subs. Ltd

₹ 4,000

30,000

34,000

4,000

30,000

8,000

38,000

CONSOLIDATED BALANCE SHEET OF HOLDERS LTD. AND ITS SUBSIDIARY S LTD.
as on 31st March 2018

I. Equity and Liabilities

(1) **Shareholders' Funds**

(a) **Share Capital**

6,000 Equity Shares of ₹ 10 each fully paid up

(b) **Reserves and Surplus :**

Capital Reserve [See Working Note (3)]

General Reserve

Surplus A/c [See Note (5)]

60,000

14,400

12,000

38,000

Total Shareholders' Funds

1,24,400

Non-controlling Interest [See Working Note (4)]

17,600

(2) **Non-Current Liabilities**

(3) **Current Liabilities**

Sundry Creditors :

Holders Ltd.

Subs. Ltd.

₹ 10,000

8,000

18,000

Total Equity and Liabilities

1,60,000

II. Assets

Sundry Assets :
Holders Ltd.
Subs. Ltd.

₹
64,000
96,000

Total Assets

1,60,000

1,60,000

PROBLEM 17. (Dividend and Inter Company Owings). From the following Balance Sheets as on 31st March, 2018 of a holding company and its subsidiary prepare a Consolidated Balance Sheet :

	H Ltd. ₹	S Ltd. ₹
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital :		
Equity Shares of ₹ 10 each paid		
(b) Reserves and Surplus :	5,00,000	2,00,000
(i) General Reserve	80,000	60,000
(ii) Surplus Account	90,000	70,000
(2) Current Liabilities		
(a) Sundry Creditors	50,000	40,000
(b) Outstanding Expenses	20,000	10,000
Total	7,40,000	3,80,000
II. Assets		
(1) Non-current Assets		
(a) Fixed Assets :		
(i) Tangible Asset : Machinery	3,00,000	1,50,000
(ii) Intangible Asset : Goodwill	30,000	10,000
(b) Investment : 16,000 Shares in S Ltd.	1,90,000	—
(2) Current Assets		
(a) Stock 80,000	50,000	
(b) Debtors	1,20,000	1,60,000
(c) Cash at Bank	20,000	10,000
Total	7,40,000	3,80,000

When control was acquired, S Ltd. had ₹ 40,000 in General Reserve and ₹ 30,000 in Surplus Account. Immediately on 'purchase of shares' H Ltd. received ₹ 16,000 dividend from S Ltd. (wrongly credited to Surplus A/c of H Ltd.)

Debtors of H Ltd. include ₹ 20,000 due from S Ltd. where as creditors of S Ltd. include— ₹ 15,000 due to H Ltd. difference being accounted for by a cheque in transit.

SOLUTION 17

CONSOLIDATED BALANCE SHEET OF H LTD. AND ITS SUBSIDIARY S LTD.

as on 31-3-2018

I. Equity and Liabilities	
(1) Shareholders' Funds	
(a) Share Capital	
50,000 Equity Shares of ₹ 10 each fully paid up	5,00,000

- (b) **Reserves and Surplus :**
 Capital Reserve [See Working Note (3)]
 General Reserve
 Surplus A/c [See Working Note (5)]

Shareholders' Funds

Non-controlling Interest [See Working Note (4)]

(2) **Non-Current Liabilities**

(3) **Current Liabilities**

Sundry Creditors : H Ltd. 50,000
 S Ltd. 40,000

Less : Inter Co. Owings 90,000
 15,000

Outstanding Expenses : H Ltd. 20,000
 S Ltd. 10,000

Total Equity and Liabilities

II. Assets

(1) **Non-Current Assets**

Fixed Assets :

Machinery : H Ltd. 3,00,000
 S Ltd. 1,50,000

(2) **Current Assets**

Stock : H Ltd. 80,000
 S Ltd. 50,000

Debtors : H Ltd. 1,20,000
 S Ltd. 1,60,000

Less : Inter Company Owings 2,80,000
 20,000

Cash & Cash Equivalents : Cash at Bank 30,000
 Remittance in Transit 5,000

Total Assets

Working Notes :

(1) **Analysis of Capital Profit**

General Reserve
 Surplus A/c

Less : Non-controlling Interest's Share (20%) 70,000
 Share of H Ltd. 14,000

(2) **Analysis of Revenue Profit**

Current year profit (General Reserve and Surplus A/c on 31-3-2018 ₹ 1,30,000 –
 ₹ 70,000 General Reserve and Surplus A/c when control was acquired)
 Less : Non-controlling Interest's Share (20%) 60,000

Share of H Ltd. 12,000

48,000

(3) Calculation of Capital Reserve

Cost of Investment	₹	1,90,000
Less : Face Value of Shares	₹	
Pre-acquisition Dividend	1,60,000	
Capital Profit	16,000	
	56,000	
Capital Reserve		2,32,000
Less : Adjustment of Goodwill (₹ 30,000 + ₹ 10,000)		42,000
Capital Reserve on Consolidation		40,000
		2,000

(4) Calculation of Non-controlling Interest

Face Value of Shares with Outsiders	₹	40,000
Add : Share of Capital Profit		14,000
Share of Revenue Profit		12,000
		66,000

(5) Calculation of Surplus A/c Balance of H Ltd.

Balance of Surplus A/c of H Ltd.	₹	90,000
Add : Share of Revenue Profit		48,000
		1,38,000
Less : Pre-acquisition Dividend wrongly credited		16,000
		1,22,000

PROBLEM 18. (Dividend and Common Transactions). Ledger balances taken from the books of Hari Ltd. and its subsidiary Suri Ltd. as at 31st March, 2018 are as follows :

	Hari Ltd.	Suri Ltd.
	₹	₹
Cr. Balances		
Share Capital :		
Equity Shares of ₹ 10 each, fully Paid	4,00,000	1,00,000
General Reserve (on 1-4-2017)	2,80,000	34,000
Surplus A/c	1,70,000	42,000
Creditors	70,000	35,000
	<u>9,20,000</u>	<u>2,11,000</u>
Dr. Balances		
Plant and Mach.	4,80,000	90,000
Furniture	15,000	27,000
Investment	2,00,000	
Stock	95,000	42,000
Debtors	60,000	32,000
Cash at Bank	70,000	20,000
	<u>9,20,000</u>	<u>2,11,000</u>

Following information is also given to you :

- Hari Ltd. acquired 8,000 equity shares in Suri Ltd. as at 1st July, 2017 at a cost of ₹ 2,00,000.
- Stock of Hari Ltd. includes ₹ 6,000 relating to stock purchased from Suri Ltd. which follows the practice of charging 25% extra on the cost for determining the sale price.

- (iii) Creditors of Hari Ltd. include ₹ 10,000 on account of purchases from Suri Ltd.
- (iv) Surplus Account of Hari Ltd. includes dividend @ 10% for the year 2016-17 received from Suri Ltd. which declared and paid it after 1st July, 2017.
- (v) Balance in Suri Ltd.'s Surplus Account on 1st April, 2017 was ₹ 26,000. Dividend @ 10% for the year 2016-17 was declared out of this balance after 1st July, 2017.
- (vi) Profits during the year 2017-18 have been earned on uniform basis throughout the year.

Prepare a Consolidated Balance Sheet of Hari Ltd. and its subsidiary Suri Ltd. as at 31st March, 2018. Submit all your working notes neatly.

SOLUTION

CONSOLIDATED BALANCE SHEET OF HARI LTD. AND ITS SUBSIDIARY SURI LTD. as on 31-3-2018

I. Equity and Liabilities				₹
(1) Shareholders' Funds				
(a) Share Capital				
40,000 Equity Shares of ₹ 10 each fully paid up				4,00,000
(b) Reserves and Surplus :				
General Reserve				2,80,000
Surplus Account [See Working Note (5)]				1,76,400
Total Shareholders' Funds				8,56,400
Non-controlling Interest [See Working Note (4)]				35,200
(2) Non-Current Liabilities				Nil
(3) Current Liabilities				
Creditors : Hari Ltd.				₹ 70,000
Suri Ltd.				35,000
				1,05,000
Less : Inter Co. Owings				10,000
				95,000
Total Equity and Liabilities				9,86,600
II. Assets				
(1) Non-Current Assets				
Fixed Assets :				
(i) Tangible Assets :				
Plant and Machinery :				₹
Hari Ltd.				4,80,000
Suri Ltd.				90,000
				5,70,000
Furniture :				
Hari Ltd.				15,000
Suri Ltd.				27,000
				42,000
(ii) Intangible Asset :				
Goodwill [See Working Note (3)]				66,800
(2) Current Assets				
Stock :				
Hari Ltd.				95,000
Suri Ltd.				42,000
				1,37,000
Less : Stock Reserve $\left(₹ 6,000 \times \frac{25}{125} \right)$				1,200
				1,35,800
Debtors (Hari Ltd. ₹ 60,000 + ₹ 32,000)				92,000
Less : Inter Co. Owings				10,000
				82,000
Cash at Bank :				
Hari Ltd.				70,000
Suri Ltd.				20,000
				90,000
Total Assets				9,86,600

Plant & Machinery
Stock
Debtors
Bills Receivable
Cash Balance

1,00,000
40,000
1,35,000
30,000
62,000
5,37,000

3 months : 9 months or 1:3

Heavy Ltd. purchased 12,000 equity shares in Strong Ltd. for ₹ 1,70,000 on 1st July, 2017. On 1st April, 2017 the Surplus Account of Strong Ltd. showed a credit balance of ₹ 40,000 out of which a dividend of 15% on the existing share capital was paid in September 2017. In September 2017 a bonus issue of one equity share (fully paid) for every two equity shares held was also made by strong Ltd. out of general reserve.

On the basis of above information ascertain—(a) Capital Profit, (b) Goodwill or Capital Reserve, (c) Non-controlling Interest.

SOLUTION

Credit balance of Strong Ltd. on 31st March, 2018 of Equity Share Capital including Bonus Equity Capital is ₹ 3,00,000.

Share Capital before Bonus Issue is ₹ 3,00,000 × $\frac{2}{3}$ = ₹ 2,00,000.

Number of Equity Shares of Strong Ltd. = 20,000

Percentage of holding = $\frac{12,000 \text{ shares}}{20,000 \text{ shares}} \times 100 = 60\%$

	₹
Credit Balance of Strong Ltd. on 1-4-2017 of Surplus A/c	40,000
Less : Dividend for the year 2016-17 (₹ 2,00,000 × 15%)	30,000
Surplus Balance on 1-4-2017	10,000

(a) Calculation of Capital Profit

	₹
General Reserve (₹ 50,000 + ₹ 1,00,000 utilised for issue of bonus shares)	1,50,000
Surplus A/c as on 1-4-2017	10,000
Current Year's Profit upto 30-6-2017 (₹ 85,000 – ₹ 10,000) × $\frac{3}{12}$	18,750
	1,78,750
Less : Non-controlling Interest's Share (40%)	71,500
Holding Company Share	1,07,250

(b) Calculation of Goodwill/Capital Reserve

		₹
Amount paid for 60% Shares in Strong Ltd.		1,70,000
Less : Dividend from Capital Profit (₹ 1,20,000 × 15%)		18,000
		1,52,000
	₹	
Less : Paid-up Value of 60% Shares (₹ 2,00,000 × 60%)	1,20,000	
Share of Capital Profit	1,07,250	
		2,27,250
Capital Reserve		75,250

(c) Calculation of Non-controlling Interest

Paid-up Value of Shares (₹ 2,00,000 × 40%)	₹ 80,000
Add : Share of Capital Profit	71,500
Share of Revenue Profit (₹ 85,000 – ₹ 10,000) × $\frac{9}{12}$ = ₹ 56,250 × 40%	22,500
	<u>1,74,000</u>

Note. Bonus shares have not been included separately in calculation of cost of control and Non-controlling Interest because these have been included in calculation of Capital Profit.

PROBLEM 20. (Dividend, Revaluation of Assets, Bonus Issue and Contingent Liabilities). Prepare Consolidated Balance Sheet in the books of H Company Ltd. from the following Balance Sheets of H Co. and S Co. and given information as on 31-3-2018.

	H Ltd. ₹	S Ltd. ₹
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital :		
(i) Equity Share Capital of ₹ 100 each	8,00,000	4,00,000
(ii) Preference Share Capital	2,00,000	40,000
(b) Reserves and Surplus :		
(i) General Reserve as on 1-4-2017	2,00,000	1,10,000
(ii) Surplus Account	2,80,000	1,80,000
(2) Current Liabilities		
Trade Payables : Creditors	1,60,000	1,00,000
Bills Payable	—	40,000
Total	<u>16,40,000</u>	<u>8,70,000</u>
II. Assets		
(1) Non-current Assets		
(a) Fixed Assets :		
(i) Tangible Assets :		
Land & Building	4,00,000	2,60,000
Plant & Machinery	3,20,000	1,80,000
(ii) Intangible Asset :		
Goodwill	80,000	60,000
(b) Investment :		
3,000 Shares in S Co. purchased on 30-9-2017	4,80,000	—
(2) Current Assets		
(a) Stock	2,00,000	1,80,000
(b) Debtors	40,000	1,50,000
(c) Cash/Bank	1,20,000	40,000
Total	<u>16,40,000</u>	<u>8,70,000</u>

Informations :

- (1) Surplus A/c of S Co. showed a credit balance of ₹ 1,00,000 on 1st April 2017.
- (2) A dividend of 15% was paid by S Co. in October 2017 for the year ended 31st March 2017 which was credited to Surplus A/c of H Co.
- (3) Included in creditors of S Co. ₹ 40,000 for goods supplied by H Co. Also included in the Stock of S Co. are goods to the value of ₹ 16,000 which were supplied by H Co. at a profit of 25% on sales.

(4) Plant and Machinery were revalued at ₹ 3,00,000 which stood in the books at ₹ 2,00,000 in the beginning.

(5) There was a bonus issue of ₹ 40,000 out of post acquisition profit by S Co.

(6) There is a contingent liability of ₹ 2,000 for a pending suit in the court in the books of H Co.

SOLUTION

CONSOLIDATED BALANCE SHEET OF H CO. AND ITS SUBSIDIARY S CO. as on 31-3-2018

I. Equity and Liabilities

(1) Shareholders' Funds

(a) Share Capital

Equity Share Capital : 8,000 shares of ₹ 100 each

8,00,000

Preference Share Capital : 2,000 shares of ₹ 100 each

2,00,000

(b) Reserves and Surplus :

Capital Reserve [See Working Note (3)]

2,500

General Reserve

2,00,000

Surplus A/c [See Working Note (5)]

2,49,375

Total Shareholders' Funds

14,51,875

Non-controlling Interest [See Working Note (4)]

2,38,625

(2) Non-Current Liabilities

(3) Current Liabilities

Creditors : H Co.

1,60,000

S Co.

1,00,000

2,60,000

Less : Mutual Owings

40,000

2,20,000

Bills Payable

40,000

2,60,000

Total Equity and Liabilities

19,50,500

II. Assets

(1) Non-Current Assets

Land and Building (₹ 4,00,000 + ₹ 2,60,000 of S Co.)

6,60,000

Plant and Machinery :

H Co.

3,20,000

S Co. (₹ 1,80,000 + ₹ 1,10,000 increase)

2,90,000

6,10,000

Less : 10% Depreciation on ₹ 1,10,000 for $\frac{1}{2}$ year

5,500

6,04,500

(2) Current Assets

Stock (₹ 2,00,000 + ₹ 1,80,000 of S Co.)

3,80,000

Less : Stock Reserve (25% of ₹ 16,000)

4,000

3,76,000

Debtors (₹ 40,000 + ₹ 1,50,000 of S)

1,90,000

Less : Inter Co. Owings

40,000

1,50,000

Cash/Bank (₹ 1,20,000 + ₹ 40,000 of S Co.)

1,60,000

Total Assets (1) + (2)

19,50,500

Working Notes :**(1) Analysis of Capital Profit**

Surplus A/c Balance on 1-4-2017	₹ 1,00,000
General Reserve on 1-4-2017	1,10,000
Appreciation in Machinery (₹ 3,00,000 – ₹ 1,90,000)	1,10,000
Profit from 1-4-2017 to 30-9-2017	
$\frac{1}{2}$ (₹ 1,80,000 + ₹ 60,000 Dividend – ₹ 1,00,000 Surplus A/c Balance on 1-4-2017)	70,000
	<u>3,90,000</u>
Less : Dividend for 2016-17	60,000
	<u>3,30,000</u>
Less : Share of Non-controlling Interest (25%)	82,500
Holding Co. Share	<u>2,47,500</u>

(2) Analysis of Revenue Profit

Profit from 1-10-2017 to 31-3-2018	₹ 70,000
Less : Additional Depreciation on Plant & Machinery	
@10% $\left(\text{i.e. } \frac{₹ 20,000}{₹ 2,00,000} \times 100 \right)$ on ₹ 1,10,000 for six months	5,500
	<u>64,500</u>
Less : Bonus Issue	40,000
	<u>24,500</u>
Less : Share of Non-controlling Interest (25%)	6,125
Holding Co. Share	<u>18,375</u>

(3) Calculation of Goodwill

Cost of Investments	₹ 4,80,000
Less : Face Value of Shares	3,00,000
Share of Capital Profit	2,47,500
Dividend wrongly credited	45,000
Bonus Shares (75% of ₹ 40,000 bonus issue)	<u>30,000</u>
	<u>6,22,500</u>
Capital Reserve	1,42,500
Adjustment of Goodwill on Consolidation (₹ 80,000 H Ltd. + ₹ 60,000 S Ltd.)	<u>1,40,000</u>
Capital Reserve on Consolidation	<u>2,500</u>

(4) Calculation of Non-controlling Interest

Pref. Share Capital	₹ 40,000
Equity Share Capital	1,00,000
Share of Capital Profit	82,500
Share of Revenue Profit	6,125
Bonus Shares (25% of ₹ 40,000 bonus issue)	<u>10,000</u>
	<u>2,38,625</u>

(5) Holding Co. Balance of Surplus A/c

Balance of Surplus A/c	₹ 2,80,000
Add : Share of Revenue Profit	18,375
	<u>2,98,375</u>
Less : Dividend wrongly credited	45,000
Stock Reserve $\left(₹ 16,000 \times \frac{25}{100} \right) =$	<u>4,000</u>
	<u>49,000</u>
	<u>2,49,375</u>