

DEPARTMENT OF COMMERCE

(SERAMPORE COLLEGE)

B.COM (HONS) 6TH SEMESTER

FINANCIAL REPORTING AND FINANCIAL STATEMENT ANALYSIS:

UNIT 1: HOLDING COMPANY

Problem aims to discuss and show how pre acquisition dividend credited, interim dividend paid and dividend proposed during the year.

PROBLEM:

The following are the summarised Balance Sheet of H. Ltd and its subsidiary S. Ltd as at 31st March 2020.

PARTICULARS	NOTE NO	H Ltd (RS)	S. Ltd(RS)
EQUITY AND LIABILITIES:			
Share Holder's Fund			
Share Capital		2,00,000	75,000
Surplus	1	1,80,000	46,500
Current Liabilities			
Trade payables (Creditors)		20,000	29,700
Short Term Provision (Proposed Dividend)		20,000	7500
TOTAL		4,20,000	1,58,700
ASSETS			
Non Current Assets			
Tangible assets	2	1,98,000	69,500
Non Current investment (5000 shares in S ltd)		90,000	
Current Assets			
inventories (stock)		51,000	34,000
Trade Receivables (Debtors)		48,500	41,100
Cash and cash equivalent		32,500	14,100
TOTAL		4,20,000	1,58,700

Notes to Accounts:

PARTICULARS	H Ltd (Rs)	S Ltd (Rs)
1. Surplus		
General Reserve	105000	6500
Balance in Statement of profit & loss	75000	40000
	<u>180000</u>	<u>46500</u>
2. Tangible Assets		
Building	1,10,000	44500
Machinery	57500	16000
Furniture	30500	9000
	<u>1,98,000</u>	<u>69500</u>

You are to prepare a consolidated balance sheet as at 31.3.20 showing in detail the necessary adjustments and taking into consideration the following information:

- H Ltd acquired shares of S Ltd on 1.4.19 when the balances on Statement of Profit and Loss and General Reserve of S Ltd were Rs 33,000 and Rs 4500 respectively.
- Sundry creditor of Rs 20,000 in the books of H Ltd on 31.3.20. Include a sum of Rs 12000 payable to S Ltd for credit purchases on which the latter company made a profit of Rs 3000 in 2019-20.
- In June, 2019, S Ltd paid a dividend of 12% in respect of 2018-19. The companies also paid an interim dividend of 4% in December, 2019.
- Stock of Rs 51000 of H Ltd included unsold goods purchased from S Ltd at a cost of Rs 9000.

SOLUTION:

- Assume pre acquisition dividend credited to investment account correctly.
- Assume interim dividend paid.
- Assume dividend proposed for the year.

NOTE 1:

Opening Profit	Rs 33000
Less: pre acquisition dividend	<u>(Rs 9000)</u>
Actual Opening Profit	<u>Rs 24000</u>

NOTE 2:

Profit as per account	Rs 40000
Less: Actual opening profit	<u>(Rs 24000)</u>
Profit during the year	<u>Rs 16000</u>

NOTE 3:

General Reserve as per account	Rs 6500
Less: opening reserve	<u>(Rs 4500)</u>
Reserve during the year	<u>Rs 2000</u>

Ratio of holding and minority's share = 2:1

SCHEDULE I (Capital profit):

Pre Acquisition Reserve	Rs 4500
Pre Acquisition Profit	<u>Rs 24000</u>
Capital Profit	<u>Rs 28500</u>

Share of H Ltd	Rs 19000
Share of minority	Rs 9500

SCHEDULE II (Revenue Profit):

Profit during the year	<u>Rs 16000</u>
Current Revenue Profit	<u>Rs 16000</u>
Share of H Ltd	Rs 10667
Share of minority	Rs 5333

SCHEDULE III (Minority Interest):

Share Capital	Rs 25000
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Add:

Share of Capital Profit	Rs 9500
Share of Revenue Profit	Rs 5333
Share of Current Reserve (2000/3)	<u>Rs 616</u>
Minority Interest	<u>Rs 40999</u>

SCHEDULE IV (Cost of Control):

Value paid for share held	Rs 90000
Less: Cost of share held	(Rs 50000)
Less: Share of Capital Profit	<u>(Rs 19000)</u>
Goodwill	<u>Rs 21000</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		2,00,000	
Surplus	1	1,89,751	
Minority Interest	Sc IIII	40,499	
Current Liabilities			
Trade payables	2	37,700	
Short term Prov (proposed dividend)	3	27,500	
TOTAL		4,95,450	
ASSETS			
Non Current Assets			
Tangible assets	4	2,67,500	
Intangible Assets (goodwill)	Sc IV	21,000	
Current Assets			
inventories (stock)	5	82,750	
Trade Receivables	6	77,600	
Cash and cash equivalent		46,600	
TOTAL		4,95,450	

NOTES TO ACCOUNT:**1. RESERVE AND SURPLUS:**

General Reserve	Rs 105000
Share of current reserve (2/3 of 2000)	Rs 1334
Profit and loss	Rs 75000
Add: Schedule II	Rs 10667
Less: unrealised profit	<u>(Rs 2250)</u>
	<u>Rs 83417</u>
RESERVE AND SURPLUS	<u>Rs 189751</u>

2. TRADE PAYABLES:

Creditors (Rs 20000 + Rs 29700)	Rs 49700
Less: set off	<u>(Rs 12000)</u>
SUNDRY CREDITORS	<u>Rs 37700</u>

3. SHORT TERM PROVISION:

Proposed Dividend (20000 + 7500)	Rs 27500
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Proposed dividend cannot be distributed before annual general meeting which is supposed to be held after balance sheet date.

4. TANGIBLE ASSETS:

Building (110000 + 44500)	Rs 154500
Machinery (57500 + 16000)	Rs 73500
Furniture (30500 + 9000)	<u>Rs 39500</u>
TANGIBLE ASSETS	<u>Rs 267500</u>

5. INVENTORY:

Total inventory (51000 + 34000)	Rs 85000
Less: unrealised profit	<u>(Rs 2250)</u>
INVENTORY	<u>Rs 82750</u>

6. TRADE RECEIVABLES:

Debtors (48500 + 41100)	Rs 89600
Less: set off	<u>(Rs 12000)</u>
SUNDRY DEBTOR	<u>Rs 77600</u>

For any query call NB 9830953576