

## Accounting for specific Industries

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## Lecture -4

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## Topic covered

- Meaning of unrealized profit
- Treatment of unrealized profit
- Numerical problem

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## Unrealized profit

Unrealized profit

If the goods sold at a profit by the subsidiary company to the holding company or by the holding company to the subsidiary company remain unsold at the end of the financial year, the profit charged by the company on unsold goods remains unrealized. This refers to unrealized profit

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## Treatment of unrealized profit

When parent sold goods to subsidiary company , its treatment in consolidated balance sheet:

Liabilities	Amount	Assets	Amount
Profit and loss(A+B)	XXX	Closing stock	XXX
Less: unrealized profit on unsold goods	(XXX)	Less: unrealized profit	XXX
	<b>XXX</b>		<b>XXX</b>

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# School of Finance and Commerce

Course Code : BCOM3031

Course Name: Accounting for specific industries

Name: Financial Derivatives

**When subsidiary company sold goods to parent company , its treatment in consolidated balance sheet:**

<b>Liabilities</b>	<b>Amount</b>	<b>Assets</b>	<b>Amount</b>
Profit and loss(A)	XXX	Closing stock	XXX
Add: Post acquisition profit	(XXX)		
Less: unrealized profit	(XXX)		
	<b>XXX</b>		<b>XXX</b>

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## Numerical

Question: The liabilities and assets of the holding company H Ltd. and its subsidiary S Ltd. as on 31<sup>st</sup> 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	250000	75000	Buildings	112500	30000
Each			Plant and	87500	40000
Profit and Loss			Machinery Furniture	20000	7500
Account	75000	43750	Investments:		
General Reserve	100000	31250	5000 shares in S		
Sundry Creditors	25000	17500	Ltd.	65000	42500
			Sundry Debtors	75000	
			Stock	80000	40000
			Cash	10,000	7500
	450000	167500		450000	167500

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Prepare the Consolidated Balance Sheet as on 31<sup>st</sup> December 2014, by considering the following information:

- (a) H Ltd. acquired the shares in S Ltd. on 1<sup>st</sup> January 2014 when balance of their Profit and Loss Account and General Reserve were Rs. 18750 and Rs. 20000 respectively.
- (b) Stock of Rs. 40000 held by S Ltd. includes Rs. 15000 of goods purchased from H Ltd, who has charged a profit @ 25% on cost.

*Solution:*

Share of holdings by H Ltd.in S Ltd. = 5000 shares out of 7500 shares =  $\frac{2}{3}$

Share of holdings by Outsiders in S Ltd. = 2500 shares out of 7500 shares =  $\frac{1}{3}$

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Consolidated Balance Sheet of H Ltd. and its Subsidiary S Ltd.  
as on 31<sup>st</sup> December 2014

Particulars	Note No.	Amount (Rs.)
A. Equity and Liabilities		
Shareholders' Fund		
a. Share Capital	1	250000
b. Reserves and Surplus	2	207000
Minority Interest		50000
Current Liabilities		
Sundry Creditors:		

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continued

H Ltd.	25000		
S Ltd.	17500		42500
Total			549500
B. Assets			
Non-current Assets			
Fixed Assets			
a. Tangible		3	297500
b. Intangible			Nil
Current Assets			
Stock:			
	H Ltd.	80000	
	S Ltd.	<u>40000</u>	
120000			
Less: Unrealised Profit (Stock Reserve)	<u>3000</u>		117000
Sundry Debtors:			
H Ltd.	75000		
S Ltd.	<u>42500</u>		117500
Cash and Cash Equivalents – Cash in Hand			
H Ltd.	10000		
S Ltd.	<u>7500</u>		17500
Total			549500

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Note No.	Particulars	Amount (Rs.)
1.	Share Capital Issued and Subscribed 25000 Shares of Rs. 10 each	250000
2.	Reserves and Surplus Capital Reserve	10833
	General Reserve	107500
	P & L A/c	88667
		207000
3.	Fixed Assets – Tangible	
	Buildings:	
	H Ltd.	112500
	S Ltd.	<u>30000</u>
		142500
	Plant & Machinery:	
	H Ltd.	87500
	S Ltd.	<u>40000</u>
		127500
	Furniture:	
	H Ltd.	20000
	S Ltd.	<u>7500</u>
		27500
		297500

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## 1. Calculation of Capital Profit in S Ltd.:

	Rs.	
Profit and Loss Account on 1 <sup>st</sup> January 2014	18750	
General Reserve	20000	
Capital Profit	<u>38750</u>	

## 2. Calculation of Capital Reserve:

	Rs.	Rs.
Cost of Shares in S Ltd.		65000
Less: Face value of shares in S Ltd. (5000x10)	50000	
Capital Profit	25833	75833
Capital Reserve		<u>10833</u>

## 3. Calculation of Minority Interest

	Rs.	Rs.
Paid up value of Shares held by outsiders in S Ltd. (2500x10) Add: Share of capital profit due to Outsiders in S Ltd.	12917 12083	25000 25000
Share of revenue profit due to Outsiders in S Ltd (8333+3750) Minority Interest		<u>50000</u>

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Profit and Loss Account balance of H Ltd.	Rs. 75000
Add: P & L A/c balance of H Ltd. in S Ltd.	<u>16667</u>
	91667
Less: Unrealised Profit (15000 x 25/125)	3000
P & L A/c Balance	88667

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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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