

Accounting for specific Industries

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The logo of Galgotias University is a circular emblem with a stylized 'G' shape. It features three curved, overlapping bands in shades of yellow, light blue, and light pink, set against a light pink circular background.

Lecture -3

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Topic covered

- Pre and post acquisition profit
- Calculation on pre and post acquisition profit
- Numerical on pre and post acquisition profit

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Pre and post acquisition of profit

Pre and post acquisition of profit

When Holding company acquires shares of subsidiary company at the date of balance sheet

When holding company acquires shares in subsidiary company on any date earlier on the date of balance sheet

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Calculation of post acquisition profit

The pre acquisition profit or reserves of subsidiary company is profit and loss or reserves before the date of balance sheet and when we deduct the pre-acquisition profit from the current year profit of subsidiary company it is called post acquisition profit.

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School of Finance and Commerce

Course Code : BCOM3031

Course Name: Accounting for specific industries

Name: Financial Derivatives

Numerical

The liabilities and assets of the holding company H Ltd. and its subsidiary S Ltd. as on 31st December 2014 are as follows

Liabilities	H Ltd. Rs.	S Ltd. Rs.	Assets	H Ltd. Rs.	S Ltd. Rs.
Share Capital: Shares of Rs. 10	1200000	600000	Sundry Assets Investments:	720000	756000
Each	120000	48000			
Profit and Loss Account	120000	60000	48000 shares in S Ltd.	780000	
General Reserve	60000	48000			
Current Liabilities	1500000	756000		1500000	756000

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H Ltd. acquired shares in S Ltd. on 1st January 2014. On that date the Profit and Loss Account had a credit balance of Rs. 12000 and in Reserve Rs. 36000. Prepare the Consolidated Balance Sheet.

Solution: Share of holdings by H Ltd.in S Ltd. = 48000 shares
out of 60000 shares = 80% Share of holdings by Outsiders in S
Ltd. = 12000 shares out of 60000 shares = 20%

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continued

Particulars	Note No.	Amount (Rs.)
A. Equity and Liabilities		
Shareholders' Fund		
a. Share Capital	1	1200000
b. Reserves and Surplus	2	288000
Minority Interest		141600
Current Liabilities		
H Ltd. 60000		
S Ltd. 48000		108000
Total		1737600
B. Assets		
Non-current Assets		
Fixed Assets		
Tangible Assets – Sundry Assets		
H Ltd. 720000		
S Ltd. 756000		1476000
Intangible Assets - Goodwill		261600
Current Assets		Nil
Total		1737600

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continued

Note No.	Particulars	Amount (Rs.)
1.	Share Capital Issued and Subscribed 120000 Equity shares of Rs. 10 each	1200000
2.	Reserves and Surplus Profit and Loss Account: H Ltd. 120000 S Ltd. 28800 General Reserve: H Ltd. 120000 S Ltd. 19200	148800 139200 288000

Working Notes:

Calculation of Capital Profit in S Ltd.:-

	Rs.
Profit and Loss Account balance on 01/01/2014	12000
General Reserve	<u>36000</u>
Capital Profit	48000

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Share of capital profit due to H Ltd. = $48000 \times 80\% = \text{Rs. } 38400$

Share of capital profit due to Outsiders in S Ltd. = $48000 \times 20\% = \text{Rs. } 9600$

Calculation of Revenue Profit:

(a) Profit and Loss Account ($48000 - 32000$) = Rs. 36000

36000 H Ltd. = $36000 \times 80\% = \text{Rs. } 28800$

Outsiders in S Ltd. = $36000 \times 20\% = \text{Rs. } 7200$

(b) General Reserve ($60000 - 36000$) = 24000

H Ltd. = $24000 \times 80\% = \text{Rs. } 19200$

Outsiders in S Ltd. = $24000 \times 20\% = \text{Rs. } 4800$

Calculation of Goodwill:

	Rs.	Rs.
Cost of Shares in S Ltd.		780000
Less: Face value of shares in S Ltd.	480000	
Capital Profit	38400	518400
Goodwill		261600

Calculation of Minority Interest:

	Rs.	Rs.
Paid up value of Shares held by outsiders in S Ltd. Add: Share of capital profit due to Outsiders in S Ltd.	9600	120000
Share of revenue profit due to Outsiders in S Ltd ($7200 + 4800$)	12000	21600
Minority Interest		141600

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References

1. **S. N. Maheshwari**, Suneel K Maheshwari, et al. (2018), corporate Accounting
2. Reddy and Murthy, (2018), Corporate accounting

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Thank you

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