

DEPARTMENT OF COMMERCE

(SERAMPORE COLLEGE)

B.COM (HONS) 6TH SEMESTER

FINANCIAL REPORTING AND FINANCIAL STATEMENT ANALYSIS:

UNIT 1: HOLDING COMPANY

In the last problem (as solved) we have seen dividend credited to profit and loss account wrongly as the dividend was for pre period and capital profit which should not be credited to profit and loss a/c. So it was rectified in the last problem by deducting profit, profit of H Ltd in consolidated balance sheet and from cost of control (Schedule IV).

Let us solve the same problem **assuming dividend was credited to investment account correctly.**

Schedule I will remain unaffected Rs. 170,000

Schedule II will remain unaffected Rs. 32000

Schedule III will remain unaffected Rs. 100625

Schedule IV will be changed:

	RS.
Value paid for share held	240,000
Less: Cost of share held	<u>150,000</u>
	90,000
Less: Share of capital profit (Sc I)	<u>127500</u>
CAPITAL RESERVE	<u>37500</u>

No treatment in dividend as it is correctly credited to investment account.

Note No 1 Reserve and Surplus to be changed as dividend not wrongly credited to p/l account (but ultimately the amount will remain the same due to change in capital reserve).

	RS	RS
General reserve		100,000
Capital reserve		37500
Profit and loss account	140,000	
Add: share of schedule II	<u>24375</u>	
	164375	
Less: unrealised profit	<u>(2000)</u>	
		<u>162375</u>
RESERVE AND SURPLUS		<u>299875</u>

As a result consolidated balance sheet total Rs. 1050500 will remain the same.

PROBLEM WITH PROPOSED DIVIDEND

Bengal Tar Ltd acquired 12,000 shares of Barakar Tar Ltd of the face value of Rs 10 each at a price of Rs 170,000 on 1.4.19

The balance sheets of the two companies as at 31.3.20 were as follows:

PARTICULARS	NOTE NO	BENGAL(RS)	BARAKAR(RS)
EQUITY AND LIABILITIES:			
Share Holder's Fund			
Share Capital (shares of RS 10 each)		10,00,000	2,00,000
Surplus	1	6,80,000	1,85,000
Current Liabilities			
Trade payables	2	3,20,000	1,52,000
TOTAL		20,00,000	5,37,000
ASSETS			
Non Current Assets			
PROPERTY PLANT EQUIPMENT			
Tangible assets	3	9,00,000	2,00,000
Intangible Assets (goodwill)		3,00,000	70,000
Non Current investment		2,00,000	
Current Assets			
inventories (stock)		2,00,000	40,500
Trade Receivables	4	3,20,000	1,64,500
Cash and cash equivalent		80,000	62,000
TOTAL		20,00,000	5,37,000

Notes to Accounts:

PARTICULARS	BENGAL(RS)	BARAKAR(RS)
SURPLUS		
General Reserve as on 1.4.19(a)	4,20,000	1,00,000
balance in statement of p/l		
balance as on 1.4.19	90,000	40,000
add:profit for the year ended	1,70,000	45,000
31.3.20		
(b)	2,60,000	85,000
TOTAL (a)+ (b)	6,80,000	1,85,000
TRADE PAYABLES		
Sundry Creditors	2,40,000	92,000
Bills Payable	80,000	60,000
	3,20,000	1,52,000
PROPERTY PLANT AND EQUIPMENT		
Land and Building	4,00,000	1,00,000
Plant and Machinery	5,00,000	1,00,000
	9,00,000	2,00,000
TRADE RECEIVABLES		
Debtors	3,00,000	1,34,500
Bills Receivables	20,000	30,000
	3,20,000	1,64,500

Stock in the hands of Barkar Tar Ltd includes goods purchased from Bengal Tar Ltd. at Rs. 20,000 which includes profit charged by the latter company at 25% on cost. Both the companies have proposed 10% dividend for 2018-19. Out of the Debtors and Bills Receivable of Bengal Tar Ltd. Rs 50,000 and Rs 16,000 respectively represented due from Barkar Tar Ltd. Prepare a consolidated Balance Sheet of Bengal Tar Ltd and their subsidiary Barakar Tar Ltd as at 31.3.2020.

SOLUTION:

Ratio of holding and its subsidiary company = 3:2

Schedule I (Capital Profit):

Pre acquisition general reserve	Rs 100000
Add: pre acquisition profit	<u>Rs 40,000</u>
Total	<u>Rs140000</u>

Share of holding = Rs 84,000

Share of minority = Rs 56,000

Schedule II (Current Revenue Profit):

Current revenue profit	Rs 45,000
Less: proposed dividend (10% of capital)	<u>(Rs 20,000)</u>
Total of revenue profit	<u>Rs 25,000</u>

Share of holding = Rs 15,000

Share of minority = Rs 10,000

Schedule III (Minority Interest):

Share capital	Rs 80,000
Add: Share of capital profit (schedule I)	Rs 56,000
Add: Share of revenue profit (schedule II)	<u>Rs 10,000</u>
MINORITY INTEREST	<u>Rs 146000</u>

Schedule IV (Goodwill or Cost of Control):

Value paid for the share held	Rs 170000
Less: Cost of share held	<u>(Rs 120000)</u>
Less: share of capital profit (Sc I)	<u>(Rs 84000)</u>
CAPITAL RESERVE	<u>Rs 34000</u>

CONSOLIDATED BALANCE SHEET AS ON 31.3.2020

PARTICULARS	NOTE NO	AMT CURRENT YEAR	AMT PREV YEAR
EQUITY AND LIABILITIES:			
Share Holder's Fund			
Share Capital		10,00,000	
Surplus	1	6,25,000	
Minority Interest	Sc IIII	1,46,000	
Current Liabilities			
Trade payables	2	406000	
Short term Prov (proposed dividend)	3	1,20,000	
TOTAL		22,97,000	
ASSETS			
Non Current Assets			
Tangible assets	4	11,00,000	
Intangible Assets (goodwill)	5	3,70,000	
Non Current investment	6	30,000	
Current Assets			
inventories (stock)	7	2,36,500	
Trade Receivables	8	4,18,500	
Cash and cash equivalent		1,42,000	
TOTAL		22,97,000	

NOTES TO ACCOUNT:

1. RESERVE AND SURPLUS:

General Reserve		Rs 420000
Capital Reserve (Sc IV)		Rs 34000
Profit and loss	Rs 260,000	
Add: Schedule II	Rs 15000	
Less: unrealised profit	(Rs4000)	
Less: Proposed Dividend (10% of capital)	<u>(Rs 100000)</u>	
		<u>Rs 171000</u>
RESERVE AND SURPLUS		<u>Rs 625000</u>

2. TRADE PAYABLES:

Creditors (Rs 240000 + Rs 92,000) = Rs 332000		
Less: set off	<u>(Rs 50,000)</u>	
		Rs 282000
Bills Payable (Rs 80000 + Rs 60,000) = Rs 140000		
Less: Set off	<u>=(Rs 16000)</u>	
		<u>Rs 124000</u>
TRADE PAYABLES		<u>Rs 406000</u>

3. SHORT TERM PROVISION:

Proposed dividend (100000 + 20000) = Rs 120000

Proposed Dividend cannot be shared unless it is declared by the shareholder in the next AGM.

4. TANGIBLE ASSETS:

Land and Building (400000 + 100000)	Rs 500000
Plant and Machinery (500000 + 100000)	<u>Rs 600000</u>
TANGIBLE ASSETS	<u>Rs 1100000</u>

5. INTANGIBLE ASSTS:

Goodwill (300000 + 70000) Rs 370000

6. NON CURRENT INVESTMENT:

Total investment	Rs 200000
Less: inter co holding	<u>(Rs 170000)</u>
NON CURRENT INVESTMENT	<u>Rs 30000</u>

7. INVENTORY:

Total inventory (200000 + 40500)	Rs 240500
Less: unrealised profit	<u>(Rs 4000)</u>
INVENTORY	<u>Rs 236500</u>

8. TRADE RECEIVABLES:

Debtors (Rs 300000 + Rs 134500) = Rs 434500	
Less: set off	<u>(Rs 50,000)</u>
	Rs 384500
Bills Receivable (Rs 20000 + Rs 30,000) = Rs 50000	
Less: Set off	<u>(Rs 16000)</u>
	<u>Rs 34000</u>
TRADE RECEIVABLES	<u>Rs 418500</u>

For any query call NB 9830953576