Chapter - 1 Consolidation of Financial Statements

Consolidation of Financial Statements topic covers three main areas as follows:

(i) Holding and Subsidiary (AS 21)
(ii) Holding, subsidiary and Associate (AS 21 & 23)
(iii) Holding, Subsidiary, Associate (or without Associate) and Jointly controlled enterprises (AS 21,23 & 27)/(AS 21 & 27)

Let us also find out what the companies act says about holding company…….

According to Section 4(1) of the Companies Act, 1956, a company shall be deemed as subsidiary of another if and only if, -

a) That other controls the composition of its board of directors; or
b) That other -
   (i) Where the first mentioned company is an existing company in respect of which the holders of preference shares issued before the commencement of this Act have the same voting rights in all respects as the holders of equity shares exercises or controls more than half of the total voting power of such company;
   (ii) Where the first-mentioned company is any other company, holds more than half in nominal value of its equity share capital; or
c) The first-mentioned company is a subsidiary of any company, which is that other's subsidiary.
d) For example, if A Ltd. is a subsidiary of B Ltd., which is subsidiary of C Ltd., then A Ltd. would also be the subsidiary of C Ltd. by virtue of clause (c) above.

There is no reference for these Associate and Jointly Controlled Enterprises in the companies act and therefore all the references (definitions) shall be drawn from the relevant Accounting Standards. Therefore accounting standards version of consolidation of financial statements is considered as final.

Introduction:
A Holding Company is one, which has one or more subsidiary companies and enjoys controls over them. Legally a Holding Company and its subsidiaries are distinct and separate entities. However, in substance holding and Subsidiary Companies work as a group. Accordingly, users of holding Company accounts need financial information of subsidiaries to understand the performance and financial position of the Holding Company and its group. Consolidation would prove beneficial to the users of financial statements. Elimination of intra-group transactions is the hallmark of consolidation. The exercise of consolidation is primarily done on memorandum basis; as a result there will be no migration of reserves and surplus taking place between holding company and the outsiders.

In the process of consolidation holding company treats the rest of the investments at cost as they appear in the individual balance sheet. But if the investments were kept within the group say in associate, jointly controlled enterprises then the operations of those companies within the group would be requiring special attention as well as treatment while consolidation is carried out. With respect to the investments in associate companies, it will be accounted under equity method and similarly investments in jointly controlled enterprises shall be consolidated under proportionate consolidation method as against full consolidation method followed for holdings interest in subsidiaries.

Terms used in the Consolidation of Financial Statements

Parent / Holding Company: is an enterprise that has one or more subsidiaries.

Subsidiary: is an enterprise that is controlled by another enterprise (ie. Parent)

Control:

(a) Ownership directly/indirectly through subsidiaries of more than one-half of voting power of an enterprise. (or)
(b) Control of composition of directors in case of a company or its governing body.

Associate: is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor.

Significant influence: Power to participate in the financial and/or operating policy decisions of the investee but not the control over those policies.

Investor/Investee: An associate company would be referring company having significant influence as Investor Company and refer itself as Investee Company. Investor Company cannot have joint control over venture in the context of Joint Venture business.

Joint Venture: It is a contractually arrangement whereby two or more parties undertake an economic activity, which is subject to joint control.

Joint Control: It is the contractually agreed sharing of control over an economic activity of joint venture business.

Venturer: Venturer may be an individual, firm or company is a party to a joint venture having joint control on the venture business.

Capital Profit: All those reserves & surplus that existed at the time of controlling acquisition and continue to exist even at the time of consolidation is referred to as Capital Profit. It shall include not only general reserve and profit and loss account but also other reserves such as security premium, capital reserve and even miscellaneous expenditure items too.

Revenue Reserve: Increase in General Reserve since acquisition is referred to as Revenue Reserve. In case of increase in capital reserve the same shall be distributed between the parent and the minority interest. The increase in capital reserve can no way be taken as revenue reserve nor be considered under capital profit. The share of such increase in capital reserve shall be added to the capital reserve of the parent or disclosed distinctly from the capital reserve arising on account of consolidation.

Revenue Profit: Any change in Profit and Loss Account since acquisition is referred to as Revenue Profit. It includes decrease in the profit and loss account since the acquisition of control.

Pre-acquisition dividend: Dividends declared out of preacquisition profits/reserves are preacquisition dividends. Similarly dividends out of post acquisition profits/reserves are post acquisition dividends.

Investments: Investments held by the Holding Company representing the Share Capital, Debentures etc., shall be eliminated in the process of consolidation. However, investments in debentures are not treated the same way as investments in capital of subsidiaries. Investments held outside the group will be retained in the Consolidation.

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Goodwill / Capital Reserve: If the Cost of Investments is greater than the worth, the difference shall be referred to as Goodwill [Capital Loss]; vice versa is referred to as Capital Reserve [Capital Gain].

Minority Interest: Outsiders' interest in the Net assets of the Subsidiary Company is referred to as Minority Interest. Stock reserve attributable to minority interest in case of upstream sales shall be deducted before it is taken to the consolidated financial statement. It is shown as the last item on the liabilities side or else part of the source of funds, in case of vertical format being followed.

Inter Company Owings: Mutual Owings are to be eliminated for matching amounts. If there is any difference, the same shall be on account of Remittances in Transit, Goods in transit, Interest on Loans not considered, Bills discounted or endorsed as the case may be.

Bonus Shares: No Journal Entry is to be passed in the books of the Holding Company for the receipt of Bonus Shares for the Investments held.

Dividends from Subsidiary Companies: Pre-acquisition Dividend should be credited to Investments Account. Since the purchases of Investments were at cum-dividend prices, the subsequent receipt of dividend shall be credited to only Investment Accounts. Moreover such receipts are in the nature of recovery of cost, it can never be credited to profit and loss account.
Post acquisition Dividend is to be credited to Profit and Loss Account. However if the post acquisition dividend is declared out of pre-acquisition profits, it shall be credited to Investments account.

Purchase of Shares in lots / parcels or Piece meal acquisitions: Any change in the Reserves & Surplus between two dates of acquisition shall be treated as capital in nature as far as the second lot of purchases is concerned.

Disposal of Investments in subsidiary: The profit on disposal shall be credited to capital reserve and the loss shall either be adjusted against Capital Reserve or in Profit and Loss account. However, AS-13, envisages adjustment only in Profit and Loss account.

Revaluation of Assets / Liabilities: Revaluation Profit / Loss shall be included under Capital Profit if Revaluation is conducted just before acquisition. If revaluation is conducted after acquisition then it shall be treated as Revenue. Depreciation on the changed value of the assets shall be taken as capital/revenue depending on the period for which the depreciation belongs such as preacquisition/post acquisition.

Proposed Dividend: It shall be ignored if it is to be effected from post acquisition profits/reserves as the post acquisition items are shared finally between the parent and the minority interest. The share of minority interest shall be eliminated from minority interest total and it shall be added along with the proposed dividend of the parent company so as to reflect the commitment of the group if such proposed dividends are declared in the respective AGMs. This consolidated figure of proposed dividend of the group will reflect the likely cash outflow in case dividends were approved in the AGMs.

Cross Holdings/ Mutual Holdings: By looking into the provisions of Companies act, it has no practical validity however for academic interest the process of consolidation in case of mutual holding is explained this way.
Mutual Elimination shall be made as follows:

a) Investments held by Holding Company shall be matched with the net worth of the subsidiary Company to the extent of Holding Companies interest.
b) Investments held by Subsidiary Company shall be matched only with the Share Capital [not with the Reserves & Surplus].
c) Identification of Capital and Revenue reserves of the subsidiary shall be done with the help of simultaneous equations. The share of subsidiary shall be eliminated from the holding company's reserves and surplus in the process of consolidation.
d) The share capital held by subsidiary company shall automatically be cancelled.

Stock Reserve: Goods are transferred at loss/profit between companies in the group. The profit/loss shall be eliminated to the fullest extent. If such elimination does not result into cost or NRV of the group, then the stock reserve shall be eliminated only to the 7extent of bringing the stock either to cost or NRV whichever is lower. There could be occasions wherein an item transferred shall be treated as stock by a company but the same can be taken as plant & machinery by the other. General accounting principles shall be followed in the process of consolidation. Eliminate only to the extent of overstatement/understatement.

How to adjust the stock reserve on the liability side?

1. If the sales have been made by Holding company***(call this sale as downstream)***	Deduct 100% of stock reserve from Profit and loss account of holding company.
2. If the sales were performed by subsidiary company ***(call this sale as upstream)***	(a) Reduce the holding company's share from the consolidated profit and loss account (b) Similarly reduce the minority interest's share from the total of minority interest.

Treatment of Capital Profit of Sub-subsidiary: Capital Profit of the sub-subsidiary should be firstly apportioned between minority interest and Group interest. The group interest should be taken directly for calculation of goodwill / capital reserve. This is called ***direct method***.
In ***indirect approach***, pre-acquisition Profit / Loss is apportioned among minorities of the subsidiaries and to the respective group companies. From the shares of respect group companies, their minority interests are deducted and the parent company gets its indirect shares.

Different Reporting dates: Some times, the companies in the group follow different dates for closing the books. In that situation, the subsidiaries often prepare, financial statements for consolidation purposes as at the same date as that of holding company. When such statements cannot be prepared, financial statements drawn up to different reporting dates may be used if the difference is not greater than six months. At the same time, adjustments are required to be made for the effects of any significant event or intra-group transactions that occur between those dates and the date of consolidation.

Different Accounting Policies followed by companies: Consolidation shall be done only when companies follow uniform accounting policies. When different accounting policies are followed for similar situations/events, necessary adjustments are to be made. Where adjustments are not possible, the fact should be disclosed together with the proportions of items to which different accounting policies have been applied.

Foreign Subsidiaries: The financial statements of the subsidiaries are often expressed in foreign currency, not compatible for consolidation. They are to be translated firstly to Indian currency as per AS-11.

Procedure Involved in the consolidation of Profit and Loss account:

1. Prepare Profit and Loss account in tabular form; one either side there should be one column for each company in the group, one column for adjustments and one for total.
2. Inter-company transactions are to be eliminated in the total column, details being given in the column for adjustments.
3. Ascertain the individual profit and loss of each company in the ordinary manner.
4. Based on the profit disclosed by the Profit and Loss account of the subsidiary, without any adjustments for inter-company transactions, calculate the following amounts and debit in the total column:
   - (i) Share of Minority Interest.
   - (ii) The amount which may relate to pre-acquisition period and thus to be treated as capital profits
   - (iii) Stock reserve; and
   - (iv) Proposed dividend.

Chart A: Classification of reserves and Minority Interest.

	Total	H	MI
Capital Profit			
General Reserve			
Profit and Loss Account			
	A	B	C
Revenue Reserve			
Increase in GR since acquisition	D	E	F
Revenue Profit			
Change in Profit and Loss Account	G	H	I
Share Capital			
As per Balance Sheet	J	K	L
Total			M
Less: Stock Reserve pertaining to			HH

minority interest *(in case of upstream sales)*			
Minority interest in the consolidated BS			**II**

Chart B: Goodwill / Cost of Control:

Investments as per Balance Sheet	**N**	
Less: Pre-acquisition Dividend if any credited to P&L A/c by mistake	**O**	
Investment Cost		**P**
Less:		
1. Nominal Value of Share Capital	**K**	
2. Capital Profit	**B**	**Q**
Goodwill (or) Capital Profit		**R**

If R is ***Positive – Goodwill; Negative – Capital Reserve***

Chart C: Consolidated Profit and Loss Account and General Reserve

		P & L	**General Reserve**
Balance as per Holding Company's Books		**S**	**T**
Less:			
1. Stock Reserve	**U**		
2. Pre-acquisition Dividend (if credited to P&L A/c by mistake)	**O**		
3. Proposed Dividend (only Holding Company)	**V**	**W**	
4. Bonus Issue (Only when it is omitted)		**X**	
Add:			
1. Share of Revenue from Subsidiary Company		**H**	**E**
Balance c/f to Consolidated Balance Sheet		**Y**	**Z**

The share of revenue profit/loss from associate company shall be adjusted to **Z.**

Chart D: Elimination of mutual owings and stock reserve

	Debtors	**Creditors**	**Stock**
Simple summation of parent and subsidiary figures	**AA**	**BB**	**CC**
Less: Mutual owings	**DD**	**DD**	**-**
Stock Reserve	**-**	**-**	**U**
	EE	**FF**	**GG**

Note: The sum deducted as stock reserve as "U" shall stand deducted proportionately from consolidated profit and loss account and minority interest in case of upstream sale of stock.

Negative balance of Minority Interest:

In case of share of losses of subsidiary is greater that the equity of minority interest, the Minority interest would automatically be wiped out and further losses shall be provided for only if there were to some commitment extended by the Minority Interest to the Subsidiary or else the Minority Interest would be shown at Nil Value. The negative balance will be adjusted in the Revenue reserves of CFS.

In case of subsidiary regaining the loss into profit position, the Parent shall firstly adjust the previously adjusted losses and thereafter reverse the provision of losses before considering the profit earned by the Minority.

Cost method vs. Equity method

Transaction	Cost	Equity
At the time of purchase	Investment Dr. Cash/Bank Cr.	Investment a/c Dr. Cash/Bank Cr.
Pre acquisition dividend received	Cash/Bank Dr Investment a/c	Cash/Bank Dr Investment a/c
Increase in the revenue reserves of Associate company (Reversal for Decrease in Reserves)	No Entry	Investment a/c Dr. Profit and Loss Cr.
Declaration of post acquisition Dividend	No Entry	No Entry
Payment of such dividend	Bank Dr Profit & Loss Cr.	Bank Dr. Investment Cr.
Increase in reserves on account of Revaluation of Fixed assets of the associate	No Entry	Investment Dr. Revaluation res. Cr.
Incase of Impairment of assets/ downward revaluation	No entry	P&L a/c Dr. Investment a/c Cr.
To be followed	In the individual books of investing company	In the consolidated accounts of the parent.
Ascertainment of Goodwill/ Capital Reserve	No Requirement	Goodwill / Capital Reserve shall be ascertained separately to be disclosed as part of the cost of investments in the consolidated statement. Not to be adjusted to the goodwill/ Capital reserve arising out of consolidation with subsidiaries.

Negative balance of Investment in Associates: In case of share of losses of associate is greater that the carrying amount, the Investment at cost would automatically be wiped out and further losses shall be provided for only if there were to some commitment extended by the investing company to the Associate Company or else the investment would be shown at Nil Value. In case of associate regaining the loss into profit position, the Investor Company shall firstly adjust the previously ignored losses and thereafter reverse the provision of losses before considering the profit earned by the associate.

Financial Reporting of Interest in Joint Ventures
(AS 27)

This Standard provides procedures for disclosures and reporting in case of Joint ventures. It covers three forms of Joint ventures, they are

Jointly Controlled Operations	Jointly controlled Assets	Jointly controlled Entities
Income and expenses will be shared as per agreed ratio in the venturers income statement	Share on the assets (and liabilities) will be taken into individual venturer's financial statements as per agreed ratio	Proportionate Consolidation method will be followed when the venturer prepares consolidated financial statement. Goodwill / Capital reserve will be recognised in such case or else the Investment held in JCE will be stated as given in AS 13

Treatment of Transferred Assets

- Owned by Jointly controlled entity
  - Proportionate consolidation
  - Allow the Profit/Loss element in the stock to the extent of outsiders interest in the prorata value of the asset taken for consideration (Eliminate venturer's share of profit / loss)
  - In case of loss on account of NRV < Cost or on account of impairment loss. No elimination should be made either for venturer or for others.
- Owned by venturer
  - No Proportionate consolidation (because the asset is fully owned by venturer)
  - Others Participation is out of question as the entire asset is owned by venturers. (Eliminate only to the extent of venturer's Profit/Loss).
  - In case of loss on account of NRV < Cost or on account of impairment loss. No elimination is required to be made. Record Full loss.

Basic issues on Consolidation – AS 21

B1. Comment on the relationship between the companies in the following situations:

a. H owns 75% in S, which in turn 40% in S1. H also owns 15% directly in S1. Establish the relationship in the wake of the requirements of CFS.
b. H owns 100% of S, which in turn owns 30% of S1. H also owns 75% of S2 which in turn owns 25% of S1. Comment on the relationship.
c. H owns 60% of S, which in turn owns 20% in S1. H directly owns 20% in S1.

B2. H Ltd. acquired some majority shares in S Ltd. on 1/7/2003. The profit and loss account is the only item under reserves and surplus of S Ltd. The balances in Profit and loss account for the year ending 31/3/2003 and 31/3/2004 were respectively Rs.40000 and Rs.90000. Find out capital profit as pre-acquisition profit and revenue profit as post acquisition profit.

B3. Continuation of B2.

a. An item of stock was lost in an accident by 1/5/2003 costing Rs.10000. Insurance Company admitted claim only for Rs.6000 by 1/9/2003. Find out capital and revenue profit.
b. In the above case if the accident had taken place by 1st August 2004 will the answer be different for (a) above.

B4. H Ltd. had acquired 75% of the equity share capital of S Ltd. by 1/7/2003. It had received Rs.12000 as dividend for the year 2002-03. S Ltd. had not provided for the dividend when the accounts for the year 2002-03 were prepared. Find out the capital and revenue profit if the balances were Rs.42000 and Rs.96000 respectively at the end of 2002-03 and 2003-04.

B5. H Ltd. acquired 80% of the Equity capital of S Ltd. on 1/7/2004 when the plant and machinery account of S Ltd stood at Rs.200000. There was no addition or deletion took place during the calendar year of 2004 excepting the depreciation charged towards the end of the year. Plant and Machinery was to be valued at Rs.240000 on the date of acquisition, which was not considered in the books of S Ltd. However S Ltd. showed Rs.180000 against Plant and Machinery account by 31/12/2004. Find out the impact of the new value of Rs.240000 of Plant and Machinery account in the computation of capital profit and the treatment of additional depreciation applicable to post acquisition period.

B6. H Ltd. acquired 8000 shares in S Ltd. on 1.4.2002 for Rs.250000. On 1/7/2003 S Ltd. issued bonus shares @ 1 for 4 held. On 1/11/2003, the company issued rights shares @ 1 for 1 held. H Ltd. subscribed 75% of the rights with the balance 25% was sold @ Rs.2 per share. During the year 2004 H Ltd. sold 500 shares yielding a profit of Rs.12000. S Ltd. had shown in the balance sheet as on 31.12.2004 Rs.200000 @ Rs.10 per share. Find out the % of holding for the purpose of consolidation on 31.12.2004.

B7. A Ltd. (Holding company) sold goods to B Ltd. (subsidiary) costing Rs.50000 at a price of Rs.20000 on 1.5.03. As on 31.3.2004, the said goods were at closing stock of B Ltd. Find the value at which stock has to be reported and the amount of Stock reserve to be adjusted in the Consolidated Profit and Loss account.

B8. A Ltd. (Holding company) sold goods to B Ltd. (subsidiary) costing Rs.50000 at a price of Rs.20000 on 1.5.03. As on 31.3.2004, the said goods were at closing stock of B Ltd. That stock cannot be sold in the market beyond Rs.42000. Find the value at which stock has to be reported and the amount of Stock reserve to be adjusted in the Consolidated Profit and Loss account.

B9. H Ltd. sold goods costing Rs.10000 at Rs.12500 during a year. Such stock was entirely held by S Ltd. on the day of consolidation. Find out the amount of stock reserve to be removed in the consolidated financial statement if the stock is shown in the balance sheet of S Ltd. at
(a) Rs.12500 (at cost to S Ltd.)
(b) Rs.9000 (as NRV being lower than the cost of Rs.12500)
(c) Rs.9000 (NRV being Rs.14500 but on account of weighted average method of valuing at cost it resulted in Rs.9000)
(d) Rs.11000 (NRV being Rs.14500 but on account of weighted average method of valuing at cost it resulted in Rs.11000)

B10. If the stock is transferred by S Ltd. and held by H Ltd. on the date of consolidation, find out as how much of the stock reserve shall be deducted from the consolidated profit and loss account if H Ltd. holds 85%. Assume same situations as in the above case (B9).

B11. H Ltd. purchased 60% and 30% on two occasions when the reserves and surplus position of S Ltd. stood at Rs.40000 and Rs.65000 respectively. On the date of consolidation, reserves and surplus reflected Rs.175000 with no appropriation made for 10% preference capital of Rs.150000. Find out the goodwill/capital reserves when these investments were bought for Rs.350000 (both the lots) against the equity capital of Rs.300000 in S Ltd. Also find out the share of revenue reserves and surplus for consolidation purposes and Minority interest.

B12. A Ltd. an AMC purchased on 1.7.2004 40000 shares in B Ltd. @ Rs.160 per share. On the date B Ltd. had the following:

Equity Share Capital	100 Lacs
Free Reserves and Surplus	150 Lacs
6% Debenture	250 Lacs

A month later, B Ltd. bought back equity capital having a face value of Rs.37.5 Lacs @ Rs.140 (arrived at based on Book-building process). Though A Ltd. wanted to dispose it off at a price greater than Rs.175 had not shown any interest in the above scheme. The Buy back scheme was successful and satisfied all requirements of Statues/ regulation, etc and was completed by 30.11.2004. The Audit assistant of A Ltd.'s Auditor raised a point that A Ltd. has become Holding company after the Buy back and wanted to know the impact of B's working in the CFS by 31.12.2004. Comment.

B13. H Ltd. was holding 80% of the Equity capital of S Ltd. for a long time. During the last few years, S Ltd. had incurred severe losses and the debenture holders were proposing liquidation of S Ltd. H Ltd. convinced the debenture holders of S Ltd. that the forced liquidation would not realize more than a small fraction of the amount owed to the debenture holders. The debenture holders are therefore willing to accept zero % interest-bearing debentures for redemption of their value of Rs.50 Lacs by 31.3.2006. In the process the shareholders of S Ltd. agreed that S Ltd. would take up all necessary actions which would protect the interest of debenture holders by not issuing additional capital and not to borrow any loan from any source. S Ltd. is also restrained to declare any dividend until the redemption is over. Find out the position of H Ltd. for consolidation of financial statement as on 31.3.2003/4/5/6.

B14. Following are the dates of year ending of companies in a group

Situation	H	S1	S2
1	31.3.03	31.12.02	30.9.02
2	30.6.03	31.3.03	30.9.02
3	30.9.03	31.12.02	31.3.03

4 31.12.03 30.6.03 30.9.03

What are the relevant dates of consolidation if any from the above situations? Identify the companies taken for consolidation and assign reasons as why the other company is left out.

B15. A Ltd. holding 80% on B Ltd. and C Ltd. is being held by B Ltd. @75% on a Balance sheet date. During the year C Ltd. transferred stock costing Rs.20000 to B Ltd. and B in turn transferred such stock to A Ltd. at Rs.28000. This stock is lying unsold at the cost in the books of A Ltd. Find out the stock reserve to be eliminated along with the amount to be adjusted in the consolidated profit and loss account and the amount to be adjusted against the Minority interest of B&C.

B16. H Ltd. holds 75% of the debenture of S Ltd. at Rs.60000. The face value of the debentures held is Rs.75000. What will be the treatment of this investment in debentures of S Ltd. in the CFS?

B17. If S Ltd. holds 80% of debentures of H Ltd. at Rs.90000, when the face value of debentures held is only Rs.80000, how the investment held by S Ltd. will be treated in the CFS?

B18. A Ltd acquired 70% of equity shares of B ltd as on 1.1.1998 at cost of Rs.10 lacs when B ltd had an equity share capital of Rs.10 lacs and reserves and surplus of Rs.80000. Both the companies follow calendar year as the accounting year. In the four consecutive years B ltd. fared badly and suffered losses of Rs.2.5 lacs, Rs.4 lacs, Rs.5 lacs and Rs.1.2 lacs respectively. Thereafter in 2002 B ltd. experienced turnaround and registered an annual profit of Rs.50000. In the next two years i.e. 2003 and 2004 B Ltd. recorded annual profits of Rs.1 lacs and Rs.1.5 lacs respectively. Show the minority interests and cost of control at the end of each year for the purpose of consolidation.

B19. Following are the data relating to various dates in the Books of A Ltd.

Year ending 31.03	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Equity Capital	1000	1000	1000	1000	1000	1000
Reserves & Surplus	400	100	(1200)	(250)	200	2000

H Ltd purchased 40% of stake in A Ltd on 1.4.00. From the above data calculate for each date the Value of Investments and the Goodwill to be recognised in the CFS of H Ltd.

B20. Venturer sold to JCE stock costing Rs.I00000 at Rs.150000 at Rs. 15000. 100% of stock remaining unsold on the date of consolidation. Venturer holds 30% on JCE. Show how the stock will be reflected in the consolidated Balance Sheet of Venturer.

B21. JCE sold to Venturer goods costing Rs.100000 at Rs.150000. Entire stock remaining unsold on the date of consolidation. Show how the stock will be reflected as per AS 27?

B22. Venturer sold to JCE goods costing Rs.100000 at Rs.150000. JCE valued the entire stock on the date of consolidation at Rs.80000 being the NRV. Show how the stock shall be reflected in the consolidated Balance Sheet. Venturer holding 30% on JCE.

B23. JCE sold to venturer goods costing Rs. 100000 at Rs.150000. Entire stock is held at Rs.80000 at NRV by venturer. Show how the stock will be reflected in the consolidated Financial Statement.

Consolidation of Holding and Subsidiary (AS 21)

Question No. P1 Simple

The Balance Sheet of Suneel Ltd. and Maheshwari Ltd. as at 31st March 2005 were as below:

Liabilities	Suneel Ltd.	Maheshwari Ltd.
Share Capital (Rs.10)	500,000	200,000
Reserves	240,000	100,000
Profit & Loss A/c	57,200	82,000
Bank Overdraft	80,000	Nil
Bills Payable	Nil	8,400
Creditors	47,100	9,000
	924,300	**399,400**
Assets	**Suneel Ltd.**	**Maheshwari Ltd.**
Land and Buildings	150,000	180,000
Plant and Machinery	240,000	135,000
Invts in Maheshwari Ltd.	340,000	Nil
Stock	120,000	36,400
Sundry Debtors	44,000	40,000
Bills Receivable	15,800	Nil
Cash	14,500	8,000
	924,300	**399,400**

1. Suneel Ltd. had acquired 16000 shares of Maheshwari Ltd. on 1.10.2004.
2. The profit and loss account of Maheshwari Ltd. stood at Rs.30000 (credit) on 31st March 2004 out of which a dividend of 10% was paid on 1st November 2004. Suneel Ltd. had credited its share of dividend to its profit and loss A/c.
3. Stock of Maheshwari Ltd valued at Rs.12000, the NRV which was transferred by Suneel Ltd @ 20% profit on cost. Maheshwari Ltd accepted only that bill drawn for the balance consideration after adjusting the advance payment of Rs.4800. Bill is due on 1st June, 2005.

Prepare the consolidated Balance Sheet of two companies as on 31st March 2005.

Question No.P2: Disposal of small lots holding before consolidation

The following summarized balance sheets as on December 31, 2005 are given:

(Rs.000s)

Liabilities	A Ltd.	B Ltd.
Share Capital (Rs.100)	2000.0	500
Reserves and Surplus	600.0	250
Loan payable to B Ltd. (Incl Interest)	225.0	-
Bank Overdraft	-	140
Sundry Creditors	240.0	210
	3065.0	**1100**
Fixed Assets	2125.0	500
Investments in B Ltd.	472.5	-
Loan Receivable from A Ltd		200
- Others	45.0	-
Cash at bank	120.0	16
Other Current Assets	302.5	384
	3065.0	**1100**

The following other information is available:

1. The reserves of the companies as on January 1, 2005 were A Ltd. Rs.4.3 Lacs; B Ltd. Rs.2 Lacs

2. B Ltd. had advanced the loan to A Ltd. on January 1, 2005. No interest is accounted so far by B Ltd.
3. On July 1, 2005, B Ltd. issued fully paid bonus shares at the rate of one share for every four held. On the same date, a dividend of 10% was paid for 2004.
4. A Ltd. had purchased on 3500 shares in B Ltd. on 1st April, 2005 but had disposed of 375 shares on October 31, 2005 at Rs.140, the sale proceeds being credited to the concerned Investment Account which so far has only this entry in addition to that made on the acquisition of the shares.
5. Debtors of A Ltd included in other assets representing receivable from B Ltd to the extent of Rs.10000 for stock sold at Rs.40000 costing Rs.34000 during the year. B Ltd had shown only Rs.7500 as payable when it held 40% of the stock on the date of balance sheet.

Prepare the consolidated balance sheet of the group

Question No.P3: Consolidation with bonus issue recorded prior to consolidation

The following are the balance sheets of H Ltd and S Ltd as on 31.03.05 (Rs. Lakhs).

Liabilities	H Ltd.	S Ltd.	Assets	H Ltd.	S Ltd.
Share capital @ 1000	10	7	Fixed assets	10	12
General reserves	3	4	Investments in S Ltd.	5	
P & L account	2	2	Current assets	5	8
Current liabilities	5	7			
	20	20		20	20

Additional information:

a. H Ltd acquired 300 shares in S Ltd., on 1.4.04 when the position of S Ltd., was General reserve 6 Lakhs and P&L account 2 Lakhs.
b. On 1.9.04 S Ltd., issued 2 shares for every 5 shares held as bonus shares at face value. No entry is made in the books of H Ltd for the receipt of these bonus shares.
c. On 30.06.04 S Ltd., declared a dividend, out of its pre-acquisition profits of 20% on its then capital. H Ltd credited the receipt of dividend to its profit and loss account.
d. S Ltd owed H Ltd., Rs.3 Lakhs for the purchase of stock from H Ltd. The entire stock is held by S Ltd on 31.03.05. H Ltd made a profit of 20% on cost.
e. H Ltd transferred a plant to S Ltd for Rs.2 Lakhs. The book value of the plant to H Ltd was Rs.1.5 Lakhs

Prepare the consolidated balance sheet.

Question No: P4 Omissions of transactions

H Ltd. acquired 12000 shares in S Ltd. for Rs.170000 on 1.4.2005. The Balance Sheet of the two companies on 31.12.2005 was as follows: (Rs.000s)

Liabilities	H Ltd.	S Ltd.
Share Capital(Rs.10 each)	1000	300
General Reserve	420	50
Profit and Loss Account	260	85
Sundry Creditors	182.5	42
Bills Payable	80	60
Loan from S Ltd. (Incl. Interest)	57.5	Nil
Total	**2000**	**537**

Assets	**H Ltd.**	**S Ltd.**
Goodwill	300	70
Land & Buildings	400	100
Plant & Machinery	500	100
Book Debts	300	85
Stock	200	40
Investments	170	Nil
Loan to H Ltd.	Nil	50
Bills Receivables	50	30
Cash and Bank	80	62
Total	**2000**	**537**

a. On 1.1.2005, the profit and loss account of S Ltd. stood at Rs.40000, out of which a dividend of 15% on the then capital of Rs.2 Lakhs was paid in June, 2005.
b. By June 2005, a bonus issue of one share (fully paid) for every two shares held, was also made out of General Reserve.
c. Bills payable of S Ltd. represent bills issued in favour of H Ltd. which company still held Rs.40000 of the bills accepted by S Ltd.
d. The entire closing stock of S Ltd. represents goods supplied by H Ltd. at cost *Plus* 20%.
e. H Ltd. and S Ltd. agreed that for services rendered since acquisition H Ltd. should charge Rs.500 per month from S Ltd. Entries for this were not made when the accounts were drawn up.
f. The loan to H Ltd. was made by S Ltd. on 1.1.2005.

Prepare the consolidated Balance Sheet of the two companies as on 31.12.2005.

Question No.P5: Purchase of Shares in Lots or piecemeal acquisitions

Following are the Balance Sheets of H Ltd. and S Ltd. as at 31st March 2005: **(Rs.000s)**

Liabilities	**H Ltd.**	**S Ltd.**
Share Capital (Rs.10)	700	100
General Reserve	50	30
Profit and Loss a/c	100	30
Bills Payable	10	15
Creditors	90	50
Liabilities for expenses	5	15
	955	**240**
Assets	**H Ltd.**	**S Ltd.**
Land & Buildings	300	100

Plant & Machinery	280	50
7000 shares in S Ltd.	100	Nil
Stock	70	50
Debtors	150	20
Bills Receivable	10	Nil
Cash at Bank	45	20
	955	**240**

Additional Information:

1. All the Bills Receivable of H Ltd. including those discounted were accepted by S Ltd.
2. When 6,000 shares were acquired by H. Ltd. in S. Ltd. had Rs.20,000 General Reserve and Rs.5,000 credit balance in Profit and Loss Account.
3. At the time of Acquisition of further 1,000 shares by H. Ltd., S Ltd., had Rs.25,000 General Reserve and Rs.28,000 credit balance in Profit and Loss Account from which 20% dividend was paid by S Ltd. and dividend received by H Ltd. on these shares credited to Profit and Loss Account.
4. Stock of S Ltd. includes Rs.20,000 purchased from H Ltd. which has made 25% profit on cost.
5. Both the companies have proposed divided H Ltd. 10% and S Ltd. 20% but no effect has yet been given in the above Balance Sheet.

Prepare consolidated Balance Sheet as at 31st March 2005.

Question No.P6: Purchase of shares in lots and disposal

X Ltd. acquired 60% of Y Ltd. on 1.1.04 for Rs.80000/- (Nominal Value Rs.60000) and 90% of Z Ltd. on 1.1.03 for Rs.42000/- (Nominal Value Rs.45000/-). On 30.06.2005, 15% of Z was sold out for Rs.8000/- and 15% of Y Ltd. was further acquired for Rs.17000/-.

The following were the Profit and Loss Balances on different dates. (Rs.000s)

Dates	1.1.03	1.1.04	1.1.05	31.12.05
Y	12	15	40	90
Z	8	20	30	(10)

Assuming there was no other balances in Reserves and no appropriations were effected, find out

(i) Goodwill / Capital Reserve

(ii) Current Profit on the different relevant dates for consolidated Balance sheet at 31.12.03, 31.12.04 & 31.12.05.

(iii) Minority Interest on these dates.

Question No.P7 Holding additionally in pref. Share capital and Debentures

H Ltd. acquired control in S Ltd. a few years back when S Ltd. had Rs.25000 Reserve and Rs.14000 profit in Profit and Loss Account. Plant Account (book value Rs.66000) of S Ltd. was revalued at Rs.6000 on the date of purchase. Equity Dividend of Rs.7,500 was received by H Ltd. out of pre-acquisition profit and the amount was correctly treated by H Ltd. Debenture Interest has been paid up to date. Following are Balance Sheets of H Ltd. and S Ltd.

Balance Sheet at 30th September 2005 (Rs.000s)

Liabilities	H Ltd.	S Ltd.
6% Pref.Sh.Capital (Rs.100)	100	50
Equity Capital (Rs.10)	500	100
General Reserve	30	30
Profit and Loss account	40	12
6% Debentures	Nil	100

Sundry Creditors	90	60
Due to S Ltd.	10	Nil
Bills Payable	20	25
	790	**377**
Assets	**H Ltd.**	**S Ltd.**
Goodwill	50	30
Buildings	200	50
Plant & Machinery	105	100
Stock in trade	130	100
Sundry Debtors	90	50
Bills Receivable	30	10
Due from H Ltd.	Nil	12
Bank	27	25
Investments in S Ltd.		
300 Pref. Shares	28	Nil
7500 Equity Shares	85	Nil
Deb. (FV Rs.50000)	45	Nil
	790	**377**

1. Cheque of Rs.2000 sent by H Ltd. to S Ltd. was in transit.
2. Balance Sheet of S Ltd. was prepared before providing for 6 months dividend on Preference Shares, dividend for first half being already paid.
3. Both the Companies have proposed Preference Dividend only, but no effect has been given in accounts.
4. Stock of H Ltd. includes Rs.6000 stock purchased from S Ltd. on which S Ltd. made 20% profit on cost. Stock of S Ltd. includes Rs.10000 purchased from H Ltd. on which H Ltd. made 10% profit on selling price.
5. Since acquisition S Ltd. has written off 30% of the book value of Plant as on date of acquisition by way of depreciation.
6. Bills Receivable of S Ltd. is due from H Ltd.

Prepare Consolidated Balance Sheet.

Question No.P8: Foreign Subsidiary

The following summarized balance sheets as on December 31, 2005 are given:

(Amount in .000s)

Liabilities	H Ltd.	S Ltd.
Share Capital (Rs.100)	2000.0	500
Reserves and Surplus	600.0	350
Loan Payable	225.0	-
Sundry Creditors	240.0	160
	3065.0	**1010**
Fixed Assets	2072.5	600
Investments in S Ltd.	525.0	-
Loan Receivable	45.0	30
Cash at bank	120.0	60
Other Current Assets	302.5	320
	3065.0	**1010**

The following other information is available:

1. S Ltd. is a Tanzanian Company; the currency of Tanzania is "Shilling", the amount expressed above is in Tanzanian Shilling.
2. The reserves as on January 1, 2005 were H Ltd. Rs.4.3 Lacs; S Ltd. TSh.1.7 Lacs

3. 3500 shares were acquired in S Ltd. on June 30, 2005 @ Rs.150 per share. Stock of S Ltd. includes goods costing Rs.10000 sent by H Ltd. at the invoice value of Rs.12500 which were recorded in the books of S Ltd. at TSh.11625.
4. There has been no movement in the fixed assets or share capital of S Ltd. during the year.
5. S Ltd. paid in October 2005 an interim dividend @ 6% p.a. for six months. S Ltd. remitted the amount due to H Ltd. when Rs.100 was equal to TSh.94.
6. The exchange rates between India and Tanzania during 2005 were as follows:

January 1, 2005	Rs.100==92 TSh.
June 30, 2005	Rs.100==90 TSh.
December 31, 2005	Rs.100==93 TSh.
Average (post acquisition)	Rs.100==91 TSh.

Prepare the consolidated balance sheet of the group

Question No.P9: Reverse working.

The following accounts are the consolidated balance sheet and parent company balance sheet for A Ltd., as at 30.06.05.

	Consolidated Balance Sheet	**Parent company**
Share capital	140000	140000
Capital reserve	92400	92400
Profit and loss account	79800	35280
	312200	**267680**
Goodwill	85680	
Freehold Premises	127400	84000
Plant and machinery	62720	50400
Investment		151200
	275800	**285600**
Stock	121520	71120
Debtors	70420	46760
Dividend receivable		5040
Cash at bank	24360	
Current assets	216384	122920
Creditors	129220	69720
Corporation tax	27160	20720
Bank overdraft		39200
Proposed dividend	11200	11200
	167580	140840
Net current assets	48720	(17920)
Total assets (-)current liabilities	324520	267680
Less Minority interest	12320	
	312200	**267680**

a. There is only one subsidiary co., called B Ltd. A Ltd. acquired 50,400 Re.1 equity shares in B Ltd. for Rs.151200.
b. There is no capital reserves or goodwill in the subsidiary
c. A produced stock for sale to the subsidiary at a cost of Rs.3360 in May 05. The stock was invoiced tot he subsidiary at Rs.4200 and is still on hand at the subsidiary's warehouse on 30.06.05. The invoice had not been settled at 30.06.05.
d. The profit and loss account of the B Ltd. had a Cr balance of Rs.16800 at the date of acquisition
e. Dividends totaling Rs.560 payable to the outside shareholders of B Ltd. are included in creditors of Rs.129220 in the consolidated balance sheet.

You are required to prepare the subsidiary company Balance Sheet.

Question No: P 10 Unique Transactions between the group companies

The following are the summarized balance sheets of parent and subsidiary companies as on 31.03.2005 (Rs.in Lacs)

Liabilities	**Parent**	**Subsidiary**
Equity capital of Rs.10 each fully paid	50	20
Capital Reserve	5	3.1
Revenue Reserve	8.5	0.75
Profit and Loss account	4	2.8
Sundry Creditors	2.5	2.25
Bills Payable	1	0.1
	71	**29**
Land and Buildings	20	15.2
Plant and Machinery	20	8
Furniture	5	1.6
Investments	16.1	-
Stock	3.4	1
Sundry Debtors	3.6	2
Bills Receivable	0.5	0.4
Bank	2.4	0.8
	71	**29**

1. Parent acquired 80% shares in subsidiary on 30.9.2004 at a cost of Rs.18.1 lacs.
2. On 1st October, 2004 Subsidiary declared dividend and parent had credited correctly into Investment account
3. On 1.4.2004, the capital reserve and profit and loss account of subsidiary stood at Rs.50000 and 275000 respectively.
4. Land and Buildings and Furniture of Subsidiary stood at Rs.16 Lacs and Rs.2 Lacs on the last balance sheet Date were revalued respectively at Rs.20 Lacs and Rs.1.5 Lacs as on the Date of acquisition. No effect was given by the subsidiary nor any change in these assets seen excepting the depreciation charge for the year.
5. Subsidiary got an item of machinery from the parent on HP basis by February 2005. Details of HP transactions are as follows as on 31.03.2005:

Item head	**Rs.**	**Included in**
Instalment due	20000	Debtors
Instalment not due	8000	Stock
Hire Purchase stock reserve	1600	P & L account

Prepare a consolidated balance sheet of the parent and subsidiary as at 31.03.2005.

Question No. P 11: Different Reporting dates

The following are the balance sheets of two companies in a group: **(Rs.'000s)**

Liabilities	**A Ltd.**	**B Ltd.**
Equity Share Capital (Rs.10)	1000	500
Reserves & Surplus	450	205
13% Debenture of Rs.100	--	300
Creditors	380	80
Other Liabilities	200	40
	2030	**1125**

Assets	A Ltd.	B Ltd.
Fixed Assets	650	405
Investments		
-40000 Sh in B	800	--
- 1000 Debns. in B	150	--
Stock	200	350
Debtors	150	265
Cash and Bank	80	105
	2030	**1125**

1. The years ending for A Ltd. and B Ltd. are 31.3.2005 and 31.12.2004 respectively.
2. On 5th January, 2005 certain stocks of B Ltd. costing Rs.20000 were completely destroyed by fire. The insurance company paid 75% of the claim.
3. On 20th January 2005 A Ltd. sold goods to B Ltd. costing Rs.1.50 Lakhs at an invoice price of cost *plus* 20%. 50% of these goods were resold by B Ltd. to A Ltd. within 31st March 2005 (these were then sold by A Ltd. to a third party before 31st March 2005)
4. On 31st March 2005 B Ltd. owes Rs.60000 to A Ltd. in respect of those goods.
5. Pre-acquisition profits of B Ltd. were Rs.75000.

Prepare consolidated balance sheet as on 31st March 2005 after making necessary adjustments in the balance sheet of B Ltd.

Question No. P12: Restatement of Balance sheet– Uniform Accounting Policy.

Following is the Balance sheet of subsidiary B Ltd. **('000)**

Liabilities	2004	2003
Share capital:		
Subscribed		
5,000 equity shares of Rs. 100	500	500
Reserves & Surplus:		
Revenue reserves	286	714
Current Liabilities & Provisions:		
Sundry creditors	490	494
Bank Overdraft	-	170
Provision for taxation	310	430
	1586	**2308**
Assets	**2004**	**2003**

F. Assets:		
Cost	320	320
Depreciation	48	96
	272	224
Investment at cost		4,00
Current Assets:		
Stock	597	742
Sundry Debtors	594	891
Prepaid expenses	72	48
Cash at bank	51	3

Consider the following information:

(a) B Ltd. is a subsidiary of A Ltd. Both the companies follow calendar year as the accounting year.
(b) A Ltd. values the stock on Weighted Average basis while B Ltd. used FIFO basis. To bring B Ltd. values in the line of A Ltd. its value of stock is required to be reduced by Rs. 12,000 at the end of 2003 and Rs.34000 at the end of 2004.
(c) Both the companies use straight-line method of depreciation. However A Ltd. charges depreciation @ 10%.
(d) B Ltd. Deducts 1% from sundry debtors as a general provision against doubtful debts.
(e) Prepaid expense in B Ltd. include advertising expenditure carried forward of Rs. 60000 in 2003 and Rs.30000 in 2004 being part of initial advertising expenditure of Rs.90000 in 2003 which is being written off over three years. Similar amount of advertising expenditure of A Ltd. has fully written of in 2003.

Restate the Balance sheet of B Ltd. as on 31st December 2004 after considering the above information for the purpose of consolidation.

Question No.P13: Simple chain holding – Simultaneous acquisition.

The following are the balance sheets of H Ltd., A Ltd., and B Ltd. as on 31.12.2005.

(Rs.000s)

Liabilities	H Ltd.	A Ltd.	B LTD.
	Rs.	Rs.	Rs.
Share Capital	1000	200	100
Reserve	100	60	60
P & L Account	400	120	60
Creditors	200	120	60
Bills Payable	Nil	30	Nil
	1700	**530**	**280**
Assets			
Sundry Assets	800	120	100
Stock	610	180	100
Debtors	130	170	80
B/R from A Ltd.	10	Nil	Nil
Shares in A Ltd.	150	Nil	Nil
Shares in B Ltd.	Nil	60	Nil
	1700	**530**	**280**

a. H Ltd. purchased 80% of shares in A Ltd. when latter's profit and Loss account was Rs.80000 and Reserve was Rs.40000.
b. A Ltd. Purchased 75% of shares in B Ltd. when latter's profit and Loss account was Rs.40, 000 and reserve was Rs.20000.

Prepare consolidated Balance Sheet of H Ltd. and its subsidiaries A Ltd., and B Ltd., as on 31st December 2005 together with consolidation schedules.

Question No.P14 Simple chain holding – Simultaneous acquisition.

The following are the summarized balance sheets of three companies, F. Ltd. S. Ltd. and D. Ltd. as on March 31st 2006:- (Rs. in 000s)

	F. Ltd.	S. Ltd.	D. Ltd.
Share Capital (Rs.100 each)	500	400	150
Profit & Loss Account	120	100	30
Creditors	200	250	102
	820	**750**	**282**
	F. Ltd.	**S. Ltd.**	**D. Ltd.**
Goodwill	30	--	--
Fixed Assets	60	270	142
Stock	60	140	80
Other Current Assets	100	200	60
Investments:			
3000 shares in S. Ltd.	350		
1200 Shares in D. Ltd.		140	
	820	**750**	**282**

The investments were all acquired on 1st October, 2005. On April 1, 2005, the Profit and Loss Accounts showed the following balances:

	Rs. in 000s
F. Ltd.	80
S. Ltd.	48
D. Ltd.	(10)

Proposed dividends for 2005-06 are: F. Ltd. 16%; S. Ltd. 15% and D. Ltd. 10%. Prepare the consolidated balance sheet of the group as on March 31, 2006

Question No.P15: Chain holding – Different Date of acquisition

As on 30.06.2005 the summarized balance sheets of companies in a group showed the following position: (figures are in Rupees)

Assets	**Best**	**Better**	**Good**
Fixed assets	135000	60000	70000
Investments at cost	160000	150000	10000
Stock	55240	36840	61760
Debtors	110070	69120	93880
Bank Balance	131290	16540	52610
	591600	**332500**	**288250**
Liabilities			
Equity shares of Rs.10 each	200000	150000	80000
Capital Reserve	50000	-	23000
Revenue Reserve	99540	49370	45060
Creditors	112060	73130	78190

Taxation	30000	-	22000
Proposed Dividends	100000	60000	40000
	591600	**332500**	**288250**

You are provided with some more information:

1. Better Ltd acquired 6800 shares in Good Ltd at Rs.22 per share in 2002 when the balance on capital reserve was Rs.15000 and revenue reserve at Rs.30500.
2. Best Ltd purchased 8000 shares in Better Ltd in 2002 when the balance in revenue reserve was Rs.40000. Best Ltd purchased a further 4000 shares in Better Ltd in 2003 when revenue reserve stood at Rs.45000. There was no other investment held by Best Ltd as on 30.6.2005.
3. Parent companies included their share of proposed dividend in debtors account.

Prepare consolidated financial statements from the above.

Question No.P16: Chain holding with post acquisition dividends out of pre-acquisition reserves

You are given the following balance sheets as on December 31, 2005. **(Rs.000s)**

	P Ltd.	Q Ltd.	R Ltd.
Liabilities			
Share capital (Rs.100 each)	2000	1000	800
General reserve	600	300	200
Share Premium Account	200	50	Nil
Profit and Loss Account	250	180	120
Creditors	300	200	140
P Ltd.		50	30
	3350	**1780**	**1290**
Assets			
Fixed assets (cost less depn)	1500	900	970
Current assets	450	300	300
Investments	1300	580	1290
Q Ltd.	70	Nil	Nil
R Ltd.	30	Nil	Nil
Preliminary Expenses	Nil	Nil	20
	3350	**1780**	**1290**

1. P Ltd. had acquired 8,000 shares in Q Ltd. at a total cost of Rs.11 Lacs on 1st July, 2004.
2. On 1st January, 2005, P Ltd. and Q Ltd. purchased respectively 1000 and 5000 shares in R Ltd. at Rs.116 per share.
3. Particulars about General Reserve and the Profit and Loss Account are as given below:-

(Rs.'000)

	P Ltd.	Q Ltd.	R Ltd.
General reserve as on 1.1.04	550	250	200
Profit and Loss A/C Balance on Jan. 1, 2004	50	40	20
Profit during 2004	170	100	100
Dividend paid in August, 2005 in respect of 2004	10%	12%	10%

4. P Ltd. and Q Ltd. have credited the dividends received by them to their Profit & Loss Accounts.
5. Increase in reserves was effected only in 2005.
6. On 31st December, 2005 R Ltd. sold goods costing Rs.20000 to Q Ltd. for Rs.25000; these were immediately sold for Rs.28000 to P Ltd. These stocks are lying unsold with P Ltd.

Prepare the consolidated balance sheet of the group as on 31st December, 2005.

Question No.P17: Cross Holdings

The following are the balance sheets of A Ltd and B Ltd as on 31.12.2005 (Rs.000s)

Liabilities	A Ltd	B Ltd
Equity Capital of Rs.100 each	500	200
Capital Profit	100	80
Revenue Profit	300	50
Creditors	150	60
	1050	**390**
Assets	A Ltd	B Ltd
Sundry Assets	830	240
Investments		
1600 shares of B Ltd	220	-
1000 shares of A Ltd	-	150
	1050	**390**

Prepare consolidated balance sheet as on 31.12.2005.

Question No.P18: Consolidation of Profit &loss A/c and Balance Sheet.

The Balance Sheets of H Ltd. and S Ltd. as on 31st December, 2005 were as under:

(Rs. in 000s)

	H Ltd.		**S Ltd.**	
	Dr.	**Cr.**	**Dr.**	**Cr.**
ES Capital (Rs.100)		1000		200
7% Pref. Shares (Rs.100)		Nil		200
Reserves		300		100
6% Debentures		200		100
Debtors/Creditors	80	90	50	60
Opening Balance P & L a/c		20		15
Purchases/Sales	500	900	600	950
Wages & Salaries	100		150	
Debenture Interest	12		12	
General Expenses	80		60	
Pref. Dividend up to 30.6.2005		3.5	7	
Stock (31.12.2005)	100		50	
Bank	13.5		6	
Investments in S Ltd.	528		Nil	
Fixed Assets	1100		790	
	2513.5	**2513.5**	**1725**	**1725**

a. Investment is S Ltd. were acquired on 1.4.2005 and consisted of 80% of Equity Capital and 50% of Prefere nce Capital.
b. Depreciation on fixed assets is written off @ 10% p.a.
c. After acquiring control over S Ltd., H Ltd., supplied to it goods at cost plus 20%, the total invoice value such goods being Rs.60,000; 1/4 of such goods was still in stock at the end of the year.

Prepare the Consolidated Profit and Loss Account for the year ended on 31st December, 2005 and Balance Sheet as on that date.

Question No.P19: Consolidation of Profit and loss

H Ltd. holds 3,000 Equity Shares of Rs.100 each in S Ltd. whose capital consists of 4,000 Equity shares of Rs.100 each and 6% 1,000 Cumulative Preference Shares of Rs.100 each. S Ltd. has also issued 6% Debentures to the extent of Rs.2 Lacs out of which H Ltd. holds Rs.1 Lac. The following are the Profit and Loss Accounts of the two companies for the year ending 31st December, 2005. (Rs.000s)

	H Ltd.	S Ltd.		H Ltd.	S Ltd.
To Adjusted Purch.	1500	600	By Sales	1900	1500
To Manufacturing Expenses	Nil	400			
To Gross Profit	400	500			
	1900	**1500**		**1900**	**1500**
To Sundry Expense	150	200	By Gross Profit	400	500
To Debenture Int.	Nil	12	By Deb.Int. Recd	6	Nil
To Profit C/d	298	288	By Interim Divid	42	Nil
	448	**500**		**448**	**500**
To Income-tax	140	120	By Profit b/d	298	288
To Pref. Divi	Nil	6			
To Divi.(Interim)	Nil	56			
To Proposed Div	100	84			
To Balance c/d	58	22			
	298	**288**		**298**	**288**

The following further information is given:

a) The shares were acquired by H Ltd. on 1st April, 2005 but the debentures were acquired on 1st January, 2004. S Ltd. was incorporated on 1st January, 2004.

b) The income-tax deducted from dividends and interest is @ 30%.

c) During the year, S Ltd. sold to H Ltd. goods costing Rs.1 Lac at the selling price of Rs.1.5 Lacs. One-fourth of the goods remained unsold on 31st December, 2005. The goods were valued at cost to the holding company for closing stock purposes.

Prepare Consolidated Profit and Loss Account.

Question No. P20: Consolidation – Multiple subsidiaries

On 1st January 2005, Mega Ltd a new company raised its first capital of Rs.3 Lacs from the issue of 30000 shares @ Rs.10 each at par, had acquired the following shareholdings:

Company	No of shares	Face value of each share	Cost(Rs.)
A	3000	Rs.10	35000
B	10000	10	72000
C	8000	10	92000

Apart from these transactions and those detailed below, Mega Ltd neither paid nor received any amount during 2005. Following are the summarized Balance sheets of those subsidiaries as on 31.12.2005: (Rs. in 000s)

Assets	**A Ltd**	**B Ltd**	**C Ltd**
Goodwill	4	-	15
Freehold Property	18	41	50
Plant	16	30	12
Stock	11	32	21
Debtors	4	8	17
Bank	1	2	11.5
Profit and Loss Account	-	18	-
	54	**131**	**126.5**
Share Capital	40	120	100
General Reserve (opening)	3	-	7.5
Profit and Loss Account	6	-	15

Creditors	5	11	4
	54	**131**	**126.5**

Other relevant information:

1. The freehold property of C Ltd is to be revalued at Rs.65000 as on 1.1.2005
2. Additional depreciation for the year 2005 of Rs.3000 on the plant of B Ltd is to be provided.
3. The stock of A Ltd as on the above Date has been undervalued by Rs.2000 and is to be adjusted.
4. As on the Date above, Mega Ltd owed A Ltd Rs.3500 and is owed Rs.6000 by B Ltd. C Ltd is owed Rs.1000 by A Ltd and Rs.2000 by B Ltd.
5. The balances of Profit and loss account of these companies by 31.12.2004 are as follows

Companies	A Ltd	B Ltd	C Ltd
Balances (Rs.)	2000	(12000)	4000

   The credit balances of A Ltd and C Ltd were wholly distributed as dividends in March 2005
6. During 2005, A Ltd and C Ltd declared and paid interim dividend of 8% and 10% respectively.

You are required to prepare the consolidated balance sheet of Mega Ltd and its subsidiary companies as on 31.12.2005, ignore taxation.

Question No. P21: Comprehensive

The Balance Sheet of A Ltd. and B Ltd. as on 31.3.2005 are given below: (Rs.in 000s)

Liabilities	A. Ltd.	B. Ltd.
Share Capital (Rs. 10)	120	100
General Reserve	20	36
Profit and Loss Account	12	20
Bills Payable	2	5
Sundry Creditors	4	7
Contingent Liability of A Ltd.		
Bills Discounted not yet		
Matured Rs. 2.5		
	158	**168**
Assets	**A. Ltd.**	**B. Ltd.**
Fixed Assets	44	84
Investment in B Ltd.		
8000 shares @Rs.11	88	
Sundry Debtors	6	15
Bills Receivable	4	16
Stock in Trade	10	40
Cash at Bank	6	13
	158	**168**

Shares were purchased on 1.4.2002. When the shares were purchased General Reserve and Profit and Loss of B Ltd. stood at Rs.30000 and Rs.16000 respectively. Dividends have been paid @ 10% every year after acquisition of shares, first dividend being paid out of pre-acquisition profits. No dividend has been proposed for 2004-05 as yet and no provision need be made in consolidated Balance Sheet. A Ltd. has credited all dividends received to Profit and Loss Account.

On 31.3.2005, Bonus shares has been declared by B Ltd. @ 1 fully paid share for 5 held, but no effect has been given to that in the above accounts. The Bonus was declared out of profits earned prior to 1.4.2002 from General Reserve.

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When the shares were purchased, agreed evaluations of Fixed Assets of B Ltd. was Rs. 108000 although no effect has been given thereto in accounts. Depreciation has been charged @ 10% p.a. on the book value as on 1.4.2002, (on straight line method), there being no addition or sale since then.

Out of Current Profits Rs.2000 has been transferred to general reserve very year. Bills receivable of A Ltd. include Rs.2000 bills accepted by B Ltd. and bills discounted by A Ltd. but not yet matured include Rs.1500 accepted by B Ltd. Sundry creditors of A Ltd. include Rs. 2000 due to B Ltd. whereas Sundry Debtors of B Ltd. include Rs.4000 due from A Ltd. It is found that A Ltd. has remitted a cheque of Rs.2000, which has not yet been received by B Ltd.

Prepare consolidated Balance Sheet as at 31.3.2005 of A Ltd. and its Subsidiary.

Accounting for Investment in Associates (AS 23)

Question No.P1 Cost Method and Equity Method

X Ltd. acquired 1.2 Lakhs equity shares of Rs.10 each in Y Ltd. on 1.1.2004 at Rs.15 per share. The total issued equity share capital of Y ltd. was Rs.30 Lakhs divided into 3 Lakhs equity shares of Rs. 10 each. During the year 2004, the fixed assets of Y Ltd., have been revalued up by Rs.5 Lakhs. On the date of acquisition of shares, reserves and surplus of S ltd. was Rs. 1 Lakh. Y ltd. earned a profit after tax of Rs.6.75 Lakhs for the year 2004. During 2004 Y Ltd. paid an Interim dividend of 5%.
Show in the books of X Ltd., the value of investments in shares of Y Ltd. that would appear on 31.12.2004 under:

i. In individual balance sheet of X Ltd and
ii. In the consolidated Balance sheet of X Ltd and its subsidiaries.

Question No.P2: Associate Companies – Consolidation of Balance Sheet

X Ltd acquired 600000 Re. 1 ordinary, shares in Y Ltd. at a price of Rs.1.50 per share on 31st December 2003, at which point the P&L account of Y Ltd. had a credit balance of Rs.800.

The respective balance sheets of X Ltd. and Y Ltd. (Rs. in. 000s) as at 31st December 2004 are summarised below:

Assets	X ltd.	Y ltd.
Fixed Assets	15000	3200
Investments in Y Ltd.	900	-
Current Assets	1000	1800
	16900	5000
Liabilities		
Share Capital	8000	2000
P&L Account	8900	3000
	16900	5000

X Ltd also has a subsidiary company Z Ltd, and it is proposed to prepare consolidated accounts for the X Ltd group for the year ended 31st December 2004. You are required to draft the initial consolidated balance sheet of the group as at the date before inclusion of the results of the subsidiary Z Ltd, but Inclusive of the associate's figures.

Question No.P3: Consolidation of Balance sheet – Holding, Subsidiary and Associate

The draft summarised balance sheets as at 31st December 2005 of three companies are set out below: (Rs. in 000s)

	John	Bright	Winter
Fixed Assets			
Tangible Assets	300	100	160
Investments at cost			
18000 shares In Bright	75	-	-
18000 shares in Winter	30	-	-
	405	100	160

Net Current Assets	345	160	80
Total assets less current liabilities	750	260	240
Creditors	100	50	80
	650	210	160

Capital and Reserves			
Called up share capital (Re.1 ordinary shares)	250	30	60
Profit and loss account	400	180	100
	650	210	160

(a) John Ltd held stock of Rs.50000 at 31st December 2004 purchased from Bright Ltd" Including a profit margin of 40% (on transfer price). At 31st December 2005 John Ltd. held stock of Rs.80000 purchased from Bright Ltd. on the same terms..

(b) Bright Ltd. and Winter Ltd. have each proposed dividends of Rs.20000 which are reflected in their respective balance sheets. John Ltd. has not recognized these dividends in its own accounts.

(c) The reserves of Bright Ltd. and Winter Ltd. when the Investments were acquired were Rs.70000 and Rs.30000 respectively.

You are required to prepare the consolidated balance sheet as at 31.12.2005.

Question No.P4: Associate Company-
Consolidation of Balance sheet

Atma Ltd bought 25000 ordinary shares on 31 December 2004 in Karunya Ltd at a cost of Rs.38000 when the balance sheet of Karunya was as follows.

DRAFT BALANCE SHEET AT DATE OF SHARE PURCHASE

(Rs.000s)

Assets	
Non-current assets:	
Goodwill	30
Tangible Assets	120
	150
Current Assets	40
Total Assets	190
Liabilities	
Capital and Reserves	
Called up share capital in ordinary share of Re.1	100
Reserves	40
Non current liabilities	
12% Debentures	50
Total equity and liabilities	190

During the year to 31 December 2005 Karunya Ltd made a profit before tax of Rs.82000 and the taxation charge on the year's profits was Rs.32000. A dividend of Rs.20000 was paid on 31 December out of these profits.

(Rs.000s)

Assets	

Non-current assets: Goodwill Tangible Assets Current Assets	 30 140 170 50
Total Assets	220
Liabilities	
Capital and Reserves Called up share capital in ordinary share of Re.1 Reserves Non current liabilities 12% Debentures	 100 70 50
Total equity and liabilities	220

Effect the entries for the associated company which would appear in the consolidated accounts of the Atma group, in accordance with the requirements of AS- 23.

Question.No.P5: Application of AS - 23

A Ltd acquired 25% of shares in B Ltd. as on 31.03.2004 for Rs.3 Lakhs. The Balance Sheet of B Ltd. as on 31.03.2005 is given below: **Rs'000s**

Share Capital	500
Reserves and Surplus	500
	1000
Fixed Assets	500
Investments	200
Current Assets	300
	1000

During the year ended 31.03.2005 the following are the additional information available:

i) A Ltd. received dividend from B Ltd. for the year ended 31.03.2004 at 40% from the reserves.

ii) B Ltd. made a profit after tax of Rs.7 lakhs for the year ended 31.03.2005.

iii) B Ltd. declared a dividend @ 50% for the year ended 31.03.2005 on 30.04.2005.

A Ltd. is preparing consolidated Financial Statements in accordance with AS-21 for its various subsidiaries. Calculate:

i. Goodwill if any on acquisition of B Ltd. shares.

ii. How A Ltd., will reflect the investment value of B Ltd., in the consolidated Financial Statements?

iii. How the dividend received from B Ltd. will be shown in the consolidated financial Statements?

Question No. P6: Application of AS 23 - extract of consolidated financial statement

H Ltd having authorized capital of 100000 equity shares of Rs.10 each fully paid reported revenue reserve of Rs.162000 on 31.12.2003 after paying a dividend for that year ending 31.12.2003. It purchased 9000 equity shares of A Ltd on 1.1.2004 for Rs.142500, representing 22.5% of the capital of A Ltd. The balance on 1.1.2004 of revenue reserve of A Ltd after paying dividend for the year ending 31.12.2003 is Rs.345000. Following are some of the particulars considered relevant:

Year & Particulars	H Ltd	A Ltd
2004		
Profit (Rs in 000s)	184	140
Dividend in %	15	20
2005		
Profit (Rs in 000s)	265.4	(141)
Dividend in %	20	Nil

During the year ended 31.12.2005, A Ltd had manufactured and sold to H Ltd an item of machinery for Rs.80000 which included a profit on selling price to A Ltd of 25%. The plant had been included in the fixed assets of H Ltd and a full years depreciation had been provided thereon @ 20% on cost.

You are required to show how the above items would be reflected in the Consolidated Balance Sheet of H Ltd as on 31.12.2005 together with previous year's figures assuming that H Ltd has got the obligation of preparing consolidated financial statements through subsidiaries.

Question No. P7: Consolidation of Profit & Loss account With AS 23

On February 2002 Arun Ltd. purchased 1,50,000 ordinary shares and 50,000 preference shares in Bharat Ltd., and on 1st March 2002 purchased 45,000 ordinary shares in Chandar Ltd. All three companies make up their account to 30th June in each year. The following figures were extracted from the companies' records for the year ended 30.6.02.

Particulars	Arun Ltd.	Bharat Ltd.	Chandar Ltd.
Sales	9,00,000	8,50,000	5,00,000
Purchases	4,97,990	4,82,580	2,21,100
Selling expenses	45,000	67,500	45,000
Overhead expenses	1,15,000	52,500	65,000
Interim dividends paid 01.01.2002			
- on ordinary shares	75,000	40,000	
- on Preference shares		4,500	
Stocks on hand as on 30th June 2001	49,650	1,00,280	34,500
Issued share capital			
Ordinary shares of Re.1 each	3,00,000	2,00,000	1,00,000
9% Preference shares of Re. 1 each	-	1,00,000	-
Revenue reserves as on 30th June 2001 after deducting all dividends to that date	26,750	32,000	48,000

You also obtain the following additional information:

1. Profits of Bharat Ltd. and Chandar Ltd. accrued evenly throughout the year.
2. Stocks on hand at 30th June 2002 were: Arun Ltd.Rs.87,640; Bharat Ltd.92,860; Chandar Ltd. Rs.45,600
3. Provision for corporation tax based on the profits for the year at 52% is to be made as follows:
   - Arun Ltd. Rs.150000
   - Bharat Ltd. Rs.108000
   - Chandar Ltd. Rs.86400
4. Arun ltd. proposes to pay a final dividend on ordinary shares of 25%; Bharat Ltd. a half years' dividend on preference shares and a final dividend on ordinary shares of 30%; Chandar Ltd. a final dividend of 60%.

You are required to prepare a consolidated Profit and Loss account of Arun Ltd. and its subsidiary company incorporating the results of its associated company for the year ended 30th June 2002 together with your consolidation schedules.

Financial Reporting of Interests in Joint Ventures (AS 27)

Question No.P1: Jointly Controlled Operations

A Ltd. and B Ltd. are hardware and software companies agreed to participate jointly in a computer exhibition cum sale SHOW conducted during 23rd and 24th September at Island grounds, Chennai. The agreement between the entities spelt out the following:

(i) All units are sold jointly excepting for some additional software sold separately.
(ii) Discount of 15% and 20% of the normal selling price shall be offered for the special occasion to make the brand popular.
(iii) Excepting for the special membership fees all expenses are to be shared based on the normal selling price.
(iv) Special membership fees shall be shared equally.
(v) B Ltd. agreed to share 25% of the net profit out of its normal sales because A Ltd. is considered to be the market leader who had mooted the idea of special exhibition for the first time in Chennai.
(vi) Particulars regarding the selling price and the cost are as follows:

Particulars	A Ltd.	B Ltd.
Normal Selling Price per unit	Rs.40000	Rs.15000
Cost per unit	30000	6000
Installation charges	1500	-

The following are the results of the exhibition of the above mentioned joint venture operations:

Items of expenditure	Amount
Advertisement	16500
Rent	6000
Display Magazine and other expense	23100
Stall establishment	14000
Lighting and environmental upkeep	24200
Membership fees	50000
Sponsorship and Display rental income	79100

- Totally 90 items were sold during the two day operations
- B Ltd. sold some additional software items realizing Rs.42700 and the cost corresponding is negligible. It is agreed that such incidentals are outside the scope of the sharing between Venturers.
- A Ltd. offered special discount of 10% on 2 items sold to one of the sponsors.
- A Ltd. got a special discount of 5% from the suppliers of hardware items on all items sold.
- Sponsorship and display rental income shall be attributed to B Ltd. to the extent of Rs.57800 and the balance shall be attributed to JV operations.
- The entire operations reported excess collection of Rs.6000 possibly some customer paid in excess. Cash is taken over by A Ltd.

Find out the profit of the JV operations and the profit attributable to each of the venturer and show the extracts of the balance sheets of both the companies.

Question No: P2 Jointly Controlled Asset

A Ltd. a construction company entered into a Joint venture with an individual Mr.X owner of a plot in an important business location for developing 3 commercial complexes. Mr.X shall be credited for the value of Land. A Ltd will meet all other costs. All items emerging on venture will be shared at 60:40 respectively between A Ltd. and X. Following are the details of the projects: (Rs.in lacs)

Name of the Complex	Victory Square	Blue Diamond	Gold Fountain
Sale value	1400	2400	?
Cost (including the cost of the land)	980	1970	2004
Loan amount outstanding	110	Nil	1300
Proceeds receivable	150	-	NA

At the end of 18months as on 30th June 2004, all the projects were completed in full in all respects. Sale of shops was done as and when they are over, revenue and costs were reckoned as follows:

(Rs.in lacs)

Project	Victory Square	Blue Diamond	Gold Fountain
Revenue recognised by 31/3/2004	900	1700	?
Cost incurred	780	1420	1730
Loan outstanding	500	1000	900

GOLD FOUNTAIN was not sold and the venturers decided to retain that complex as jointly owned asset and the same was let off since 1st July 2004. Rent realised at Rs.175 Lacs for that period. Expenses attributable for the property let out are Rs.4.8 Lacs p.a.

Prepare income statement of the venture for the year ending 31/3/2005 and show how GOLD FOUNTAIN and related items will appear in the books of A Ltd. as on 31/3/2005.

Question No. P3: Joint Ventures - Assets

On 1 January 2004 C and D entered into a joint venture to construct and operate an oil pipeline. Each was to contribute equally to the cost of constructing the pipeline. C would be responsible for carrying out the work to maintain the pipeline once construction was complete. Both C and D would use the pipeline for their own separate operations. All maintenance expenses and any income arising from third parties using the pipeline were to be shared in the ratio 3:2.

The pipeline became operation on 1 July 2004 and was expected to have a useful economic life of 10 years. In the year to 31 December 2004 C Incurred construction costs of Rs. 450000 and maintenance costs of Rs.50000. D incurred construction costs of Rs. 550000 and collected income of Rs.20000 from a third party. In order to complete the work on the pipeline the venturers raised a joint loan of Rs.500000 on which D paid interest of Rs.40000 for the year to 31 December 2004 (at which date the' loan was still outstanding).

Prepare the memorandum income statement of the joint venture for 2004 and the entries that would be made in each venturer's individual financial statements.

Question No.P4: Jointly Controlled Entity – Proportionate consolidation method

Set out below are the draft accounts of Parent Co and its subsidiaries and of Joint Venture Co. Parent Co acquired 50% of the equity capital of Joint Venture Co three years ago when the latter's reserves stood at Rs.40000.

SUMMARISED BALANCE SHEETS

	Parent Co & Subsidiaries	Joint Venture
	Rs.'000	
Tangible non-current assets	220	170
Investment in joint venture	75	-
Current assets	100	50
loan to Joint Venture	20	-
	415	220
Share capital (Re.1 shares)	250	100
Reserves	165	100
loan from Parent Co	-	20
	415	220

SUMMARISED INCOME STATEMENTS

	Parent Co & Subsidiaries	Joint Venture
	Rs. '000	
Net profit	95	80
Taxation	35	30
	60	50
Dividends proposed	50	10
Reserves carried forward	10	40

Parent Company has taken credit for the dividend receivable from Joint Venture Company. You are required to prepare the summarised consolidated balance sheet of Parent Co, as recommended in AS-27.

Question No.P5: Jointly Controlled Entity - Proportionate consolidation method

A & Co. ltd. acquired 80% of both classes of shares in B & Co ltd. as on 1st January, 2005 at a total cost of Rs.5.6 Lacs on a joint controlled basis with another company. The balance sheet on 31st December 2005 'when accounts of both companies were prepared and audited was as under:

Balance Sheet of A. Co. Ltd. as on 31st December 2005 (Rs.in 000s)

Liabilities	Rs.	Assets	Rs.
Share Capital		Land & Building	515
Authorized & Issued 15000		Plant & Machinery	150
Shares of Rs.50 each	750	Debtors	140
Creditors (1)	75	Stock (2)	170
General Reserve	475	Investments.	560
Profit & Loss A/c (3)	400	Cash at Bank	165
	1700		1700

1) Includes Rs.30000 for purchases from the B & Co. Ltd. on which the latter company made a profit of Rs.7500.
2) Includes Rs.15000 stock at cost purchased from the B & Co. Ltd. part of the Rs.30000.
3) Includes dividend at the rate of 16% per annum from the B & Co. Ltd. The dividend was for the year 2004.

Balance Sheet of B. Co. Ltd. as on 31st December 2005

Liabilities	Rs.
Equity Share Capital (Rs.5)	100.0
6% Pref. Shares (Rs.100)	150.0
Creditors	80.5
General Reserve	10.0
Profit & Loss A/c	180.0
	520.5
Assets	**Rs.**
Land & Building	150.0
Plant & Machinery	135.5
Debtors	79.0
Stock	101.0
Cash at Bank	55.0
	520.5

Note: The balance on Profit & Loss Account at 1st January, 2005 was Rs.80000 out of which dividend at the rate of 16% was paid on equity shares. The dividend In respect of preference shares for 2005 is still payable.

Prepare consolidated Balance Sheet as on 31st December 2005 under proportionate consolidation method as envisaged in AS 27 assuming A & Co Ltd had obligation to prepare consolidated financial statement independently covering AS 23. Ignore Tax and other details of subsidiary company in the consolidation.

Chapter – 2

Valuation of Goodwill and Shares

Valuation of Business / Share

- Assumptions
- Valuation of Goodwill
- Valuation of Shares

I Assumptions

Some of the points not explicitly stated are to be assumed for in solving problems such as

(a) Capital employed shall be without considering long term liabilities (from shareholders point of view) or potent of long term liabilities (from business point of view)

(b) If capital employed is assumed from shareholders' point of view or otherwise then there will be a choice as whether it should be closing capital employed or average capital employed. It will be convenient to avoid multiple calculations by assuming capital employed as closing.

(c) Investments may either be trade or non trade. Trade investments are to be considered as part of capital employed and income from non trade investment shall be excluded in the calculation of income.

(d) Taxation may be assumed at say 50% or can be ignored totally to avoid tax effect of adjustments to be carried out.

(e) Depreciation on the changed value of fixed assets is normally ignored unless specifically stated.

(f) Return on capital employed (%) shall be assumed on the revised valuation of assets and liabilities.

(g) Income from investments if stated in %, shall normally be applied on the cost of investments assuming that face value and cost are one.

(h) Changed value of current assets and liabilities are incorporated in the computation of capital employed as well as in the computation of income.

(i) Trend in the profit will normally be ignored unless it is noticeable clearly. If noticed either weighted average will be used or statistical regression analysis will be used in the computation of future maintainable profits.

(j) Abnormalities if any shall be ignored at all stages such as profit or loss on disposal of assets, impairment of assets in the computation of income for the valuation of goodwill/shares.

(k) However an years profit when affected for a particular reason say strike announced by trade union, then the loss of profit (opportunity loss) owing to strike shall be added back to the actual earnings of the firm of that year in the computation of income, thereby the abnormality. That is the loss of profit is added back so as to arrive at normalcy.

(l) Future trend in the pattern of expenditure/income shall be taken into account in the computation of income.

(m) Under market value basis (dividend yield) it will be understood that the computation is always for minority shareholders. If the value is to be computed for majority shareholders then the return shall be based on return on equity and not based on actual dividend yield ratio.

(n) Unless otherwise stated preference shareholders will not participate in the surplus.

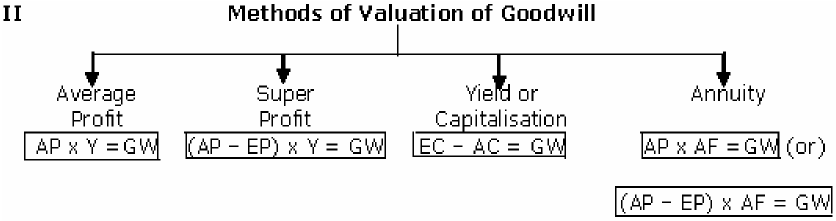
(o) There will not be any default if calls were enforced on arrears capital.

Base of Capital employed	Definition of Income
Inclusive of Long term loan	Profit before interest and tax or Profit after tax + Interest
Exclusive of Long term loan	Profit after interest and tax
Inclusive of Preference capital	Profit after tax
Exclusive of Preference capital	Profit after tax – Preference Dividend
Exclusive of Investment	Exclude income from investment in

	Income
Inclusive of Investment	Include income from investment in Income

These items are only illustrative and not exhaustive. Students are expected to assume things suiting the context of the problems and at the same time should not bring out unrealistic assumptions. All these assumptions though underlying in the problems, students are expected to clearly state those assumptions made. They will not be expected to reason out as why a particular assumption is made out of many alternatives. Without these assumptions made in solving the problems, it becomes very difficult to evaluate the accuracy and the logical conclusions of the findings.

II **Methods of Valuation of Goodwill**



AP – Actual Profit;	Y – Number of years;	EP – Expected Profit;
EC – Expected Capital;	AC – Actual Capital;	AF – Annuity Factor;
GW - Goodwill		

III Points to be reckoned in the Valuation of Shares:

Capital Employed (broad based)	Goodwill (Computed) + Capital Employed (as taken for GW purposes) + non-trade investment (at realisable value)
Net worth	Capital employed – Long term borrowings
Value per fully paid Equity Share	(Net worth + Calls-in-arrears – Preference Capital) / No. of Equity Shares
Value per Partly paid Equity Share	Value per fully paid Equity Shares – Calls-in-arrears/Share

(a) If different equity shares have different paid up values, the entire equity fund shall be divided proportionately to the total capital and thereafter each allocated equity fund shall be divided by the respective number of equity shares so as to arrive at value per share.
(b) Value per preference shares shall be the paid up value or redeemable value as the case may be. But in some cases it can be valued inclusive of preference dividend and the value so arrived at will be referred to as cum-dividend.
(c) Valuation of preference shares (participating) would be done similar to that of equity shares. The surplus attributable to the preference shares in case of liquidation shall be added to the paid up value.
(d) Under yield method, the value of the shares is dependent on the company expectation and the market yield with the paid up value of the shares. The formula is as follows

$$\text{Market Value} = \frac{\text{Company Expectation x Paid up value}}{\text{Market Yield}}$$

Therefore the company expectation will be dependent on the sort of holding such as minority and majority holdings. It is quite obvious that minority would expect based on the past dividend rates and the majority share holders on the divisible profits.

Valuation of Business:

Assets	Historical Cost Valuation (1)*	Current Cost Valuation (2)	Asset Valuation or NRV Basis (3)
Tangible Fixed Assets	Cost less Depreciation	Replacement value in Present Condition	Net Realisable Value
Investments	Cost	Quoted – Market Value Unquoted – Cost	Net Realisable Value
Stock	Cost or NRV whichever is lower	Market Value	Net Realisable Value
Debtors	Net Realisable Value	Net Collection	Net Realisable Value
Intangible assets	Cost less Amortizations	Current Purchase price less expired value	Net Realisable Value

*The said values can be taken from Balance Sheet.

Summary of valuation methods:

	Dividend yield	Earnings yield	Assets basis
Share Value	$\frac{\text{Dividend x 100}}{\text{Dividend yield (\%)}}$	Earnings x PE ratio	Net asset value
Required information	(1) Future dividends (2) Dividend yield expected	(1) Future earnings (2) PE ratio expected	Asset and Liability valuations
Advantages	1. Cash paid out is the key figure 2. Objective	Independent of management's dividend policy	Useful check on other methods
Suitable for	1. Companies whose shares are publicly traded. 2. Small Shareholdings in companies with stable dividend policies	1. Companies whose shares are publicly traded. 2. Shareholdings in privately owned companies of a size which enables the holder to influence dividend policy	1. Going concern basis – as a check on earnings yield method. 2. Asset stripping – useful information if assets are valued at disposal value.

(4) Economic Valuation: There are three methods as follows

(i) Capitalisation of Future maintainable profit

= Future Maintainable profit

Capitalisation rate

(ii) Present Value of future earnings (V_o)

(where the earnings are perpetual) $= \sum_{t=1} \frac{E_t}{(1+k)^t} = \frac{E_t}{k}$

(where the earnings are finite) $V_o = \frac{E_1}{(1+k)^1} + \frac{E_2}{(1+k)^2} + \ldots + \frac{E_n}{(1+k)^n}$

(iii) Present value of future cash flows $= \frac{C_1}{(1+k)^1} + \frac{C_2}{(1+k)^2} + \ldots + \frac{C_n}{(1+k)^n}$

C_1, C_2, C_n, etc. are cash flows from operations at different point of time; k = Discount rate

Basic Issues in Valuation

B1. Following are the profits earned in the past years by A Ltd.

Year	1	2	3	4	5
Profit (Rs. in 000s)	720	870	975	1015	1090

Find out Future Maintainable profit based on
(a) Simple Average of past profits.
(b) Weighted average of past profits.
(c) Trend Analysis.

B2. Following are the Balance sheets of B ltd: (Rs. in 000s)

Liabilities	**Opening**	**Closing**
Equity Share capital @ Rs.10	400	400
Reserves	600	720
Debentures	400	400
Creditors	150	120
	1550	**1640**
Assets		
Fixed assets	900	1010
Trade Investments	200	200
Non-trade investments	150	190
Current assets	300	240
	1550	**1640**

Find out the Capital Employed for B ltd. for the following situations
a. Shareholders approach – Average Capital employed.
b. Shareholders approach – Closing Capital employed.
c. Long Term fund approach – Average capital employed.
d. Long Term fund approach – Closing capital employed.
Find out value per share for each of the above situations.

B3. Following are the balances as on 31.3.2005 of A Ltd.

Sources of Funds:	Rs. in 000s
Equity Share capital (Rs.10 each)	500
6% Preference Capital (Rs.10 each)	300
Reserves and surplus	250
10% Debentures	150
	1200

Find out the Super Profits if the Operating Income for the year is Rs.240000, for the following situations.

a. 16% return on Capital Employed.
b. 12% return on Equity (including Preference Share capital).
c. 10% return on Equity Capital.

Note: Assume 33% corporate tax.

B4. Following are the balances of A Ltd. as on 31.3.2005. (Rs.in 000s)

10000 Equity Shares at Rs.10	100	
Less: Calls in Arrears (Rs.2)	6	94
9% Preference Capital (Rs.100)		100
Reserves and surplus		45
		239

Fair value of all assets and liabilities worked out at Rs.3.22 Lacs (excluding Non-Trade Investments at Rs.38000). Find out value of fully paid equity shares as well as partly paid.

B5. The following is the Balance Sheet of a Limited company as on 31st December 2004.

(Rs. in 000s)

Liabilities	Rs.	Assets	Rs.
Share Capital		Goodwill	17
13,000 Equity Shares of Rs.10	130	Land & Building	38
General Reserve	22	Plant & Machinery	50
5% Debentures	30	Investments	40
Sundry Creditors	20	Stock	45
Provision for taxation	18	Debtors	60
Profit & Loss Account		Cash & Bank	18
Balance on 1.1.2002	4	Cost of issue of Debn	2
Profit for the year	46		
	270		**270**

Profit includes Rs.2000 income from investments. Present value of assets: Land & Building Rs.45000; Plant & Machinery Rs.40000; Investments Rs.50000; and the current assets are worth book value.

Calculate the value of Goodwill on the basis of 3 years purchase of super profit. Normal return on capital employed in this type of business is 10%.

B6. Find out the break-up value of Equity Shares of AP Ltd from the following information:

(1) Equity Shares: 40,000 of Rs.10 fully paid up and 20,000 of Rs.10, Rs.5 paid up,
(2) Reserve and Surplus: Rs.50000.

(3) 8% Preference Shares of Rs.100; Rs.100000.
(4) Land and Building is valued at Rs.100000 (Book value Rs.60000).
(5) Debtors of Rs.10000 are likely to prove bad debts.

What difference will it make if the preference shares are Participating Preference Shares?

B7. Find out the market value of equity shares of X Ltd for (a) Majority Holdings and for (b) Minority Holdings from the following information:

(1) Share Capital: 20,000 shares of Rs.10 fully paid up all through the last three years.
(2) Reserve: Rs.30000 all through the last three years.
(3) Profits after taxation for last three years: 12%, 18%, and 15%.
(4) Dividends for last three years: Rs.36000, Rs.52000 and Rs.44000.
(5) Market Expectation 9%.

B8. Capital Employed of X Ltd. computed at revised values is Rs.100 lacs. Investments valued at Rs.20 lacs (Cost Rs.15 lacs) are included in the above which fetched consistently 10% rate of return on its face value. Investments represent share capital of various enterprises purchased some time ago at 120% of their face values of these 80% is considered as non trade investments. Company reported Rs.20 lacs as profit. Ignore taxes. Find out value of the business if it expects to earn 18% rate of return

B9. A Ltd gives the following information.

Current Profit	Rs.210 Lacs
Compound Growth rate of profit	7.5% p.a.
Current Cash flows from operations	Rs.270 Lacs
Compound Growth rate of cash flows	6.5% p.a
Current price-earning ratio	12
Discount factor	20%

Find out the value of A Ltd. taking 10 years projected profit or cash flows. You may use (i) future maintainable profit method, (ii) present value of future earnings method and (iii) present value of future cash flow method.

B10. Find out Goodwill of a company having Rs.4200 lacs Capital Employed from the following information.

Year	1	2	3	4	5
Profit (Rs.in Lacs)	400	520	475	610	705

(a) 3 years purchase of Average Profit.
(b) 5 years purchase of Super profit, when the company expected to earn 11% profit per annum.
(c) In case the company wants to calculate Goodwill on PV basis with a cost of capital of 14%, what changes are expected?

B11. Your are given the following information regarding Alas Limited, an unquoted company

(d) Issued ordinary share capital is 1 lac Re.1 shares.
(e) Extract from income statement for the year ended 31 July 2005

	Rs. in 000s
Profit before tax	220
Less : Income tax	80
Profit after tax	140
Dividend paid for the year are :	
Preference shares	20
Ordinary shares	36

(f) The PE ratio applicable to a similar type of business (suitable for an unquoted company) is 12.5.

Value 50000 shares in Alas Limited on an earnings yield basis.

B12. The following is an abridged version of the balance sheet of Growmore Contractors Limited, as at 30 April 2005 (Rs. in 000s)

Non-current assets (net book value)	450
Net current assets	100
	550

Represented by	
Re.1 ordinary shares	200
Reserves	250
6% Loan notes 2006 (Repayable at 102)	100
	550

You ascertain that:

(a) market value of goodwill (not recorded in the books) is Rs.50000

(b) current market value of property exceeds book value by Rs. 30000

(c) All assets, other than property, are estimated to be realisable at their book value.

Value an 80% holding of ordinary shares on an assets basis.

B13. Grow Ltd. gives the following cash flows estimates:

1998	Rs. 20 lacs
1999 - 2001	Compound Growth rate 6.5%
2002 - 2005	Compound Growth rate 9.5%

Apply 20% Discount rate and determine the value of business.

B14. Flying Limited has estimated maintainable profits of Rs.1400 per annum. Its net tangible assets are valued at Rs.10000 and the required rate of return on such assets is 10%. On intangible assets the required rate of return is 16%. What is the value of Flying Limited?

Comprehensive Problems in Valuation

Question No.P1: Revaluation based on Historical Cost

From the following Balance Sheet of Sacred Nectar Ltd. as on 31st December 2004, find out the value of each fully paid and partly paid equity shares: (Rs.'000)

Liabilities		Rs.
Share Capital:		
Equity Shares of 10 each	4,00	
Less: Calls-in-arrears(Rs.2)	8	392
11% Preference shares of Rs.10		160
Reserves & Surplus		
General Reserve		162
Profit & Loss A/c		110
Current Liabilities		
Loan from Bank		80
Sundry Creditors		236
		1140
Assets		**Rs.**
Fixed Assets		
Goodwill		40
Buildings		184
Machinery		288
Furniture		20
Investments		100
Current Assets		
Stock-in-Trade		160
Sundry Debtors		288
Cash at bank		40
Preliminary Exp.		20
		1140

Additional Information:

(1) Fixed assets except, goodwill are worth 20% above their actual book value. Depreciation on appreciated value of fixed assets to be ignored for valuation Goodwill.

(2) Of the investments, 80% is non-trading and the balance is trading. All trade investments are to be valued at 20% below cost. A uniform rate of dividend of 10% is earned on all investments.

(3) Goodwill is to be valued at 4 years' purchase of super profits based on average profits of the last three years. Profits (Rs. in 000s) for the last three years (after charging tax @50%) were 148, 162 and 170 respectively.

In similar business, return of capital employed is 15%. In 2002 new furniture costing Rs.10000 was purchased but wrongly charged to revenue. (No effect has yet been given for rectifying the same). Depreciation charged on furniture is @10% on diminishing balance.

Question No.P2 Revaluation - Independent

From the following Balance Sheet of Garuda Ltd. as on 31.12.2004, (Rs.'000)

Liabilities		Rs.
Share Capital:		
Equity Shares of 100 each	1000	
Less: Calls-in-arrears	100	900
(Rs.20 for final call)		
Reserves & Surplus		

General reserve	350
Profit & Loss A/c	250
Current Liabilities	
Sundry Creditors	500
	2000
Assets	**Rs.**
Fixed Assets	
Buildings	400
Machinery	450
Furniture	25
Motor car	25
Investments (face value)	50
Current Assets	
Stock-in-Trade	725
Sundry Debtors	200
Cash at bank	105
Preliminary Exp.	20
	2000

Additional information is as under:

(1) Fixed assets are worth-Building Rs.6 Lacs, machinery Rs.5.2 Lacs

(2) All investment is non-trading investment and is to be valued at 20% above cost. Dividend at uniform rate of 20% is earned on all investment.

(3) For the purpose of valuation of shares, goodwill is to be valued on the basis of 3 years' purchase of super profits based on average profit (after tax) of the last three years.

(4) Depreciation on appreciated value of Land and Building and Machinery is not to be considered for valuation of goodwill.

(5) Profit (after tax) are as follows: (Rs. in 000s)

Year	2002	2003	2004
Profit (after tax)	380	420	500

Rate of income tax 50%. In similar business, return on capital employed is 20% (after tax)

(6) In 2002 machinery (book value Rs.10000) was sold for Rs.20000 but the proceeds were wrongly credited to profit and loss account. The mistake has not yet been rectified. Depreciation has been charged on machinery @10% per annum on reducing balance method.

Find out the value of each fully paid and partly paid equity share on net assets basis.

NOTE: Trend in profit is to be ignored for the purpose of calculation of average profit.

Question No.P3 Fair Value

From the following Balance Sheet and adjoining information, find out the value of each Equity Share on the basis of (1) net assets, (2) dividend and (3) Fair value:

Balance Sheet as at 31-12-2004 (Rs.in 000s)

Liabilities	Rs.	Assets	Rs.
Equity Share Capital (Rs.10)	300	Goodwill	50
6% Preference Capital (Rs.100)	100	Building	60
Reserves	300	Machinery	250
Profit & Loss A/c	20	Furniture	50
5% Debentures	50	Investments in 5%	
Sundry Creditors	70	Government Sec.	
Outstanding Expenses	10	(Face value 60,000)	45
		Stock-in-trade	100

		Debtors Cash Prepaid Expenses Preliminary Exp.	250 36 4 5
	850		**850**

(1) Particulars about profits:- (Rs. in 000s)

Year	Profits after taxation and managerial remuneration	Managerial remuneration	Income tax	Dividend on Equity Shares
2001	150	15	120	15%
2002	190	15	175	20%
2003	70	15	40	8%
2004	235	25	200	22%

(2) The low profit of 2003 is due to an abnormal reason.
(3) Probable future income tax liability 50 paise in the rupee.
(4) Probable increase in advertisement expenditure due to increasing competition of Rs.20000 p.a.
(5) Market expectation 12% on capital employed by equity shareholders.

Question No.P4 Different Face Values

Balance Sheet of Industrial Enterprises (Private) Ltd as on 31.12.2004 is as under:
(Rs. in 000s)

Liabilities	Rs.	Assets	Rs.
Equity Shares Capital of Rs.10	200	Goodwill	50
Equity Shares Capital of Rs.4	100	Fixed Assets	100
General Reserve	30	Stock	120
Profit and Loss Account	10	Debtors	145
Gratuity Fund	15	Cash	10
Workmen's Compensation Fund	5	Prepaid Expenses	2
Depreciation Fund	10	Preliminary Expenses	3
Sundry Trade Creditors	25		
Expense Creditors	5		
Bank Overdraft	30		
	430		430

A shareholder holding 100 Shares of Rs. 10 and 200 shares of Rs.4 want to dispose of all the shares. Dividends paid for last three years were 12%, 11%, and 13%. 10% is normal expectation.

Fixed Assets are worth Rs.60000. Goodwill is to be increased by an amount equal to average of book value and a valuation made at 4 years' purchase of average super profit for the last three years. Debtors are estimated to be worth Rs.1.42Lacs. Rs.3000 of Trade Creditors are outstanding for many years and it is estimated that this amount will not be payable. On the other hand Rs.6000 being disputed bonus claim has not been provided in the accounts, but it is likely that the amount shall have to be paid.

Profits for three years after taxation are: Rs.35000, Rs.48000, and Rs.43000.

(a) Find out Break up Value, Market Value and Fair Value of the above two types of shares.
(b) What should be the fair value of the shares if controlling interest of the Managing Director is being sold?

Question No.P5: Participating Preference Shares

The following figures are extracted from the books of M/s. prosperous Limited. **(Rs. in 000s)**

Share Capital	**Rs.**
9 percent equity shares of Rs. 100 each	300
1000 equity shares of Rs. 100 each, Rs. 50 called up	50
1000 equity Shares of Rs. 100 each, Rs. 25 called up	25
1000 equity shares of Rs. 100 each, fully called up	100
	475
Reserves and surplus :	
General Reserve	200
Profit and Loss a/c	50
	725

On a fair valuation of all the assets of the company, it is found that they have an appreciation of Rs. 75000. The articles of association provided that, in case of liquidation, the preference shareholders will have a further claim to the extent of 10 percent of the surplus assets. Ascertain the value of each preference and equity share, assuming liquidation. Ignore expenses of winding up.

Question No.P6 Future Maintainable Profit- Use of Trend Analysis, Application of AS-11

PQR Ltd. gives the following figures of profit after tax and other related information:-

Year	**Profit after tax (Rs.'000)**	**Average tax rate (%)**	**Interest from non-trading investments (Rs.'000)**
2000	17,28	46	80
2001	14,56	48	92
2002	8,64	52	1,12
2003	18,55	47	98
2004	21,60	46	87

1. PQR Ltd. made export sales. Sundry debtors at different balance sheet dates in dollar terms and in rupee terms are given below along with their collection amount:

Year End	Sundry Debtors (in 000s)		Exchange rate	
	NL$	Rs.	Year end	Collection time
31.12.2000	80	880	11.20	---
31.12.2001	90	1080	12.10	12.20
31.12.2002	60	780	13.25	13.50
31.12.2003	50	700	13.80	14.10
31.12.2004	30	570	19.50	19.25

   Sundry Debtors outstanding at the end of a year were collected in the next year. The transactions were not covered by a guarantee. The company charges profit/loss arising out of exchange rate fluctuations in the year of collections. But they now think to adjust such profit/loss on the basis of year-end exchange rate.
2. In 2004, they received subsidy for purchase of machinery Rs.1.1 lacs, which were credited to P & L A/c as per guidelines gives in AS-12. But in earlier year such subsidies were taken to General Reserve directly.
3. In 2002, the factory remained closed for 4 months. Production and sales were reduced accordingly. Expected future tax rate is 45%.

Find out future maintainable profit.

Question No.P7 Performance Evaluation

Yogesh Ltd. showed the following performance over 5 years ended 31st March 2005:

Ended	***Net Profit**	**Prior period**	**Remarks**

31.03	before tax (Rs. in 000s)	adjustments + / (-)	
2001	400	(100)	Relating to 1999-2000
2002	350	(250)	Relating equally to 1999-2000 and 2000-2001
2003	650	150	Relating to 2001-2002
2004	550	(175)	Relating to 2001-2002
2005	600	(100)	Relating to 2001-2002
		25	Relating to 2003-2004

* Net profit before tax is after debiting or crediting the figures of loss (-) or gain (+) mentioned under the columns for prior period adjustments.

The net worth of the business as per the balance sheet of 31st March, 2006 is Rs.6Lacs backed by 10000 fully paid equity shares of Rs.10 each. Reserves and surplus constitute the balance net worth. Yogesh Ltd. has not declared any dividend till date.

You are required to value equity shares on:

(a) Yield basis as on 31.3.2005: Assuming (i) 40% rate of tax; (ii) anticipated after tax yield of 20%; (iii) differential weightage of 1 to 5 being given for the five years starting on 1.4.2000 for the actual profit of the respective years.

(b) Net assets basis as per corrected balance sheet for each of the six years ended 31.3.2005.

Looking to the performance of the company over the 5-year period, would you invest in the company?

Question No.P8: Valuation – Dividend & PE Ratio.

Ray Ltd. belongs to an industry in which equity shares are sold at par on the basis of 18% yield provided the net tangible assets of the company are 250% of the paid up capital and provided the total distribution of profits does not exceed 50% of the profits. The dividend rate fluctuates from year to year in the industry. The balance sheet of Ray Ltd. stood as follows on 31st March, 2005:

(Rs.000s)

Liabilities	Rs.	Assets	Rs.
14% 6,000 Preference Rs.100 each, fully paid up	600	Goodwill Other Fixed Assets less depreciation	100 1600
10,000 Equity Shares of Rs. 100 each, Rs. 80 paid up	800	Government Securities Current Assets	150 1130
General Reserve	400	Preliminary Expenses	20
12% Debentures	400		
Current Liabilities and Provisions	800		
	3000		3000

The company has been earning on the average Rs. 8 Lacs as profit after interest but before taxation which is 50%. The rate of dividend on equity shares has been maintained at 25% in the past year and is expected to be maintained.

Determine the probable market value of the equity shares of the company (i) based on actual dividend (ii) based on earnings ratio. The tangible fixed assets may be taken to be worth Rs. 17.2 Lacs

Question No. P9: Unique

The Capital Structure of M/s. XYZ Ltd. on 31.12.2005 was as follows: (Rs. in 000s)

Equity Capital – 1800 shares of Rs.100 each	1800
12% Preference capital – 5000 shares of Rs.100 each	500
12% Secured Debentures	500
Reserves	500
PBIT for the year	720
Tax rate	40%

Subject to:

(a) The profit after tax covers Fixed Interest and Fixed dividends at least 4 times;
(b) The Debt Equity ratio is at least 2;
(c) Yield on shares is calculated at 60% of distributed profits and 10% of undistributed Profits.

The Company has been paying regularly an Equity dividend of 15%.
The risk premium for dividends is generally assumed at 1%.
Find out the value of Equity shares of the Company.

Question No. P10: Final Settlement

A Ltd. and its subsidiary B Ltd. get their supply of some essential raw-materials from C Ltd. To co-ordinate their production on a more profitable basis A Ltd. and C Ltd. agree between themselves each to acquire a quarter of shares in the other's authorised capital by means of exchange of shares. The terms are as follows:

(a) A Ltd.'s shares are quoted at Rs.14, but for the purpose of exchange the value is to be taken at the higher of the two values e.g. (a) quoted & (b) on the basis of the Balance sheet valuation.
(b) C Ltd.'s shares which are unquoted are to be taken at the higher of the value as on (a) yield basis & (b) the Balance Sheet basis. The future profits are estimated at Rs.1.05 lacs subject to one-third to be retained for development purposes. Shares of similar companies yield 8%.
(c) Freehold properties of C Ltd. are to be taken at Rs.4.3 lacs.
(d) No cash is to pass and the balance due on settlement is to be treated as loan between the two companies.

The summarized balance sheets of the companies at the relevant date stood as follows:
(Rs. in 000s)

	A Ltd.	B Ltd.	C Ltd.
Authorised Share capital	1200	500	1000
Equity shares of Rs.10 each	800	500	750
Share premium	80	-	-
7% Debentures	300	-	-
Profit & Loss A/c	230	210	200
Current Liabilities	280	180	210
Proposed dividend	100	50	-
	1790	940	1160
Freehold properties	660	290	330
Plant & Machinery	450	410	440
Investments			
40000 shares in B Ltd.	470	-	-
Current assets	210	240	390
	1790	940	1160

You are required to compute the value of the shares according to the terms of the agreement and to present the final settlement, showing all the necessary workings.

Question No. P11: Comprehensive

XYZ Ltd. was incorporated to take over X Ltd., Y ltd and Z ltd. on the basis of their Balance sheets as on 31.3.05 subject to the following terms and conditions.

1. Goodwill is to be valued at three years' purchase of average super profit for three years. Such average is to be calculated after adjustment of depreciation at 10% on the amount of increase/decrease on revaluation of fixed assets. Income tax is to be ignored.
2. Assets are to be revalued.
3. Normal profit on capital employed is to be taken at 10%, capital employed being considered on the basis of net revaluation amounts of tangible assets.
4. Equity shares of Rs.10 each fully paid up in XYZ Ltd. are to be distributed in the ratio of average profit after adjustment of depreciation on the revaluation as stated in (1) above.

5. 10% debentures of Rs.100 each fully paid-up are to be issued by XYZ Ltd. of the balances due.
6. Issue of Equity shares and debentures for this purpose is to be in the ratio of 3:1.

The summarized Balance Sheet as at 31.3.05 at the relevant information are given below:

(Rs. in 000s)

Assets	**X Ltd.**	**Y Ltd.**	**Z Ltd.**
Net Tangible Block	800	600	500
Goodwill	-	50	-
Current assets	300	250	100
	1100	900	600
Liabilities			
Equity share capital of Rs.10 each	600	700	300
Reserves	100	50	100
10% Debentures	200	-	100
Trade and Expense creditors	200	150	100
	1100	900	600
Revaluation of Tangible Block	1000	500	600
Revaluation of current assets	350	140	80
Average Annual profit for three years before charging Debenture Interest	180	144	78

(a) Calculate the number of Equity shares and Debentures to be issued to each of the companies.

(b) Prepare a Draft Balance Sheet of XYZ Ltd immediately after amalgamation assuming that amounts required for Preliminary expenses (Rs.50000) and for payment of the existing Debentures in the two companies at par were provided by the promoters against issue of Equity shares of Rs.10 each.

Question No. P12: Valuation of Business

X Ltd plans to take over Y Ltd. Independent cash flow forecasts of the companies are as follows:

Year	**1**	**2**	**3**	**4**	**5**
X Ltd. (in lacs)	200	225	250	270	285
Y Ltd. (in lacs)	50	65	80	95	110
Year	**6**	**7**	**8**	**9**	**10**
X Ltd. (in lacs)	310	350	600	610	650
Y Ltd. (in lacs)	120	130	150	170	180

Following further information is available from the latest Balance Sheet of Y Ltd.

Assets	Rs. in lacs	Rs. in lacs
Fixed Assets		500
Stock		115
Debtors		50
		665
Less: Liabilities		
Sundry Creditors	165	
Long Term loan	200	365
Net Assets		300

X Ltd. finds that fixed assets of book value Rs.75 lacs will not be used which will fetch Rs.50 lacs on immediate disposal. Moreover, stock will fetch Rs.140 lacs and debtors Rs.45 lacs immediately. But X Ltd has to pay off the liabilities immediately. Also it has to pay Rs.110 lacs to workers of Y Ltd. whose service cannot be used. It appears that after merger the X Ltd. has to invest Rs.210 lacs for renovation of the plant and machinery at the end of 1st year and Rs.50 lacs for modernization at the end of 2nd year after merger.

Forecast cash flows of X Ltd. after merger:

Year	**1**	**2**	**3**	**4**	**5**

Cash flows (in lacs)	240	280	350	400	410
Year	**6**	**7**	**8**	**9**	**10**
Cash flows (in lacs)	480	550	800	880	950

Determine the maximum value of Y Ltd which its management should ask from X Ltd. you may use 20% discount rate.

Question No. P13: Buy Back of Shares

Rich Ltd. furnishes you with the following Balance Sheet as at 31st March 2005.**(Rs. In Crores)**

Sources of Fund		
Share Capital :		
Authorised		100
Issued :		
12% redeemable pref. shares of Rs. 100 each	75	
Equity shares of Rs. 10 each fully paid	25	100
Reserves and surplus		
Capital reserve	15	
Share premium	25	
Revenue reserves	260	300
		400
Funds employed in :		
Fixed Assets : Cost	100	
Less : Provision for depreciation	100	Nil
Investment at cost (Market value Rs. 400 Cr.)		100
Current assets	340	
Less : Current liabilities	40	300
		400

The company redeemed preference shares on 1st April 2005. It also bought back 50 Lakh equity shares of Rs. 10 each at Rs. 50 per share. The Payments for the above were made out of the huge bank balance, which appeared as part of current assets.

You are asked to

(a) Pass journal entries to record the above.
(b) Prepare balance sheet
(c) Value equity share on net assets basis.

Question No.P14: Valuation of Business – Different Approaches

The directors of C Ltd. are considering the acquisition of the entire share capital of M (Pvt) Ltd. which manufactures a range of engineering machinery. None of the companies has any long term debt capital. The directors of C Ltd. believe that, if M (Pvt) Ltd. is taken over the business risk of C Ltd. will not be affected.

Liabilities	**Rs.**	**Assets**	**Rs.**
Issued& Subscribed Capital		*Fixed assets*	
5000 equity shares of Rs.10	50000	Cost less depreciation	651600
Reserves & Surplus		*Current assets*	
General Reserves	404100	Stock & Work in progress	515900
Current liabilities		Sundry debtors	745000
Sundry creditors	753600	Cash at Bank	158100
Bank Overdraft	862900		
	2070600		**2070600**

M (Pvt) Ltd.'s financial record for the five years to 30th June 2005 is as follows:

	2001	**2002**	**2003**	**2004**	**2005**

Profit before extra-ordinary item	30400	69000	49400	48200	53200
Extra ordinary item	2900	(2200)	(6100)	(9800)	(1000)
Profit after Extra ordinary item	3300	66800	43300	38400	52200
Dividends	20500	22600	25000	25000	25000
	12800	44200	18300	13400	27200

The following additional information is available.

1. There has been no change in the issued share capital of M (Pvt) Ltd. during the past five years.
2. The estimated values of M (Pvt) Ltd.'s fixed assets and stock and work in progress as on 30.6.2005 are

(Rs. in 000s)

	Replacement Cost	Realisable value
Fixed Assets	725	450
Stock and Work in progress	550	570

3. It is expected that 2% of M (Pvt) Ltd.'s debtors as on 30.6.2005 cannot be collected.
4. The cost of capital of C Ltd. is 9% p.a.
5. The current return on investment of C Ltd. is 9%. Quoted companies with business activities and profitability similar to those of M (Pvt) Ltd have P/E ratio of approximately 10, although these companies tend to be much larger than M (Pvt) Ltd.

You are required to
Estimate the value of M Ltd. as on 30.6.2005 using each of the following bases.

i. Balance Sheet Value
ii. Replacement Value
iii. Realisable Value
iv. The Gordon's dividend growth model.
v. PE Ratio model.

Question No.P15 Valuation of unquoted shares

The Balance Sheet of Glory Ltd. as at 31st March 2005 is given below: **(Rs.'000)**

Liabilities		**Rs.**	**Rs.**
Share Capital			
5,000 Equity Shares Rs.100			500
3,000 12% Pref. Rs.100			300
Reserves & Surplus			
General Reserve		300	
P & L A/c 1.4.2004	120		
(+) Profit including			
Investment Income	480		
(-) Provision for tax	240	360	660
Current Liabilities			
Trade Creditors		210	
Provision for tax		240	450
			1910
Assets		**Rs.**	**Rs.**
Fixed Assets			
Land & Building			320
Plant & Machinery		940	
Less: Depreciation		480	460
Investments in 6%			

Government Security (cost) (FV Rs.200000)		160
Book debts		380
Stock-in-trade (90% of Market Value)		450
Cash and Bank		80
Preliminary Exp.		60
		1910

The shares of the company are not quoted on the Stock Exchange. A provision exists in the Articles of Association of the company that in cases where any existing shareholder desires to transfer his holdings to another person, it should be done at a fair market value to be fixed by the statutory auditors of the company. One of the shareholders desiring to transfer his holdings to X, an outsider, refers the matter of determination of the fair market value of shares to you, as the statutory auditors.

Indicate how you will proceed to determine such a value, based on the following additional information:

(i) The Company's prospects in the near future appear good;
(ii) The land value is understated by Rs.400000 and building have suffered a further depreciation of Rs.200000;
(iii) The market value of plant and machinery is Rs.540000;
(iv) Companies doing similar business as that Glory Ltd., show a market return of 15% on capital employed.
(v) Profits over the prior 3 years period have been increasing at the rate of Rs.50000 per annum.
(vi) It had always been the company's practice to value stock at market rates.

All working notes are to form part of your answer.

Question No.P16: Brand Valuation

Consider the extract of Profit & Loss Statements of ABC Ltd. for the past three years:

Year ended 31.03	2003	2004	2005	2006 (Projected)
Sales	2526	2730	2975	3010
Other Income	30	35	32	40
PBIT	126	140	149	158
Interest	20	24	21	25
Tax	21	28	32	27
Profit after tax	74	88	96	106

Inflation index for the past three years:
31.03.2003 100
31.03.2004 105
31.03.2005 109

Sales figures include sale proceeds from unbranded products as well on which the company earns a modest profit of 3%. Unbranded sales were:

Year ended	Rs. in lacs
31.03.2003	250
31.03.2004	240
31.03.2005	265
31.03.2006	280

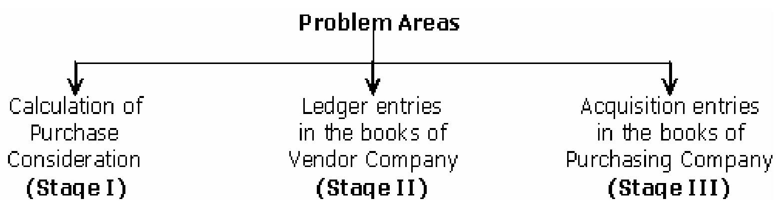
The average capital employed of ABC Ltd. (calculated on past three years' figures) is Rs.1200 lacs. ABC Ltd. estimates that 5% return on average capital employed is the minimum level of earnings the company would have got by selling equivalent unbranded products. The marketing department of ABC Ltd. assigns the score 74 out of 100 for its brand strength and recommends a multiple of 15 to be applied on earnings to value brand. Show the brand valuation by following earnings multiple methods.

Chapter-3

Amalgamation, Absorption & Reconstruction

Introduction:

Particulars	Amalgamation	Absorption	External Reconstruction
Minimum no. of existing companies required?	2	2	1
Minimum no. of existing companies to be liquidated?	2	1	1
Minimum no. of companies to be formed newly?	1	Nil	1
Called otherwise?	Merger	Takeover	Takeover



Stage I

Methods of Calculation of Purchase Consideraion

Lump Sum | Net Assets (or) Intrinsic Value | Net Payment

Note: With reference to Para 3(g) of AS-14, payments effected to members (ESH & PSH) of the vendor company alone shall form part of purchase consideration. Settlement to debenture holders, creditors etc. & towards liquidation expenses effected *by the purchasing company*, are *not* to be recorded as part of purchase consideration.

Stage II

Procedure involved in the preparation of Ledger entries in the books of Vendor Company

Total Steps

(1) (2) (3) (4) (5)

(1) Update from the Balance Sheet.
(2) Recording the Purchasing Consideration due.

(3) Recording the Receipt of Purchase Consideration.
(4) Application of Purchase Consideration.(Distribution amongst Various Beneficiaries)
(5) Transfer of Profit or Loss to Equity Shareholders Account.

Note:

(a) As part of Step 1 above transfer all assets & liabilities taken over by the purchasing company to Realisation account (at Balance Sheet values). For other assets & liabilities not taken over, open separately ledger accounts. The profit or loss in the disposal of such accounts not taken over shall be transferred to Realisation account. Exceptions are items like Goodwill, Miscellaneous Expenditure shall be transferred directly to Realisation and Equity Shareholders account respectively.
(b) Transfer Equity Share Capital, Reserves & Surplus etc. to Equity Shareholders account & Preference Share Capital to Preference Shareholders account.

Treatment of Amalgamation, Absorption & Reconstruction in the books of Purchasing Company.

Amalgamation in the Nature of Purchases	Amalgamation in the nature of Merger (or) pooling of interest method.

The following conditions are to be satisfied to classify the takeover as "Amalgamation in the nature of Merger":

(a) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.
(b) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation.
(c) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares.
(d) The business of the Transferor Company is intended to be carried on, after the amalgamation, by the Transferee Company.
(e) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.
(f) All Statutory Reserves shall be preserved.

Those amalgamations, which do not satisfy any of the conditions specified in (a) through (f) above, are known as amalgamations in the nature of purchase.

What is the privilege derived through Pooling of Interest method? Who derives this?

If amalgamations are in the nature of purchases the difference between the purchase consideration and the net assets taken over will be recorded as Goodwill or Capital Reserve. If the amalgamation is an 'amalgamation in the nature of merger' the identity of the reserves is preserved and they appear in the financial statement of the transferee company in the same form in which they appeared in the financial statements of the transferor company. As a result of preserving the identity, reserves which are available for distribution as dividend before the amalgamation would also be available for distribution as dividend after the amalgamation. Share holders of both the companies are deriving this privilege.

Stage III

Scheme of Journal Entries in the books of Purchasing Company.

	Purchases	**Merger**
Purchase Consideration due	Business Purchase Dr. To Liquidator. of V. Co.	Business Purchase Dr. To Liquidator. of V Co.
Account taken over	Assets (AV) Dr. To Business Purchase To Liabilities (refer Note 1)	Assets (B/S value) Dr. To Business Purchase To Liabilities To Res. (other than GR) (refer Note 2)
Discharge of Purchase Consideration	Liqr. Of V. Co. Dr. To Cash To Equity Shares To Preference Shares	Liqr. Of V. Co. Dr. To Cash To Equity Shares To Preference Shares
Liquidation Expenses	GW / CR Dr. To Cash	P & L / GR Dr. To Cash
Maintenance of Reserve of Vendor Company (Statutorily obligated)	Amalgamation Adj. Dr. To Reserves	No need, as the reserves were preserved at the time of take over.

Note 1: Dr. total < Cr. Total, transfer the difference to Goodwill account or otherwise to Capital Reserve.

Note 2: Dr. total < Cr. Total transfer the difference to Profit & Loss account or otherwise to General Reserve.

Note 3: Settlement of debts, if any shall be recorded in the books of Purchasing Co., so also towards elimination of mutual Owings, stock reserve etc.,

Formalities involved inter-company holdings

Stages	Purchasing Co holding in	Selling Co holding in ...
Calculation of Purchase Consideration	Calculate PC only for outsiders' interest.	Calculate PC in an ordinary manner. Deduct the number of shares already held by Selling co., which cannot be taken over by Purchasing Co. by virtue of Sec 77 to arrive at the final Purchase Consideration
Ledger entries in	Transfer the share	Open separately

the books of Selling company	capital held by Purchasing Co to the credit of Realisation account. Transfer the entire R & S / Misc. Expenses to outside shareholders account.	accounts for the shares held by the Selling co. This investment shall be revalued in terms of the arrival price of the Purchase consideration Price.
Entries in the books of the Purchasing company	The investments held in selling company shall be written off.	--

For mutual/cross holdings the above formalities shall be applied concurrently.

INTERNAL RECONSTRUCTION

Companies without getting liquidated can breathe a fresh lease of life after suffering from big losses in the form of internal reconstruction/capital reduction. It is quite obvious that equity shareholders and preference shareholders would be participating in such operations. On such occasions the rearrangement of capital would be referred to as capital reduction. In case of debenture holders/bond holders and other creditors participate, the arrangement would be referred to as reconstruction. It is the basic duty to wipe off huge debit balance of profit and loss account besides unrepresented assets. In case the assets are to be appreciated or liabilities to be written back, the same shall be credited to capital reduction account or reconstruction account as the case may be. Any amount left over after meeting out the loss shall be transferred to capital reserve account. The entire arrangement shall be done through surrender of shares also.

Accounting Entries:

	Transaction	Journal Entries
1	Reducing liability on account of uncalled capital	Share Capital (say Rs. 10) A/c Dr To Share capital (say Rs. 7) A/c
2	Reducing by returning the excess capital	Shares Capital A/c Dr (old) To shares capital A/c (new) To Share Holder A/c (return)
		Share holder A/c Dr To Bank A/c
3	Reducing the Paid-up capital:	Share capital A/c Dr To Capital reduction
		Capital Reduction A/c Dr To Accumulated losses A/c To Goodwill A/c To Patents A/c To Trademarks A/c

Capital Reduction A/c should be transferred to Capital Reserve A/c

Treatment of Arrear of Preference Dividend:

Preference shareholders have a right to get dividend at a fixed rate. They should be given priority in comparison with Equity shareholders, although the company is not always bound to declare such a dividend. In short, the liability of paying dividend will arise only when the company declares the same. If the company declares to pay preference dividend and debits Profits and Loss Appropriation Account for the purpose, the same will appear on the liability side of the Balance Sheet until it is paid. In that case, the same will be treated like any other creditors. As such, ***if the preference***

shareholders, in that case, sacrifice some amount of dividend, the Capital reduction Account will be credited.

On the contrary, if the preference dividends neither have been declared neither by the company nor the same has been debited to Profit and Loss Appropriation Account, it is not a liability in the hands of the company. The same will appear as a footnote under the Balance sheet or in the inner column of the liability side of the Balance Sheet. In such a case, ***if the preference shareholders waive their arrear dividends, there will be no entry in the books of the company.***

But if they do not waive, Capital Reduction Account will be debited for such actual payment.
To sum up

(a) if the arrear preference dividend appear in the liability side of the Balance sheet.

1	If the same is totally waived:	Preference Dividend A/c Dr ---- To Capital Reduction A/c ----
2	If the dividend is paid:	Preference Dividend A/c Dr ---- To Bank/Equity share capital A/c ----
3	If the arrear dividend is partially paid	Preference Dividend A/c Dr ---- To Bank/Equity Share capital A/c ---- To Capital Reduction A/c ----

(b) If the amount of arrear preference dividends do not appear in the liability side of the Balance sheet:

1	If totally waived:	No Entry
2	If paid in full:	Capital Reduction A/c Dr ---- To Bank/Equity share capital A/c ----
3	If the arrear dividend is partially paid	Capital Reduction A/c Dr ---- To Bank/Equity Share Capital A/c ---

Surrender of Shares:
Sometimes the shareholders are requested to surrender a part of their shareholding which may either be used for immediate cancellation of share capital or the same may be used for satisfying some creditors of the company. The entries, in that case, will be as under:

	Transaction	**Journal Entries**
1	When shares are surrendered	Share Capital A/c Dr To Share Surrendered A/c
2	When shares surrendered are re-issued	Shares Surrendered A/c Dr To Equity shares capital A/c
3	When shares surrendered are cancelled	Share Surrendered A/c Dr To Capital Reduction A/c

Other relevant Journal entries are presented below:

1	If the value of the assets are increased by revaluation	Particular assets A/c Dr ---- To (Capital Reduction) Re-organisation /Reconstruction A/c
2	For reducing the claims of Debenture holders:	Debenture (old) A/c Dr. ----- To Debenture (new) A/c ---- To Capital Reduction A/c ----
3	For outstanding Debenture interest	
	(i) If Waived	Outstanding debenture Int A/c Dr

		To Capital Reduction A/c
	(ii) if paid by cash/shares	Outstanding Debenture int A/c Dr To Bank/ES capital A/c
4	For reducing claims of creditors Or loans etc.	Creditors/Loan A/c To Bank/Equity share Capital A/c To Capital Reduction A/c
5	For Reconstruction Expenses	Capital reduction a/c To bank a/c
6	For transferring the favourable Balance of any Reserve/ share Premium etc.	General reserve A/c Dr Share Premium a/c Dr. To Capital Reduction A/c

Basic Issues in Amalgamation (AS 14)

B1. A Ltd acquired the business of B Ltd as on 31.12.2004. The net assets of B Ltd came to Rs.145000 where as A Ltd agreed to pay 10000 equity shares of Rs.10 each at Rs.15 per share. Find out the purchase consideration and goodwill/capital reserve, if any.

B2. A Ltd acquired the business of B Ltd as on 31.12.2004. The net assets of B Ltd came to Rs.180000 where as A Ltd agreed to pay 15000 equity shares of Rs.10 each at Rs.11 per share, balance to be settled in cash. Find out the purchase consideration and goodwill/capital reserve, if any.

B3. A Ltd acquired the business of B Ltd as on 31.12.2004. The net assets of B Ltd came to Rs.165000 where as A Ltd agreed to issue requisite number of equity shares of Rs.10 each at Rs.15 per share. Find out the purchase consideration and goodwill/capital reserve, if any.

B4. A Ltd acquired the business of B Ltd as on 31.12.2004. The net assets of B Ltd came to Rs.95000 where as A Ltd agreed to pay 10000 equity shares of Rs.10 each partly called up at Rs.8 per share. Find out the purchase consideration and goodwill/capital reserve, if any.

B5. A purchasing company agreed to issue 3 shares of Rs.10 each, Rs.8 paid up for every 5 shares in the transferor company. Find out the purchase consideration if the transferor company had Rs.10 Lacs paid up share capital of Rs.10 each, Rs.5 paid up.

B6. A purchasing company agrees to issue 3 shares of Rs.10 each of Rs.7 Paid up (quoted in the market at Rs.15) for every 5 shares in transferor company. Compute the purchase consideration if the transferor company had Rs.10 Lacs paid up capital of Rs.10 each, Rs.5 paid up (quoted in the market at Rs.8)

B7. A Ltd acquired the business of B Ltd as on 31.12.2004. The net assets of B Ltd came to Rs.105000 where as A Ltd agreed to pay 10000 equity shares of Rs.10 each partly called up at Rs.7 per share and the balance is payable by cash. Find out the purchase consideration.

B8.

	A Ltd	B Ltd
Net Worth (Rs.)	9 Lacs	2.5 Lacs
No. of shares	25000	10000

A Ltd. absorbs B Ltd. and the exchange ratio is worked out based on intrinsic value of the shares. However shares are to be issued at par of Rs.10 each. Find out Purchase Consideration.

B9. Net assets of Y Ltd are computed at Rs.125000 with debenture holders' claim of Rs.50000 deducted against their face value of Rs.40000. X Ltd the purchasing company had agreed to settle equity shareholders of Y Ltd by issuing 10000 equity shares of Rs.10 each fully paid @ Rs.13 per share. Find out the purchase consideration and goodwill/capital reserve from X Ltd.'s point of view.

B10. X Ltd issued 100000 equity shares of Re.1 fully paid @ Rs.2.20 to the shareholders of Y Ltd as settlement besides a sum of Rs.12500 paid towards meeting the liquidation expenses of Y Ltd. Find out purchase consideration.

B11. KL Ltd purchased the affairs of PQ Ltd and settlement is worked out as follows:

(Rs. in Lacs)

Recipients	**As per Balance sheet**	**Settled at**
Equity shareholders	10	12.5
Preference shareholders	6	7.2
Debenture holders	10	9.5
12% Term Loan	4	4.12
Creditors	7.5	7.5
Gross value of assets	40	57.25

Find out the purchase consideration and the resulting goodwill/capital reserve.

B12. A Ltd had Equity capital of Rs.10 Lacs of Rs.10 each went into a great financial loss decided to go in for capital reduction. Shareholders in their meeting agreed to divide each share of Rs.10 to Re.1. Upon division shareholders were expected to surrender 60% of the holding to facilitate discharge of liabilities. Thereafter the shares were consolidated back to Rs.10 each. Only 15% of the surrendered shares were used for discharge of liabilities. Find out the equity capital after carrying out all formalities and also the capital reserve arising out of capital reduction so as to adjust unrepresented assets.

B13. A Ltd decided purchase B Ltd. The purchase consideration is to be decided based on intrinsic value of shares of the companies. The value per share of Rs.10 is Rs.12 and Rs.24 of A Ltd and B Ltd respectively. Net worth of B Ltd is Rs.432000. It is decided between the parties that shares of Rs.10 are to be issued at par. Find out purchase consideration.

B14. A Ltd and B Ltd were to be taken over by C Ltd for their net worth as on 31.12.2004. The net worth of these companies are Rs.14658 and Rs.13830 respectively. C Ltd allotted Re.1 each 16000 and 15000 shares respectively. Find out the purchase consideration for the following situations:

(a) Allotment in each case considered as final settlement towards the net worth of the respective companies

(b) Excess allotment shall be compensated in the form of cash to C Ltd.

B15. Given below is the balance sheet of AB Ltd. as on 31.12.2004 on which date its assets and liabilities are taken over by CD Ltd.: (Rs. in 000s)

Liabilities	**Rs.**
Equity Share capital @ Rs.10	5200
General Reserve	1250
12% Debentures	1350

Creditors	750
	8550
Assets	**Rs.**
Plant and Machinery	2600
Furniture	1200
Stock in trade	2400
Debtors	750
Cash & Bank	1000
Preliminary expenses	600
	8550

(a) Find out the purchase consideration in the following situations:

1. CD Ltd. agreed to issue 18% Debentures so as to maintain the same amount of interest.
2. CD Ltd. agreed to issue 12% Debentures at Par.
3. CD Ltd. agreed to redeem all debentures @ 80% by issuing 12% debentures at 10% discount.
4. CD Ltd. agreed to redeem all debentures at 20% premium by issuing debenture at 10% discount so that the same of amount of interest is maintained.
5. CD Ltd agreed to issue 10.8% debentures @ 10% discount to settle existing Debenture holders fully.

Consider each situation independently with Plant and Machinery be taken at Rs.(000s) 3000 and Debtors at Rs.(000s) 700.

(b) Arrive at Goodwill/capital reserve for the above situations if the purchase consideration is independently identified at Rs.(000s) 6000 payable by issue of shares of Rs.10 @ Rs.12. Also figure out the face value of debentures to facilitate in the arrival of debenture discount/security premium.

Comprehensive Issues in Amalgamation

Question No.P1: **Amalgamation**

The following are the Balance Sheet of A Ltd. and B Ltd. as on 31st December 2004.

A Ltd. (Rs. in 000s)

Liabilities	Rs.	Assets	Rs.
Equity Shares (Rs.100)	1500	Fixed Assets	1700
5,000 Pref. Shares (Rs.100)	500	Stock (Secured Loan holders)	9200
Development rebate reserve	200	Other Current Assets	1800
Secured Loans	8000	Profit & Loss A/c	8300
Unsecured Loans	4300		
Current Liabilities	6500		

	21000		**21000**

B Ltd. (Rs. in 000s)

Liabilities	**Rs.**	**Assets**	**Rs.**
Equity Shares (Rs.10)	500	Fixed Assets	3400
General Reserve	1400	Current Assets	4800
Secured Loans	4000		
Current Liabilities	2300		
	8200		**8200**

The two companies go into liquidation and C Ltd. is formed to take over their business. The following information is given:

(a) All current assets of the two companies except pledged stock are taken over by C Ltd. The realisable values of all current assets are 80% of book values in case of A Ltd. and 70% for B Ltd.

(b) The break-up of current liabilities is as follows: (Rs.in lacs)

	A Ltd.	**B Ltd.**
Statutory Liabilities (including Rs.11 lacs in case of A Ltd. in respect of a claim not having been admitted shown as contingent liability)	36	5
Liabilities of Employees	15	9

The balance of current liability is to Miscellaneous Creditors.

(c) Secured Loans includes Rs.8 lacs accrued interest in the case of B Ltd.

(d) 1 Lac equity shares of Rs.10 each are allotted at par against cash payment of entire face value by C Ltd. to the shareholders of A Ltd. and B Ltd. in the ratio of face values of shares held by them in A Ltd. and B Ltd.

(e) Preference shareholders are issued equity shares worth Rs.1 Lac in lieu of present holdings.

(f) Secured Loan holders agree to continue the balance amount of their of C Ltd. after adjusting value of pledged security in case of A Ltd. and after waiving 50% of interest due in case of B Ltd.

(g) Unsecured loans are taken over by C Ltd. at 25% of loans amounts.

(h) Employees are issued fully paid -up equity shares in C Ltd. at par in full settlement of entire dues.

(i) Statutory liabilities are taken over by C Ltd at full values and miscellaneous creditors are taken over at 80% of the books values.

Show the opening Balance Sheet of C Ltd. as on 1.1.2005.

Question No.P2: Amalgamation in the nature of Merger (Pooling of interest)

A Ltd. and B Ltd. were amalgamated on and from 1st April 2005. A new company C Ltd. was formed to take over the businesses of the existing companies. The balance sheets of A Ltd. and B Ltd. as on 31st March 2005 are given below: **(Rs.'000)**

Liabilities	**A Ltd.**	**B Ltd.**
Share Capital		
Equity shares of 100 each	850	725
14% Pref shares 100 each	320	175
Reserves &surplus		
Revaluation reserve	125	80
General Reserve	240	160
Investment allowance reserve	50	30
P & L account	75	52
Secured Loans		
13% debentures 100 each	50	28
Unsecured Loans		

Public Deposits	25	Nil
Current Liabilities		
Sundry creditors	145	75
Bills Payable	20	Nil
	1900	**1325**
Assets	**A Ltd.**	**B Ltd.**
Fixed Assets		
Land & Building	460	275
Plant and Machinery	325	210
Investments	75	50
Current Assets		
Stock	325	269
Sundry debtors	305	270
Bills Receivable	25	Nil
Cash and Bank	385	251
	1900	**1325**

Other Information:

1) 13% debenture holders of A Ltd. and B Ltd. are discharged by C Ltd. by issuing such number of its 15% Debentures of Rs. 100 each so as to maintain the same amount of interest.
2) Preference shareholders of the two companies are issued equivalent number of 15% preference shares of C Ltd. at a price of Rs. 125 each per share (Face value 100).
3) C Ltd. will issue 4 equity shares for each equity share of A Ltd. and 3 equity shares for each equity share of B Ltd. The shares are to be issued @ Rs. 35 each, having a face value of Rs. 10 per share.
4) Investment allowance reserve is to be maintained for two more years.

You are required to prepare and present the balance sheet of C Ltd. as on 1st April 2005 after the amalgamation have been carried out on the basis of the following assumption:

a) Amalgamation in the nature of merger.
b) Amalgamation in the nature of purchase.

Question No: P3 Absorption

A Ltd. agreed to acquire the business of B Ltd. as on 31.12.2004. The balance sheet of B Ltd. as on 31.12.2004 is given below: (Rs. in 000s)

Liabilities	Rs.	Assets	Rs.
Equity Share capital @ Rs.10	300	Goodwill	50
Profit and Loss a/c	55	Plant (incl land & building)	320
General Reserve	85	Stock in trade	84
6% Debentures	50	Debtors	18
Creditors	10	Cash & Bank	28
	500		500

The debenture holders agreed to receive such 7% debentures issued as Rs.96 (face value Rs.100) each as would discharge the debentures in B Ltd. at a premium of 20%. The shareholders in B Ltd. were to receive Rs.2.50 in cash each and 3 shares in A Ltd. for every 2 shares held, the shares in A Ltd. is considered worth Rs.12.50 each. There were fractions equaling 50 shares for which cash was paid. The directors considered the various assets at their fair value as on 1.1.2005 as follows:

Items of assets	Amount in 000s

Land	100
Buildings	250
Plant	350
Stock	80
Debtors	18

You are required to find as how the items of B Ltd. will appear in the books of A Ltd. under the following conditions:

1. Assets and Liabilities are taken under fair value basis
2. Assets and Liabilities are distributed under fair value basis keeping purchase consideration as the base.

Ignoring balance sheet items of A Ltd. find out Goodwill/capital reserve on the above two situations.

Question No: P4 Delay in Take over

A Ltd. agreed to acquire the business of B Ltd. as on 31.12.2004. The balance sheet of B Ltd. as on 31.12.2004 is given below: (Rs. in 000s)

Liabilities	Rs.	Assets	Rs.
Equity Share capital @ Rs.10	300	Goodwill	50
Profit and Loss a/c	55	Plant(incl land & building)	320
General Reserve	85	Stock in trade	84
6% Debentures	50	Debtors	18
Creditors	10	Cash & Bank	28
	500		500

The debenture holders agreed to receive such 7% debentures issued as Rs.96 (face value Rs.100) each as would discharge the debentures in B Ltd. at a premium of 20%. The shareholders in B Ltd. were to receive Rs.2.50 in cash each and 3 shares in A Ltd. for every 2 shares held, the shares in A Ltd. is considered worth Rs.12.50 each. There were fractions equaling 50 shares for which cash was paid. The directors considered the various assets at their fair value as on 1.1.2005 as follows:

Items of assets	Amount in 000s
Land	100
Buildings	250
Plant	350
Stock	80
Debtors	18

Due to some technical difficulties, A Ltd. took over the business of B Ltd. only by 1.7.2005. B Ltd. carried on business until such time and the profit shall belong to A Ltd. B Ltd. booked profit of Rs.20000. On 30th June 2005 Debtors, creditors and stock stood respectively at Rs.25000, 15000 and 90000. There was no addition/deletion of fixed assets excepting the depreciation of Rs.15000.

You are required to find as how the items of B Ltd. will appear in the books of A Ltd. under the following conditions:

a. Assets and Liabilities are taken under fair value basis
b. Assets and Liabilities are distributed under fair value basis keeping purchase consideration as the basis.

Ignoring balance sheet items of A Ltd. find out Goodwill/capital reserve on the above two situations.

Question No. P5: Absorption- Comprehensive

It was agreed by all parties that L Ltd., would acquire of R Ltd., a small manufacturing company on 1st July 2004. R Ltd. was to be wound up and its books closed subsequent to the payment by L Ltd., of the net sum due in respect of its collection of the debtors and its payment of the creditors of R Ltd. on behalf of that company. The summary balance sheets of R Ltd. as on 30th June 2004:

Liabilities	Rs.
1 Lakh Equity Shares of 50 P each	50000
0.2 Lakh 10% Pref. Shares of Re.1 each	20000
Capital Reserve	35000
Profit and Loss account	15000
12% Debentures	50000
Sundry Creditors	40000
	210000
Assets	**Rs.**
Goodwill	14500
Other Fixed Assets	80000
Stock and WIP	45000
Sundry Debtors	60000
Cash	10500
	210000

The takeover terms required that on 1st July 2006, the agreed purchase consideration would be settled by

a. The issue at par to the Preference share holders of R Ltd. of 3 Re.1 12% Preference shares in L Ltd. fully paid, for every 2 held;
b. The issue to the Equity shareholders of R Ltd. of 8 Equity shares of Re.1 each in L Ltd., credited as 75p paid, for every 5 held.
c. The issue to the Debenture holders of R Ltd., of 176 Equity shares of Re.1 each in L Ltd., credited as 75p for ever Rs.100 Debenture held.

1. The purchase contract agreed that L Ltd. would take over only the fixed assets and the stock and WIP of R Ltd., the balance of the purchase price being a payment of Goodwill. It was agreed that L Ltd. would collect the debts and settle the creditors of R Ltd., paying over the net balance in cash to that company after the retention of a service charge of 1% on the sums collected and 0.5% on the sums paid.
2. In completing these transactions, bad debts of Rs.4500 arose. Discounts received by L Ltd. for early payment of some creditors amounted to Rs.1200. R Ltd. debenture holders' interest had been paid to 30th June 2006, but the preference dividend for 2004 which had not been provided for, was paid in the winding up. R Ltd. incurred and paid winding up costs of Rs.4451.
3. For the determination of the purchase price settled by L Ltd., property included in R Ltd. Fixed Assets was valued at Rs.70000 more than shown in the books. The remaining fixed assets were subjected to additional depreciation of Rs.5500. The stock and WIP was valued at Rs.41500. These values were to be reflected in the opening entries in the books of L Ltd., but no adjusting entries were made in the books of R Ltd.

You are required:

a. To show the final entries through the Realisation and other ledger accounts concerned in order to close the books of R Ltd.
b. To show your calculation of and to state the cost of Goodwill acquired by L Ltd.

Question No. P6: Dissenting Shareholders

With a view to effecting economy in working, the United Mills Limited agrees to take over the business of the Bharat Hosiery Ltd. from 31st December, 2004.the following is the Balance sheet of the Bharat Hosiery Ltd. as on that date. (Rs in 000s)

Liabilities	Rs.	Assets	Rs.
Paid up capital:		Land & Buildings	180
12,000 shares of Rs.50	600	Plant & Mcy	125
Reserve fund	120	Stock	250
Reserve for doubtful debts	10	Debtors	290
Creditors	75	Cash at Bank	25
Profit & Loss A/c	65		
	870		**870**

The purchaser took all the assets and liabilities of the vendor company excepting a sum of Rs. 10,000 to provide for cost of liquidation and payment to any dissenting shareholders. The purchase price was to be discharged by the allotment to the shareholders of the vendor company of one share of Rs.100 (Rs.90 Paid up) of the United Mills Ltd. for every two shares in Bharat Hosiery Ltd. the expenses of the liquidation amounts to Rs.3000. Dissentient shareholders of 100shares are paid out at Rs.70 per share, viz Rs.7000

Pass the necessary journal entries in the books of the respective companies to give effect to the above transaction.

Question No.P7: Comprehensive – Absorption.

The summarized Balance sheets of PQ Ltd. and XY Ltd. as at 31.12.2004 were as follows:
(Rs. in 000s)

LIABILITIES	PQ Ltd.	XY Ltd.
Authorised Capital:		
7% Cumulative Pref.Shares of Re.1	-	150
6% Cumulative Pref.Shares of Re.1	25	-
Ordinary Shares of Rs.0.25	150	200
Issued Capital:		
7% cumulative Pref. Shares of Re.1	-	100
6% Cumulative Pref.Shares	25	-
Ordinary Shares of Rs.0.25	100	150
Profit and Loss account	-	15.4
6% Debentures	40	-
Trade Creditors	39	37
Bank Overdraft(Secured)	24	-
Provision for Doubtful Debts (including Rs.3000 for PQ Ltd.)	-	4
	228	**306.4**
ASSETS		
Buildings	54	61
Plant and Machinery	29	73
Goodwill	20	15
Investments in MN Ltd.(50000 shares of Re.1)	40.5	-
Investments in 6% Debentures in PQ (9550)	-	9.1
Stocks	31	28.9
Debtors	21.5	77.4
Balance at Bank	-	42
Profit and Loss account	32	-

	228	**306.4**

PQ Ltd. owed XY Ltd. Rs.9000 on current trading and this is included in the debtors and creditors of the respective companies. The necessary meeting of debenture holders, creditors and members having been held, it was agreed that PQ Ltd. should cease trading at 31st December and go in to liquidation on 3rd January, 2005 and XY Ltd. should take over the assets and liabilities of PQ Ltd. on the following terms and taking into account the following factors:

1. On 2nd January,2002 PQ Ltd. paid into its bank account the following sums:
   Collections from trade debtors Rs.2500
   Bad debts recovered 300
2. MN Ltd. had gone into liquidation on 31st August, 04 and on 3rd January, 2005 a final repayment of 10 Paise in a rupee was paid which was paid to the purchasing company on 3rd January.
3. The assets of PQ Ltd. were to be taken over at the following valuations:

Buildings	60000
Plant	15000
Stock	19000
Goodwill	100
Trade debtors	At book value

The bank overdraft as on 3rd January, 2005 was to be paid off by XY Ltd.

4. The debentures of PQ Limited (other than those held by XY Ltd. which were to be cancelled) were to be satisfied by an issue of 7.5% debentures in XY Ltd. which were to be issued at an agreed value of Rs.101.50.
5. PQ Ltd.'s debt of Rs.9000 to XY Limited was to be cancelled.
6. In settlement of each Re.1 of their claim the creditors of PQ Ltd. were to receive an immediate allotment of :
   Two ordinary shares of Re.0.25 fully paid in XY Ltd., followed by Re.0.30 in cash, the latter to be paid by XY Ltd. on 1st February, 2005.
7. Preference Shareholders in PQ Ltd. were to receive two 7% cumulative preference shares of XY Ltd. for each five shares of their present holding.
8. Ordinary shareholders in PQ Ltd. were to receive one ordinary share in XY Ltd. for every fifty shares of their present holding.

You are required to prepare:

(a) Purchase of Business account in the books of XY Ltd.
(b) Balance sheet of XY Ltd. as at 3rd January, 2005.

Question No P8: Comprehensive

The balance sheet of A Ltd as at 31.12.2005 is as follows:

	Rs.	Rs.
Goodwill		8250
Land and Buildings		61875
Plant and Equipment		46200
Stock	24750	
Debtors	17325	
Cash	1100	
	43175	
Creditors	42350	
Overdraft	55550	
	97900	(54725)
8% Debentures		(8250)
		53350
Share Capital of Re.1		150000
7% Cumulative Pref shares		5500

Security Premium Profit and Loss account		20500 (122650)
		53350

Preference dividends are two years in arrears and the company has employed a new management team to take advantage of an upturn in trading conditions. The new finance director has produced a corporate plan that includes a scheme of reconstruction.

1. A Ltd is to go into voluntary liquidation and a new company, B Ltd is to be formed to acquire the old company. The consideration for the takeover is to be satisfied in the form of shares and debentures of the new company.
2. The land and buildings are to be sold and new premises leased. The lease will be classified as an operating lease and the sale proceeds for the land and buildings are expected to be Rs.82500. The proceeds are used in part to repay the 8% debentures.
3. B Ltd is to takeover the plant and machinery at book value plus Rs.3300. Stock and debtors are to be taken over by B Ltd at book values. The balance on the cash and bank accounts is to be taken over after all amounts have been paid and received.
4. Preferential creditors amount to Rs.3850 and are to be paid off by A Ltd in full and in cash while the remaining creditors are to be paid 60 paise in a rupee in cash with the balance being discharged by the issue by B Ltd of 10% debentures.
5. The equity shareholders are to receive one fully paid Re.1 equity share in B Ltd for every 5 equity shares held in A Ltd. They also agree to purchase, for cash, 2 Re.1 equity shares, at par, in B Ltd for every 15 equity shares held in A Ltd.
6. Goodwill in A Ltd is considered worthless
7. The preference shareholders are to receive one fully paid Re.1 equity share in B Ltd for each preference share held in A Ltd. In addition, while agreeing to waive any entitlement to arrears of preference dividend, the preference shareholders are to receive a Rs.100 10% debenture for every 200 preference shares held. The scheme will cost A Ltd Rs.2750 and B Ltd Rs.1375.

Required:
Close the books of A Ltd and open the books of B Ltd.

Question No.P9 **Comprehensive**

Beatnik Ltd. incurred exceptional losses, and a scheme of reconstruction, involving a creditors' voluntary liquidation, was approved by all interested parties. The balance sheet of the company as of 31.12.2003 showed: (Rs.in 000s)

	Rs.	Rs.	Rs.
Fixed assets (net book value)			150
Current Assets:			
Stock at cost		60	
Debtors		80	
		140	
Current liabilities:			
Creditors			
Preferential	5		
Ordinary	120		
Bank Overdraft	100	(225)	(85)
			65
Shareholders' funds			
Share capital			
Authorised, issued and fully paid			
6% cumulative pref. shares of Re.1 each		40	
Ordinary shares of Re.1 each		100	
			140
Reserves:			

Profit and loss account			(75)
			65

The scheme of reconstruction provided for the following:

1. A new company, Squares Ltd. (which had been incorporated on 30.12.2001 with an authorized capital of Rs.2.5 Lacs divided into 1.25 lacs 7.5% cumulative preference shares and 1.25 lacs ordinary shares, all of Re.1 each), to takeover as of 31.12.2001 the assets and liabilities of Beatnik Ltd.
2. 20000 ordinary shares of Re.1 each in Squares Ltd. credited as 50 p per share paid up, to be issued to the liquidator of Beatnik Ltd. for the benefit of that Company's ordinary shareholders, who had agreed to pay up the balance of 50 paise per share immediately.
3. 40000 preference shares of Re.1 each in Squares Ltd. credited as 75 paise per share paid up, to be issued to the liquidator of Beatnik Ltd. for the benefit of that company's preference shareholders, who had agreed to pay up the balance of 25 paise per share immediately. In addition Rs.4800 in 6% unsecured notes 2006-07 to be issued as compensation for arrears of preference dividends.
4. Squares Ltd. to pay the liquidation expenses of Beatnik Ltd. of Rs.1000.
5. Squares Ltd decided to adopt the following values for the tangible assets acquired.
   (Rs. in 000)

Fixed Assets	140
Stock	50
Trade debtors	80

6. Rs.20000 to be paid off the bank overdraft out of proceeds of shares issued and the balance to be secured on the fixed assets of Squares Ltd.
7. Squares Ltd. immediately to discharge preferential creditors in cash. Liabilities to ordinary creditors to be discharged by cash payments of 50 paise in the rupee, the issue of four month's bill of exchange for 25 paise in the rupee, and the issue of 6% unsecured notes 2006-07 for the balance of 25 paise in the rupee.
8. The directors of Squares ltd. to introduce Rs.70000 in cash in January 2002 for Rs.70000, 6% unsecured notes 2006-07.

Required:

a. Show the closing entries in the books of Beatnik Ltd as recorded in
   i. Realization account;
   ii. Sundry members' account.
b. Show the journal entries (including cash items) to record the above transactions in the books of Squares Ltd.

Question No.P10: Comprehensive

The summarized Balances Sheets of R Ltd. and P Ltd. for the year ending on 31.3.2005 are as under: (Rs.in 000s)

	R. Ltd.	**P. Ltd.**		**R. Ltd.**	**P. Ltd.**
ES Capital (of Rs. 10 each)	2400	1200	Fixed Assets	5500	2700
8% Pref Capital (Rs. 10 each)	800	-	Current Assets	2500	2300
10% Pref Capital (Rs. 10 each)	-	400			
Reserves	3000	2400			
Current Liabilities	1800	1000			
	8000	5000		8000	5000

1. The following information is provided : (Rs. in 000s)

	R. Ltd.	P. Ltd.
(a) Profit before tax	1064	480
(b) Taxation	400	200
(c) Preference	64	40
(d) Equity dividend	288	192

2. The equity shares of both the companies are quoted in the market. Both the companies are carrying on similar manufacturing operations.
3. R. Ltd. proposes to absorb P Ltd. as on 31.3.2005. The terms of absorption are as under :
   (a) Preference shareholders of P Ltd. will receive 8% preference shares of R Ltd. sufficient to increase the income of preference shareholders of P Ltd. by 10%.
   (b) The equity shareholders of P Ltd. will receive equity shares of R Ltd. on the following basis:
   (i) The equity shares of P Ltd. will be valued by applying to the earnings per share of P Ltd. 75% of price earnings ratio of R Ltd. based on the result of 2004-2005 of both the companies.
   (ii) The market price of equity shares of R Ltd. is Rs. 40 per share.
   (iii) The number of shares to be issued to the equity shareholders of P Ltd. will be based on the above market value.

In addition to equity shares, 8% preference shares of R Ltd. will be issued to the equity shareholders of P Ltd. to make up for the loss in income arising from the above exchange of shares based on the dividends for the year 2004-2005.

Question No. P11: Purchasing Company holding shares in Vendor Company

The Balance Sheet of P Ltd. and Q Ltd. as on 30th June, 2004 were as follows:

(Rs. In crores)

Liabilities	P Ltd.		Q Ltd.	
Equity Share Capital		80		25
Reserves and Surplus		400		75
10% 25 Lakhs debentures of Rs.100 each		Nil		25
Other Liabilities		120		Nil
		600		**125**
Assets				
Fixed Assets at cost	200		75	
Less : Depreciation	100	100	50	25
Investments in Q Ltd. :				
2 Crores Equity. Shares of Rs.10 each at cost	32			
10% 25 Lakhs Debentures. Of Rs.100 each at cost	24	56		
Current Assets	800		300	
Less Current Liabilities	356	444	200	100
		600		**125**

In a scheme of absorption duly approved by the court, the assets of Q Ltd. were taken over at an agreed value of Rs.130 crores. The liabilities were taken over at par. Outside shareholders of Q Ltd. were allotted equity shares in P Ltd. at a premium of Rs.90 per share in satisfaction of their claim in Q Ltd. for purposes of recording in the books of P Ltd. fixed assets taken over from Q Ltd. were revalued at Rs.40 crores.

The scheme was put through on 1st July, 2004.

a) Furnish Journal Entries in the books of P Ltd. to record the transactions.
b) Present the Balance Sheet of P Ltd. after absorption of Q Ltd.

Question No.P12: Selling Company holding shares in Purchasing Company

Following are the balance sheet of two companies, Wye Ltd. and Zed Ltd. as at December 31, 2004.
(Rs.'000)

Liabilities	Wye Ltd.	Zed Ltd.
Share Capital (Rs.100)	500	300
Reserves	100	55
Creditors	150	115
	750	**470**
Assets	**Wye Ltd.**	**Zed Ltd.**
1,000 Shares in Wye Ltd.	Nil	120
Sundry Assets	750	350
	750	**470**

Wye Ltd. was to absorb Zed Ltd. on the basis on intrinsic value of the shares the purchase consideration was to be discharged in the form of fully paid shares, entries to be made at par value only. A sum of Rs.20000 is owed by Wye Ltd. to Zed Ltd. Also included in the stocks of Wye Ltd. is Rs.30000 goods supplied by Zed Ltd. at cost plus 20%. Give Journal entries in the books of both the companies.

Question No. P13: Cross Holdings - Absorption

You are given the balance sheets as on 30th June 2005 of A Ltd. and M Ltd.: **(Rs.'000)**

Liabilities	A Ltd.	M Ltd.	Assets	A Ltd.	M Ltd.
Share Capital (Rs.10)	500	200	Fixed Assets	600	--
General Reserve	300	50	Current Assets	300	290
Creditors	200	100	Investments	100	60
	1000	**350**		**1000**	**350**

1. Both companies had acquired 10% of the shares in one another and M Ltd. paid Rs.12 per share and A Ltd. paid only the face value.
2. M Ltd. supplies materials to A Ltd. at cost *plus* 20%; of such material Rs.45000 worth was still in stock on 30th June 2005 with A Ltd. and in respect of which Rs.30000 was still owed by A Ltd. to M Ltd.
3. On the date mentioned above A Ltd. absorbed M Ltd. issuing three fully paid shares for each five held in M Ltd. Before acquisition, A Ltd declared dividend of 10% on its paid up capital.
4. A Ltd. had treated the holding of investments as trade. A Ltd. had decided to value the investments on the basis of the intrinsic value before recording the acquisition of M Ltd.

Prepare the balance sheet of A Ltd. after the absorption is complete; the issue of shares is to be recorded at par.

Question No. P14: Cross holdings – Amalgamation

Liabilities	A Ltd.	B Ltd.
Equity Share Capital (Rs.10)	100000	60000
Profit & Loss account	30000	--
Sundry Creditors	50000	20000
	180000	**80000**
Assets	**A Ltd.**	**B Ltd.**
Goodwill	28000	15000
Sundry Assets	140000	44000
Investments in B Ltd. 1000 shares	12000	--

A Ltd. 1500 shares Profit & Loss a/c	--	16500 4500
	180000	**80000**

B Ltd. is absorbed by A Ltd. consideration being 4 shares of A Ltd. for every 5 shares held in B Ltd.

a. Show ledger accounts to close the books of B Ltd. and journal entries to record the acquisition in the books of A Ltd.
b. If a new company AB Ltd. is formed with an authorized capital of Rs.1.5 Lakhs in shares of Rs.10 each to take over A Ltd. and B Ltd. consideration being 6 shares of AB Ltd. for every 5 shares held in A Ltd. and 4 shares of AB Ltd. for every 5 shares held in B Ltd. Show journal entries to close the books of A Ltd. and to open the books of AB Ltd.

Question No. P15 Cross Holdings - Advanced

The following are the Balance Sheets of A Ltd. and B Ltd. as on 31.12.2003 (Rs.in 000s)

Liabilities	A Ltd.	B Ltd.
Share capital		
Equity Shares (Rs.10)	500	200
10% Preference shares		
of Rs.100 each	100	100
Reserves and Surplus	200	150
12% Debentures	100	100
Current Liabilities		
Sundry Creditors	340	160
Bills Payable	20	20
	1260	**730**
Assets	**A Ltd.**	**B Ltd.**
Fixed Assets	600	350
Investment:		
4000 shares in B Ltd.	60	--
3000 shares in A ltd.	--	80
Current Assets:		
Stock	300	170
Debtors	160	90
Bills Receivable	50	10
Cash at Bank	90	30
	1260	**730**

Contingent liability for Bills Receivable discounted = Rs.20000.

Fixed Asses of both the companies are to be revalued at 20% above book value. Both the companies are to pay 10% equity dividend. Preference dividend having been already paid.

After the above transactions are given effect to, A Ltd. will absorb B ltd. on the following terms:

(1) 6 Equity shares of Rs.10 each will be issued by A Ltd at par against 5 shares of B Ltd.
(2) 10% Preference shareholders of B ltd will be paid at 10% discount by issue of 11% preference shares of Rs.100 each at par in A Ltd.
(3) 12% Debenture holders of B Ltd. are to be paid at 8% premium by 13% debentures in A Ltd issued at 10% discount.
(4) Rs.20000 is to be paid by A ltd. to B ltd. for liquidation expenses. Sundry Creditors of B Ltd. includes Rs.30000 due to A Ltd. Bills Receivable discounted by A Ltd were all accepted by B ltd.

Prepare:

a. Vendors Account and Investment Account in the Books of A Ltd.
b. Equity Shareholders Account, A Ltd. Account and Investment account in the Books of B Ltd.
c. Balance Sheet of A Ltd. after absorption.

Question No.P16: Internal Reconstruction Vs External Reconstruction

A Ltd. has become sick since a few years. The management feels that the company has recently turned the corner. Balance Sheet of the company as at 31.3.2005 and the other relevant particulars are given below: (Rs.000s)

Liabilities	Rs.	Assets	Rs.
Equity Capital(Rs.10)	600	Land & Buildings	100
6% Pref. Capital(Rs.100)	200	Plant & Machinery	200
9% Debentures(Rs.300)	300	Stock	200
Trade Creditors	400	Sundry Debtors	200
Expense Creditors	50	Cash & Bank	30
		Profit & Loss Account	820
	1550		**1550**

Additional Information:

(1) Land and Building are worth Rs.4 lacs.
(2) Stock and Sundry Debtors are expected to fetch 20% less.
(3) Equity Shares are to be reduced to Rs.2.50 each, fully paid up.
(4) Preference Shares are to be reduced to Rs.50 each, fully paid up the rate of preference dividend being raised proportionately.
(5) Debentures are to be reduced to Rs.200 each fully paid up the rate of interest being raised proportionately.
(6) Trade creditors and expense creditors will wait for payment and continue business on existing terms if 20% of their dues is paid forthwith.
(7) Directors are willing to bring in Rs.1 lac in the form of equity capital of Rs.20000 is estimated expenditure for completion the formalities.

Some of directors want to go in for capital reduction and some others prefer external reconstruction. You are required to prepare reconstruction account, realisation account and two sets of Balance sheet as may be appropriate under the above alternative schemes giving effect to the various points indicated above.

Question No.P17 Surrender of shares

The following information relates to D Ltd as on 31.12.2004:

Particulars	Rs.000s
2000 equity shares of Rs.100 each	200
1000 6% Debentures of Rs.100 each	100
Debenture interest outstanding	12
Trade creditors	50
Fixed Assets	200
Current assets	65
Fixed assets revalued at	96
Current assets revalued at	48

The following scheme was duly agreed and approved by the court:

1. The shares were sub-divided into shares of Rs.5 each and 90% of the shares surrendered.
2. The total claims of debenture holders were reduced to Rs.49000 and in consideration of this, they were also allotted shares (out of the surrendered shares) amounting to Rs.25000.
3. The creditors agreed to reduce their claims to Rs.30000, 1/3 rd of which was satisfied by issue of equity shares out of those surrendered.
4. The shares surrendered but not re-issued were cancelled.

You are required to draft the necessary journal entries and give the balance sheet of the company after reconstruction.

Question No. P18 Internal Reconstruction

The following is the Balance Sheet of R. Ltd. as at 31.12.04

(Rs. in 000s)

Liabilities		Rs.
Authorised and Issued Capital:		
20,000 Equity shares of Rs.100 each, fully paid		2000
18,000 7% Preference shares of Rs.100 each, fully paid		1800
"A" 6% Debentures (secured on Delhi Works)		300
"B" 6% Debentures (secured on Nagpur Works)		350
Workmen's Compensation Fund		
Delhi	20	
Nagpur	10	30
Creditors		250
		4730
Assets		**Rs.**
Delhi Works		1600
Nagpur works		1200
Stock		900
Debtors		500
Cash at Bank		100
Investments for Workmen's Compensation Funds		30
Profits and Loss Account		400
		4730

A scheme was duly prepared and sanctioned whereby

(a) Equity shares were to be reduced to Rs.10;
(b) Preference shares were to be reduced to Rs.80, dividend being raised to 8%;
(c) Debenture holders forego their interest, Rs.52000, which is included among the Sundry Creditors;
(d) Directors refund Rs.50000 out of the fees previously received by them.
(e) "B" Debenture holders agreed to take over the Nagpur Works at Rs.5 Lacs and to accept an allotment of 3000 equity shares of Rs.10 each at par; and upon their forming a company called

R. P. Ltd. to take over the Nagpur Works, they allotted R. Ltd. 18000 shares of Rs.10 each fully paid at par;

(f) The Nagpur Workmen's Compensation Fund disclosed the fact that there were liabilities of Rs.2000. In consequence, the investments of the fund were realised to the extent of the balance, the investments realizing a profit of 10% on book value and the proceeds used for part payment of the creditors; and

(g) Stock was to be written down by Rs.4 Lacs and a provision for doubtful debts created to the extent of Rs.44800 on debtors. Any balance to be applied as to two-thirds to write down the value of Delhi Works and one-third to a capital reserve.

Show Journal Entries covering these steps. Show also the Balance Sheet after the scheme has been carried out.

Question No.P19: Demerger

NEEDLE Ltd. is engaged in manufacture of nuts and nails. It has 2 wholly owned subsidiaries, Nuts Ltd. and Nails Ltd. which have never traded. The draft financial statement of the parent company shows:

Balance sheet as on 30th June 2005 (Rs. in 000s)

Liabilities	Rs.	Assets	Rs.
Share capital	400	Fixed Assets	214
Reserves and Surplus	488	Invest. in Nuts Ltd.	100
Secured Loan	120	Invest in Nails Ltd.	100
Creditors	900	Current Assets	
Owing to Subsidiaries	200	Stock and WIP	434
Proposed Dividend	40	Debtors	936
		Cast @ Bank	364
	2148		**2148**

Profit and loss account for the year ended 30.6.2005

Net profit	372000
Dividend Paid	40000
Transfer to Reserve (balance)	332000

The two managing directors, Tom and Jerry, who own 40% and 60% respectively of the share capital of NEEDLE Ltd. will become individually concerned with Nuts and Nails Ltd. respectively in order to develop their own interests.

They have agreed to a scheme of reconstruction where by the respective trade and assets apart from Cash and bank and liabilities will be transferred to the subsidiaries. The resulting inter-company debts will be waived, and NEEDLE will be placed to liquidation. The liquidator will retain Rs.52000 of the cash at bank to meet the costs of liquidation and reorganisation and pay dividend. He will distribute the remaining cash at bank and shares in two subsidiaries to NEEDLE Ltd.'s shareholders, Tom and Jerry.

As far as his cash distribution pool permits, each director will then purchase, at net assets value, those shares in his own company distributed by the liquidator to his former colleague. It has been agreed that Nuts Ltd. will receive a first trench of the assets of Needle Ltd., comprising stock and WIP of Rs.1.5 lacs. Nail Ltd. will take over the liability for the secured loan. The remainder of the net assets will be transferred to the subsidiaries in the ratio of 75% to Nuts and 25% to Nails Ltd. with the group freehold property, included in the fixed assets at Rs.1.5 lacs being revalued at the open market value of Rs.4.2 lacs and being transferred to Nails Ltd. as a part of its share.

You are required to:

(a) Produce the proforma balance sheets of the two former subsidiaries after reorganization.

(b) Calculate the final share holdings in each of the 2 companies.

Question No.P20 Sale of Divisions / Demerger– Going Concerns

The balance sheet of A Ltd. having an authorised capital of Rs.1,000 Cr. as on 31/03/2005.

Equity share capital (Rs.10)	250
Revenue Reserve and surplus	750
Secured loan against fixed assets (Fixed assets 300Cr. & Working capital 100Cr.)	400
Unsecured loans	600
Fixed assets (800-200)	600
Investments at cost (Market value 1,000 Cr.)	400
Working Capital (3,000-2,000)	1000
Contingent liabilities - Capital commitments	700

1) Old division whose gross block was Rs.200 Cr. And net block was Rs. 30 Cr. Current assets were Rs.1500Cr. and working capital Rs.1200Cr. the entire amount financed by shareholders.
2) New project to which the remaining fixed assets current assets and current liabilities are related.
3) Two new Companies, B Ltd & C Ltd are to be formed the capital being Rs.500 Cr. & 1000 Cr. Respectively.
4) C Ltd., takeover investments at Rs.800 Cr. and unsecured loans at balance sheet value. It is to allot equity shares at par to members of A Ltd., in satisfaction.
5) B Ltd is to take over the fixed assets and net working capital of the new project division along with the secured loans and obligation for capital commitments for which A Ltd is to continue to stand guarantee at book values. It is to allot one Cr. Equity shares as consideration to A Ltd & B Ltd made an issue of unsecured convertible debentures of Rs.500Cr. carrying interest at 15% p.a. and having a right to convert into equity shares of Rs.10 each at par on 31.03.2012. This issue was made to the members of B Ltd as a right, who grabbed the opportunity and subscribed in full.
6) A Ltd is to guarantee all liabilities transferred to the 2 companies.
7) A Ltd is to make a bonus issue of equity shares in the ratio of one equity share for every equity share held by making use of the revenue reserves.

Draft journal entries in the books of A Ltd & compile the balance sheets of the 3 companies giving all information.

Question No. P21: Reverse Merger.

The following are the balance sheets of RS Ltd and XY Ltd as on 31.3.2005:

Liabilities	RS	XY
Equity Capital of Rs.100	2000	1000
Reserves and Surplus	800	-
10% Debentures	500	-
Loans Payable to FI	250	400
Bank Overdraft	-	100
Sundry Creditors	300	300
Proposed Dividend	200	-
	4050	**1800**
Assets	**RS**	**XY**
Fixed Assets	2700	850
Investments	700	-
Sundry Debtors	400	150

Cash at Bank	250	-
Profit and Loss account	-	800
	4050	**1800**

It was decided that XY Ltd will acquire the business of RS Ltd for enjoying the benefit of carry forward of business loss. After acquisition, XY Ltd will be renamed as XYZ Ltd. The following scheme has been approved for the merger:

(i) XY Ltd will reduce its shares to Rs.10 and then consolidate 10 such shares into one share of Rs.100 each (New share)
(ii) Financial Institutions agreed to waive 15% of the loan of XY Ltd.
(iii) Shareholders of RS Ltd will be given one new share of XYLtd in exchange of every share held in RS Ltd.
(iv) RS Ltd will cancel 20% holding of XY Ltd investments were held at Rs 250 thousands.
(v) After merger the proposed dividend of RS Ltd will be paid to the shareholders of RS Ltd.
(vi) Authorised capital of XY Ltd will be raised accordingly to carry out the scheme.
(vii) Sundry creditors of XY Ltd include payable to RS Ltd Rs 100000.

Pass the necessary entries to implement the scheme in the books of RS Ltd and XY Ltd and prepare a Balance sheet of XYZ Ltd.

Question No. P22 Comprehensive

The summarized balance sheet of A Ltd and its subsidiary B Ltd as on 31.03.05 are as follows:

Rs.in Lacs

	A Ltd	B Ltd
Share Capital of Rs.10 each	100	20
Reserves and surplus	140	60
Secured Loans	40	-
Current Liabilities	60	20
	340	**100**
Fixed Assets	120	35
Investment in B Ltd	7.40	-
Sundry Debtors	70	10
Inventories	60	50
Cash at Bank	82.6	5
	340	**100**

A Ltd holds 76% of the paid up capital of B Ltd. The balance shares in B Ltd are held by a Foreign Collaborating Company. A memorandum of understanding has been entered into with the foreign company providing for the following:

(a) The shares held by the foreign company will be sold to A Ltd. The price per share will be calculated by capitalizing the yield at 16%. Yield for this purpose, would mean 40% of the average of pre-tax profits for the last 3 years, which were Rs.35 Lacs, Rs.44 Lacs and Rs.65 Lacs.
(b) The actual cost of shares to the foreign company was Rs.2.4 lac only. The profit that would accrue to them would be taxable at an average of 30%. The tax payable be deducted from the proceeds and A Ltd will play it to the Government.
(c) Out of the net consideration, 50% would be remitted to the foreign company immediately and the balance will be an unsecured loan payable after one year. It was also decided that A Ltd would absorb B Ltd simultaneously by writing down the fixed assets of B Ltd by 5%. The Balance sheet figures included a sum of Rs. 1.5 Lac due by B Ltd to A Ltd.

The entire arrangement was approved by all concerned for giving effect to on 1.4.2005.
You are required to show the Balance sheet of A Ltd as it would appear after the arrangement is put through on 1.4.2005

Chapter - 4

Developments in Accounting

Question No.1: Mutual Funds

The following particulars are available for a scheme of a mutual fund. Calculate current net asset value (NAV) of each unit of the scheme.

Scheme size	Rs.1000 Lacs
Face Value of a unit	Rs.10
Investments	In shares
Market value of shares	Rs.2500 Lacs

Question No.2: Mutual Funds

A has invested in three mutual fund schemes as per details below:

Name of the scheme	**MFA**	**MFB**	**MFC**
Date of investment	01.12.04	01.01.05	01.03.05
Amount of Investment	Rs.50000	Rs.1 Lac	Rs.50000
Entry date NAV	Rs.10.50	Rs.10	Rs.10
Closing date NAV (31.3.05)	Rs.10.40	Rs.10.10	Rs.9.80
Dividend Received till 31.3.05	Rs.950	Rs.1500	nil

Required:

What is the effective yield per annum in respect of each of the three schemes upto 31st March, 2005?

Question No.3: Mutual Funds

Following is the content of an open end scheme of a Mutual Fund, which contains 15000 units as on Day 1.

Company	No. of shares	Day 1 Price
J	1000	49.93
K	2000	38.23
L	4500	44.07

(a) Calculate Day 1's NAV.

(b) Supposing 1000 additional units were purchased by investor by Day 2 at day1's NAV price and the portfolio manager utilizes entirely for L Ltd. Find out NAV of Day 2. There is no load in the above scheme.

Question No.4: NBFC

While closing its books of account on 31.03.2005, a NBFC has its advances classified as follows:

Rs. in Lacs

Standard Assets	8400
Sub-standard assets	910
Secured portions of Doubtful debts	
- Upto one year	160
- one year to three years	70
- more than three years	20
Unsecured portion of doubtful debts	87
Loss assets	24

Calculate the amount of provision, which must be made against the advances.

Question No.5: Gross / Net Value Added Statement

On the basis of the following income statement pertaining to Bright Ltd., you are required to prepare:

(a) Gross value added statement, Net value added; and

(b) Statement showing reconciliation of gross value added with profit before taxation.

Profit and Loss account of Bright Ltd.
for the year ending 31.3.2005

Rs. in thousands

Particulars		
Income		
Sales less returns		1527956
Dividend and interest		130
Miscellaneous income		474
		1528560
Expenditure		
Decrease in inventory of finished goods	26054	
Consumption of raw material	740821	
Power and lighting	120030	
Wages, salaries and bonus	381760	
Staff Welfare expenses	26240	
Excise duty	14540	
Other manufacturing expenses	32565	
Directors remuneration	7810	
Other administrative expense	32640	
9% Mortgage debenture interest	14400	
Long term loan from FI	10000	
Bank overdraft	100	
Depreciation on fixed assets	50600	1457560
Profit before taxation		71000
Provision for taxation		25470
Profit after taxation		45530
Appropriations:		
General Reserve	18212	
Proposed dividend	22000	
Tax on distributed profits	2818	43030
Retained Profit		**1500**

Question No.6: Gross Value Added Statement

The following is the profit and loss account of Galaxy Ltd. for the year ended 31.03.05. Prepare a GVA statement and show reconciliation between GVA and Profit before taxation:

Profit and Loss account for the year ending 31.3.2005

Rs. in lakhs

Particulars		
Income		
Sales		890
Other income		55
		945
Expenditure		
Production & operational expenses (a)	641	
Administrative expenses (factory) (b)	33	
Interest (c)	29	
Depreciation	17	720
Profit before taxes		225
Taxes (d)		30
Profit after taxes		195

Appropriations:		
General Reserve	45	
Dividend Paid	95	140
Retained Profit		**55**

Notes

(a) Production and Operational expenses: Rs. in lacs

Consumption of Raw materials	293
Consumption of stores	59
Salaries, wages, gratuities etc (Admn)	82
Cess and Local taxes	98
Other manufacturing expenses	109
	641

(b) Administration expenses include salaries, commission to directors Rs.9 Lacs. Provision for doubtful debts Rs.6.30 Lacs

(c)

Rs. in lacs

Interest on Loan ICICI – Working capital	9
Interest on Loan ICICI – Fixed Loan	10
Interest on Loan IFCI – Fixed Loan	8
Interest on Debenture	2
	29

(d) The charges for taxation include a transfer of Rs.3 Lacs to the credit of Deferred Tax account.

(e) Cess and Local taxes include Excise Duty, which is equal to 10% of cost of bought-in material.

Question No.7: Gross Value Added Statement

(a) Many companies currently include a statement of Value added in their annual reports. From the information given below relating to SV Ltd., you are required to prepare such a statement for each of the three years 1999, 2000 and 2001. Your statements should reveal how the value added was distributed in both monetary and percentage terms.

Rs.in 000s

Particulars	**2001**	**2000**	**1999**
10% Debentures	300	270	270
9% Preference shares	100	100	100
Equity shares of Rs.50 each	800	800	800
Audit fees	2.5	2.1	1.7
Wages	151.7	149.4	125.1
Depreciation	38.7	36.1	30.4
Fuel Consumed	72.5	60.4	47.6
Hire of Machinery	10.3	9.6	7.5
Taxation	100.4	98.2	75.7
Salaries	50.8	49.5	41.7
Materials Consumed	733.6	620.4	598.3
Sales	1290.9	1150.9	1030.7
Equity dividend per share Rs.	3.90	3.70	3.10

(b) From the value added statements prepared in part (a) you are required to provide further ratios in respect of the employees' interest and to comment thereon. You are advised that the total number of employees was as follows:

Year	2001	2000	1999
Number of employees	45	44	37

Question No.8: Economic Value Added

Calculate economic value added (EVA) with the help of the following information of Hypothetical Limited:

Financial Leverage	:	1.4 times
Capital Structure	:	Equity Capital Rs.170 Lacs
		Reserves and Surplus Rs.130 lacs
		10% Debentures Rs.400 lacs
Cost of Equity	:	17.5%
Income tax rate	:	30%

Question No.9: Economic Value Added

Consider a firm that has existing assets in which it has capital invested of Rs.100 crores. The after tax operating income on assets in place is Rs.15 crores. The return on capital employed of 15% is expected to be sustained in perpetuity, and company has a cost of capital of 10%. Estimate the present value of economic value added (EVA) of the firm from its assets-in-place.

Question No.10: Economic Value Added

Everlast batteries Ltd. has hired you as a consultant. The firm had after-tax operating earnings in 2004 of Rs.180 million and net income of Rs.100 million, and it paid a dividend of Rs.150 million. The book value of equity at the end of 2004 was Rs.1.25 billion, and the book value of debt was Rs.350 million. The firm raised Rs.50 million of the debt during 2004. The market value of equity at the end of 2004 was twice the book value of equity and the market value of debt was the same as the book value of debt. The firm has a cost of equity of 12% and an after-tax cot of debt of 5%.

a. Estimate the return on capital earned by Everlast batteries.
b. Estimate the cost of capital earned by Everlast batteries.
c. Estimate the economic value added by Everlast batteries.

Question No.11: Corporate Social Reporting

From the following information taken from the books of Friend Ltd. relating to staff and community benefits, prepare a statement classifying the various items under the appropriate heads:

(Rs.in Lacs)

Particulars	**Rs.**
Environmental improvements	20.10
Medical facilities	45.00
Training Programs	10.25
Generation of job opportunities	60.75
Municipal taxes	10.70
Increase in cost of lining in the vicinity due to thermal power station	16.55
Concessional transport, water supply	11.25
Extra work put in by staff and officers for drought relief	18.50
Leave encashment and leave travel benefits	52.00
Educational facilities for children of staff members	21.60
Subsidized canteen facilities	14.40
Generation of business	25.00

Question No.12: Corporate Social Reporting – Bridge over River

A ferry service, operated privately, is being used to cross a river. The ferry operator charges Rs.3 per person. It costs Rs.2 per person. 50000 persons use the ferry service in an year.

The government is considering construction of a bridge over the river. It is estimated that after the bridge is constructed 250000 persons will cross the river through the bridge. The bridge is expected to cost Rs.30 lacs initially and its annual maintenance cost would be Rs.10000. The bridge is expected to have a very long life. Once the bridge is constructed the ferry operating company is expected to close this division. The ferryboats would fetch only Rs.1 Lac.

Required:
Define the social costs and benefits of constructing the bridge, assuming that the monetary figures given are economic values.

Question No.13 Corporate Social Reporting –
Over Pass - Surface

Traffic lights control the flow of traffic across and between two busy highways A and B. It is estimated that 50% of the traffic on each highway is delayed; the average loss of time per vehicles delayed is 1 minute on A and 1.2 minutes in B. The traffic on A averages 5000 vehicles a day and on B 4000. 20% of the vehicles are commercial vehicles and the rest are private. Whether on business or pleasure trip the occupants' time has to be view as valuable. The cost of time for commercial vehicles is estimated at Rs.5 an hour and private Rs.2. The cost of stop and start is estimated to be 6 paise per commercial and 4 paise per vehicle. Two fatal accidents due to traffic signals occurred in the last 4 years and the insurance settlements were Rs.50000 for each accident. Forty non-fatal accidents occurred during the same period and each claim is taken @ Rs.1500. These accidents are expected to be avoided if the overpass is constructed.

This overpass is designed to replace the intersection and will add a quarter of a mile to the distance of 15% of the total traffic. The overpass will cost Rs.7.5 Lacs. The extra maintenance will be Rs.2500 per annum. The incremental operating cost for commercial vehicle will be 25 paise a mile and for non-commercial 6 paise a mile.

The cost of operating the traffic lights is Rs.6000 per annum and a policeman spends 2 hours a day at the crossing and the cost is apportioned at Rs.3 per hour. No policeman is required at overpass.

The expected economic life of overpass is 25 years with zero salvage value. The cost of capital is 7% (corresponding capital recovery factor is 0.0858). Compute benefit cost ratio.

Question No. 14: Human Resource Accounting

From the following information in respect of Exe Ltd. Calculate the total value of human capital by following Lev and Schwartz mode:

Age	Unskilled		Semi Skilled		Skilled	
	No.	Avg.	No.	Avg.	No.	Avg.

		Annual Earnings (Rs. 000)		Annual Earnings (Rs. 000)		Annual Earnings (Rs. 000)
30-39	70	3	50	3.5	30	5
40-49	20	4	15	5	15	6
50-54	10	5	10	6	5	7

Apply 15% discount factor.

Question No. 15: Human Resource Accounting

From the following information in respect of Progressive Ltd. Calculate the total value of human capital by following Lev and Schwartz mode:

Age	Unskilled		Semi Skilled		Skilled	
	No.	Avg. Annual Earnings (Rs. 000)	No.	Avg. Annual Earnings (Rs. 000)	No.	Avg. Annual Earnings (Rs. 000)
25-34	150	2.5	100	4	56	5
35-44	110	3.5	75	5.5	42	7
45-54	50	5	40	7	25	9
55-58	20	7	15	8.5	10	12

Apply 20% discount factor.

Question No. 16: Forward Contract – Payment

(a) Sheethal Ltd. needs 3 Lacs dollars on May 1, 2005 for repayment of loan installment and interest. As on December 1, 2004, it appears to the company that the dollar may be dearer as compared to the exchange rate prevailing on that date ie. $1 = Rs. 43.50. The forward rate is 1$ = Rs. 44. Whereas the rate on May 1, 2005 is 1$ = Rs.44.80. Pass journal entries in the books of the company.

(b) On 1st Feb 2005, an Indian Company sold goods to a company in the USA for an invoice price of US $ 10,000 when the spot market rate was Rs. 42.70 per US$. Payment is to be received in three months on 01.05.2005. To avoid the risk of loss from decline in the exchange rates on the date of receipt, the Indian exporter acquired a forward contract to sell US$ 10000 @ Rs.42.20 per US $, on May 1, 2005. The Company's accounting year ends on 31.03.2005 and the spot rate on the date was Rs. 41.70 per US $. The spot rate on 01.05.2005, the date of receipt of money by Indian exporter, was Rs. 41.20. Pass accounting entries in the books of Indian Company.

Question No. 17: Forward Contract – Modification

The company purchased materials from USA on 20th Feb costing USD 10000, on which date the exchange rate was 1USD=Rs.44. It also agreed on 20th February that it will buy on 20th April from the banker USD 10,000 at Rs.44.57. On 20th March, the company approaches the bank to buy USD 10,000 under the forward contract earlier entered into. The rates prevailing in the market on this date are:

Spot	Rs.44.4725/4800
April	Rs.44.2550/2625

Find out the amount that would be paid/received by the company on early delivery? Also pass appropriate Journal Entry for the term Forward contract.

Question No. 18: Equity Index Futures

Mr. Lal purchases the following units of Equity Index Futures (EIF):

Date of Purchase	**Name of Future**	**Expiry Date /**	**Contract Price**	**Contract Multiplier**

		Series	Per unit (Rs.)	(No. of units)
28.03.2005	EIF1	May 2005	1420	200
29.03.2005	EIF2	June, 2005	4280	50
29.03.2005	EIF1	May, 2005	1416	200

Daily Settlement Prices of the above units of Equity Index Futures were as follows:

Date	EIF1 May Series (Rs.)	EIF2 June Series (Rs.)
28/03/2005	1410	-
29/03/2005	1428	4300
30/03/2005	1435	4270
31/03/2005	1407	4290
01/04/2005	1415	4250
02/04/2005	1430	-
03/04/2005	1442	-

The above contracts were settled on the following dates:
EIF2 June Series on 1st April, 2005.
A Contract of 200 units of EIF1 May Series on 2nd April 2005.
The Other Contract of EF1 May series on 3rd April, 2005.
Give the accounting treatment for Equity Index Futures as per guidance note issued by ICAI.

Question No. 19: Stock Index Options

Mr. Investor buys a stock option of ABC Co. Ltd in July 2004 with a strike price on 30.7.2004 Rs.250 to be expired on 30.8.2004. The premium is Rs.20 per unit and the market lot is 100. The margin to be paid is Rs.120 per unit.

Show the accounting treatment in the books of Buyer when:
- (i) the option is settled by delivery of the asset, and
- (ii) the option is settled in cash and the Index price is Rs.260 per unit.

Question No. 20: Interest Rate Swap

Mickey Ltd. a manufacturing firm, which wants to borrow 5 years fixed rate rupee funding to finance an expansio n, project. Its credit rating is not very high. IT is BBB. It decides to enter into a swap deal with Donald Ltd. which is a large unit looking for floating rate through a swap dealer. The Banker's Commission is 0.25%.

The requirements and access of the two parties are summarized below :

	Mickey Ltd. (BBB)	Donald Ltd. (AAA)
Requirements	Fixed Rate	Floating rate
Cost of Fixed Loan	11%	9.5%
Cost of Floating rate	Prime rate of 0.75%	Prime rate (10%)

Pass accounting entries in the books of Mickey and Donald Ltd.

Question No.21 Interest Rate Swap

ABC Ltd. is a financial institution which enjoys very good credit rating. It lends at floating rates and borrows at fixed rate and it has risk of floating rates fall.

XYZ Ltd. is a manufacturing company enters into a fixed price contract to purchase Machinery. It has higher funding costs, whether fixed or floating. It has risk of losses if funded on a floating rate basis.

The relative borrowing costs of ABC Ltd. as XYZ Ltd. are as follows:

Name of the Company	Fixed rate %	Floating Rate %
ABC Ltd. (Financial Institution)	8	LIBOR

XYZ Ltd. (Manufacturing Company)	10	LIBOR + 1
Differential borrowing cost	2	1

Pass journal entries in the books of the companies.

Question No. 22: Currency Swap

Leyton Ltd. an Australian company is in need of Rs. 50 Lacs to honour a commitment. Leander Ltd. an Indian Company is in need of AUS$1.25 Lacs to honour a commitment. Both the companies enter into a currency swap deal through a Swap dealer. The following information is provided.

	Leyton Ltd.	Leander Ltd.
Requirements	Rs. Funding	AUS$ Funding
Cost of AUS$Funding	15%	16%
Cost of Rs. Funding	11%	10%
The exchange rate is Rs. / AUS = 40		
Swap dealer Commission 0.20% from both the parties.		

Pass accounting entries for Currency Swap transactions.

Question No. 23: Currency Option

In February, an American Importer anticipates a Yen payment of JPY 100 million to a Japanese supplier in May. The Current USD/JPY spot rate is 0.007739. A 3-month Yen Call option with the strike price of $0.0078 per Yen is available for a premium of $0.000108 per Yen. A Contract is for JPY 6.25 million. The firm decides to hedge the transaction through Currency options. What is the total payment in dollar if:

i) the May Spot rate is 0.0075 ($/JPY)
ii) the May Spot rate is 0.0079 ($/JPY)

Give the accounting entries in Currency option transactions.

Question No.24: Environmental Benefit Vs. Company Cost

A Ltd. was engaged in manufacture of cars. It had a conveyer system where the machine parts are assembled into full fledged car. After such assembling the cars are painted manually. The company decides to install a solvent based or a powder based system for spray painting.

In solvent based system the parts are sprayed as they move along a conveyor. The paint that misses the part is swept away by a wall of water called a water curtain. The excess paint accumulates in a pit as sludge that must be removed each month. Environmental regulations classify this sludge as hazardous waste for which the company must obtain a permit to produce the waste and must maintain meticulous records of how the waste is transported, stored and disposed of. The annual costs of complying with these regulations can easily exceed Rs.1.4 lacs in total for a painting facility that initially costs Rs.4 lacs to build. In addition to the above cost the company must also train workers to handle paint sludge, special insurance must be carried and special disposable site must be hauled to collect the sludge.

In contrast, a powder based system avoids almost all of these environmental costs. Excess powder used in the painting process can be recovered and reused without creating a hazardous waste. Additionally, the powder based system does not release contaminants into the atmosphere. This system costs Rs.7 lacs for installation.
Suggest the company on the selection of above systems having an eye on Environmental aspects.

Question No.25: Environmental Benefit Vs. Company Cost

A company located on the Gulf of Mannar is a producer of soap products. Its six main soap products lines are produced from common inputs. The company has a waste product that results from the production of the six main product lines. Until last year, the company loaded the waste onto barges and dumped it into the Gulf of Mannar, since the waste was thought to have no commercial value. But such dumping would cost Rs.20000 for getting permission from the Government.

The company's research division discovered that with some further processing the waste could be made commercially salable as a fertilizer ingredient. The further processing cost would be Rs.175000 per year. The sales of this type fertilizer do not have much demand in the market so it can fetch only Rs.140000 in the year. But it is expected that in the future the demand for the fertilizer would increase.
The company wants to decide on the above matter. Prepare a report suggesting the action to be taken by the company.

Question No: 26 Fund Based Accounting

The annuity fund of Mega University accepts an annuity based gift from an alumna Mrs.Gnanam who passed from this university about 30 years back. One of the conditions mentioned in the gift is that Mrs.Gnanam should receive a monthly payment of Rs.25000 for the remainder of her life. The gift consists of cash of Rs.25 Lacs and securities having a market value of Rs.18.75 Lacs at the time of gift. The investment income of annuity for a particular month comes to Rs.43750.
Pass journal entries in the books for
- (i) Receipt of annuity-based gift;
- (ii) Monthly investment income; and
- (iii) Monthly annuity payment.

Question No: 27 Fund Based Accounting

Delhi school of Advanced Dental Research provides you with the following details relating to its loan funds for the year 2004-05

Particulars	Rs.
Private and Government Grants	750000
Transfer from revenue funds to loan funds	15000
Transfer from unrestricted fund to loan fund	150000
Investment Income	22500
Interest on loan	37500
Amount refunded to grantors	30000
Loan cancelled and written off	15000
Administrative and collection costs	22500
Loan fund balance at the beginning of the year	3022500

Prepare a statement showing changes in fund balance during the year.

Question No. 28: Fund Based Accounting

Noida University maintains three fund accounts revenue fund, endowment fund and development fund. From the following details available for the year 2004-05 prepare financial statements of the funds.

Particulars	Dr.	Cr.
Revenue Funds: Balance as on 1.4.04		
Restricted		635
Unrestricted		1565
Endowment Funds : Balance as on 1.4.04		850
Development Funds : Balance as on 1.4.04		1230
Tuition fees receivable (as on 1.4.04)	55	
Tuition and other fees received		965
Government grants :		

Unrestricted			965
Restricted			650
Development purpose			1000
Private Grants			
Unrestricted			520
Restricted			340
Endowment			250
Development			550
Endowment Income			65
Canteen Sales			105
Interest on Fixed Deposits			165
Salaries Payable (as on 1.4.04)			121
Salaries & other benefits paid to Faculty & staff		1545	
Research activities		665	
Public Service expenses		155	
Academic support		35	
Repairs and maintenance of buildings		55	
Scholarship and fellowships		40	
Administrative expenses		105	
Buildings		1250	
Laboratory equipments		665	
Canteen expenses		75	
Fixed Deposits (1.4.04)		1050	
Payments to contractors for building construction		1225	
Investment in Securities out of :			
Unrestricted fund	165		
Restricted fund	230		
Endowment fund	900	1295	
Cash and Bank Balance			
Restricted fund	680		
Unrestricted fund	181		
Endowment fund	355		
Development fund	545	1761	
		9976	**9976**

Other information:

(i) Transfer from unrestricted fund : Mandatory to development fund Rs.1.25lacs; Non-Mandatory to endowment fund Rs.1.55 lacs

(ii) Endowment income is to be taken to be taken to unrestricted fund.

(iii) Tuition fees receivable from students: as on 31.3.05 Rs.30000.

(iv) Salaries payable to faculties and staff: as on 31.3.05 Rs.150000.

(v) Depreciation to be charged on buildings @ 10% and equipments @ 20%.

(vi) During the year the University expends the following amounts out of restricted revenue grants: (Rs. in 000s)

	Govt. Grants	Private Grants
Salaries etc.	205	250
Research Activities	195	220
Public Service	55	150

(vii) Fixed deposits were made out of development fund.

(viii) Building construction completed during the year Rs.250000 for the year 2004-05.