

# INVESTMENT ACCOUNTS

## 1. MEANING OF INVESTMENT:

(1) Investments are assets held by an enterprise for earning income by way of dividends, interest and rentals, for capital appreciation, or for other benefits to the investing enterprise.

The accounting for investments is governed by the provisions of AS-13.

Example: (1) Investment of Equity shares of Cos, (2) Investment in Govt. Bonds  
(3) Investment in Properties, (4) Investment in commodities (Gold, Silver)  
(5) Investment in Mutual funds, (6) Investment in prop. / partnership business  
etc.

## 2. COST OF INVESTMENT:

Investment acquired shall be initially recognised at COST.

## Spezial

### **Cost of Investment acquired for Cash consideration:**

Cost:

Purchase Price : XXX

(+) Expenses related to purchases XXX

## Stamp Duty, Brokerage

STT, legal fees etc.

COST : XXX

## Investments AfC - nr (at cost) xx

To Bank A/L

## Cost of Investment acquired by issuing shares and securities:

The Cost of Investment shall be the fair value of shares/ securities issued (consideration given).

If the fair value of shares issued is not available, then cost shall be fair value of investments acquired.

# INVESTMENT ACCOUNTS

**Cost of Investment acquired in exchange of other assets: (same)**

The cost of inv. shall be the fair value of asset given up. If such fair value is not available, then cost of inv. shall be the fair value of investments acquired.

Eg: Mr. A purchased 10000 shares of Infosys Ltd. from Mr. B in exchange of land. Find the cost of inv. in following cases:-

Case 1: FV of land given £20,000 and. AV of land = £18,000. Cost of inv in 10000 sh of Infy = £20,000.

Case 2: FV of land given is not available. However, FV of shares of Infosys is £250/sh.

Cost of Inv in 10000sh: 10000sh x £250 = £25,000

**3. RECURRING INCOME FROM INVESTMENTS: (Interest, Dividends etc)**

Bank A/c -> xx  
To Int/Div Income A/c xx

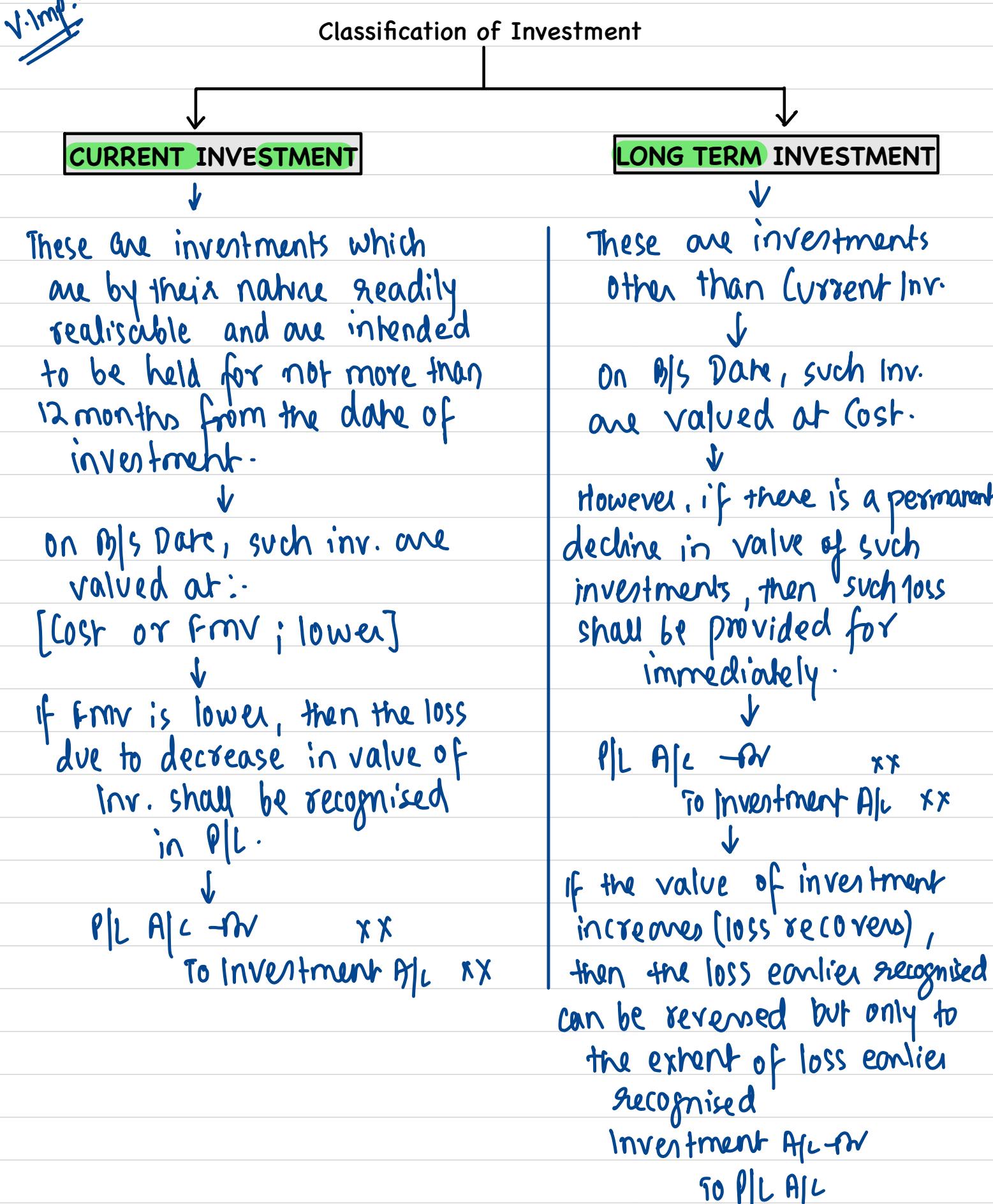
Int/Div Income A/c -> xx

To P/L A/c xx

- Income shall be recognised on Accrual basis (As-9).
- Interest accrues on time basis.
- Dividend accrues when it is declared by the Co.

# INVESTMENT ACCOUNTS

## 4. MEASUREMENT OF INVESTMENT IN BALANCE SHEET:



# INVESTMENT ACCOUNTS

## 5. DISPOSAL OF INVESTMENT:

On disposal of an investment, the difference between the carrying amount and the disposal proceeds, net of expenses is recognised in the profit and loss statement.

Gain or loss on sale of Inv.:-

Net Selling price = xxx (SP - Expenses)

(-) Carrying amt of

those investments: xxx

P/L on sale of Inv: xxx  $\Rightarrow$  "P/L A/c"

If a part of investment is sold, then the carrying amount of investment sold can be determined using cost formulas like FIFO or weighted average.

Journal

~~To Bank A/c - Dr~~ xx (Net SP)  
~~P/L A/c - Cr~~ xx (Loss)  
To Investment A/c xx (carrying Amt)  
To P/L A/c xx (Profit)

P/L A/c - Dr

To loss on sale of Inv

# INVESTMENT ACCOUNTS

## 6. ACCOUNTING FOR INVESTMENT IN SECURITIES:

A separate Investment Account should be made for each scrip purchased.

### Types of securities

Fixed income bearing securities

Eg. Inv. in Debentures,  
Bonds etc.

Variable income bearing securities

Eg. Inv. in Eq.-shares,  
Pref.-shares etc.

# INVESTMENT ACCOUNTS

## 7. INVESTMENT A/c - FIXED INCOME BEARING SECURITIES:

a) Format:

Dr.	Nos. (Amt)			Nos. (Amt)			Cr.		
Date	Particulars	FV	Cost	Int.	Date	Particulars	FV	Cost	Int.

b) Cost of Investment acquired:

In case of fixed Income bearing securities, the seller may quote the price in two ways:-



So, Cum int price : Ex Int price  $\oplus$  Interest.

(i) Cost of investment = Ex Int Price

(ii) Int paid shall be treated as an Exp. which will be recovered in future i.e. on next IPD.

Note: Brokerage, Stamp duty and other exp. shall be included in cost as usual. If such exp. are expressed in %, then following rule shall be applied: (i) % of ex interest given: calculate on Ex Int price  
 (ii) % of cum int given: calculate on Cum int price  
 (iii) % base not given: use price quotation given as base.

# INVESTMENT ACCOUNTS

## c) Periodic Interest income:

On every IPD, investor will receive Interest from the Co. for the period from "last IPD to current IPD". This Int recd shall be calculated as:-

$$[ \text{No. of securities (x) face value (x) Int rate (x) } \frac{\text{Period}}{12} ]$$

The balance of Interest col. at the year end will be trfd to P/L A/c.



## d) Interest accrued but not due:

If the interest payment dates and year end date does not coincide, every year there will be a portion of period for which Int will accrue but the payment for same will be recd in the next year. This is known as Int accrued but not due.

Eg. IPD: 31.5 & 30.11  
y.e 31.12 (Investor)

Int acc but not due = 1m [Dec]

This Int will be shown in Inv. A/c on Cl. & Op. bal. of Interest Col.

# INVESTMENT ACCOUNTS

## e) Sale of investment:

On sale of fixed income securities, the investor will receive cum int price from the buyer.

Cum int price = Ex Int SP + Interest

Interest will be recognised on an income on usual.

We will have to calculate P/L on Sale of Inv. :-

Ex Int Net SP = XX (Net of brokerage, stamp duty etc.)

(-) Cost of those Inv. : (XX)  $\Rightarrow$  FIFO or weighted Avg  
P/L  $\Rightarrow$  XX

## f) Closing balance of Investment:

① The cl. bal. in Investment A/c of investments held will be determined on follows:-

(a) If Inv. are held on Current Inv. : Cost or FMV; lower  
\* If FMV is lower, loss shall be transferred to P/L.

Cost : Bal. fig of Cost Col.

FMV : Given in the D.

(b) If Inv. are held on long term Inv. : Cost.

② If IPD and y.e date are not same, there will be a cl. bal in Interest Col. too which is Int acc. but not due.

= Cr. No. of Inv held (X) FV (X) Int rate (%) Period from last IPD to y.e

# INVESTMENT ACCOUNTS

## 7. INVESTMENT A/c - VARIABLE INCOME BEARING SECURITIES:

### a) Format:

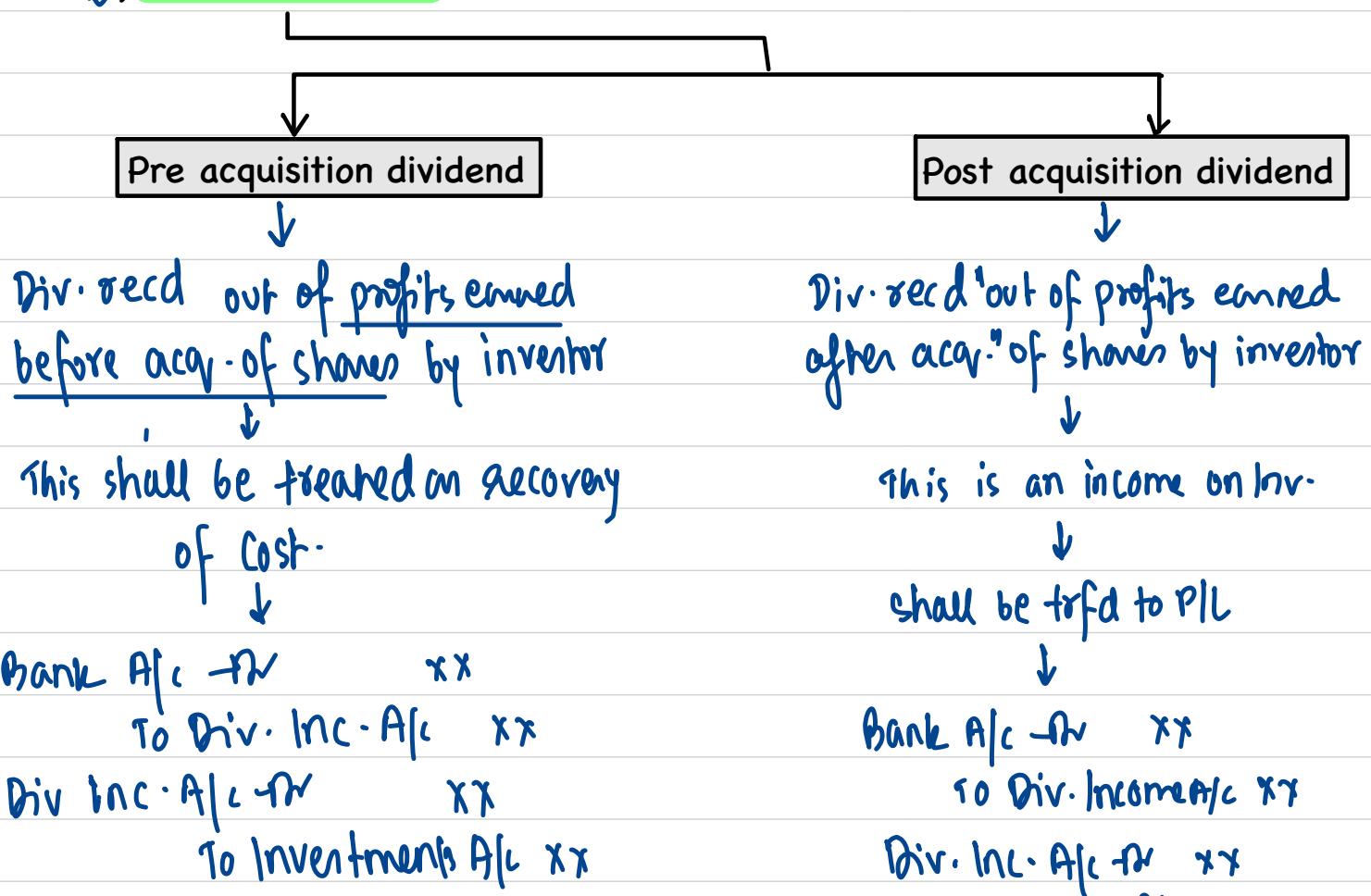
Dr.	Particulars	FV	Cost	Div.	Date	Particulars	FV	Cost	Div.	Cr.
	Bonus	100	-	-		By Bank		10000	25000	

### b) Cost of Equity shares acquired:

Such eq sh acquired shall be **recognised at cost** which is Purchase price (t) Fpp incurred for purchase.

Inv. in Eq sh of X Ltd A/c -> xx  
To Bank A/c xx

### c) Dividend received:



# INVESTMENT ACCOUNTS

d) Bonus shares received on investment:

- (i) Bonus shares are shares issued by a Co. to its existing equity shareholder without consideration by capitalising reserves.
- (ii) for a shareholder, bonus results in increase in no. of shares held without additional investment.
- (iii) In Investment A/c, the no. of bonus <sup>sh.</sup> received is shown under Nos Col. on Dr. side with cost being 0.
- (iv) When such bonus sh. / original sh. are sold, the cost / sh. shall be determined using weighted Avg. method.

e) Right shares:

(i) Right shares are new shares offered by a Co. to its existing shareholders in a further issue of shares or a concessional price.

(ii) The existing shareholder who receives a right offer has two options:-



Subscribe for the shares by paying offer price to the Co.

It is purchase of new/additional investment

↓  
Investment A/c - ₹ (Cost = Amt paid to Co.)

To Bank A/c

Renounce the right to third party against consideration

↓  
The renunciation money recd. shall be treated as an income & to be to P/L.



# INVESTMENT ACCOUNTS

Bank A/c - for  
To Renunciation money A/c

Renunciation money A/c - to  
To P/L A/c.

Note: Cost of Investment for Renouncee = (Amt paid to Renouncee  
+ Amt paid to Co.)

Exception to treatment of renunciation money (v. imp for m/s) :- [Q15]

The general treatment of renunciation money recd is, it is an income & shall be trfd to P/L A/c.

However, if the foll. two conditions are satisfied, then the treatment of renunciation money shall change:-

(i) Original shares were purchased on cum right basis (after announcement of right).

and

(ii) Share price after becoming ex right (price after record date) falls leading to a loss in the value of Investment.

The renunciation money shall now be treated as follows:-

(a) To the extent of fall in value of Investment  $\Rightarrow$  Renunciation money recd shall be used to write off such loss in value of Inv.

(b) Any extra renunciation money shall be trfd to P/L.

Journal

Renunciation money A/c - to xx

To Investment A/c xx

To P/L A/c xx

# INVESTMENT ACCOUNTS

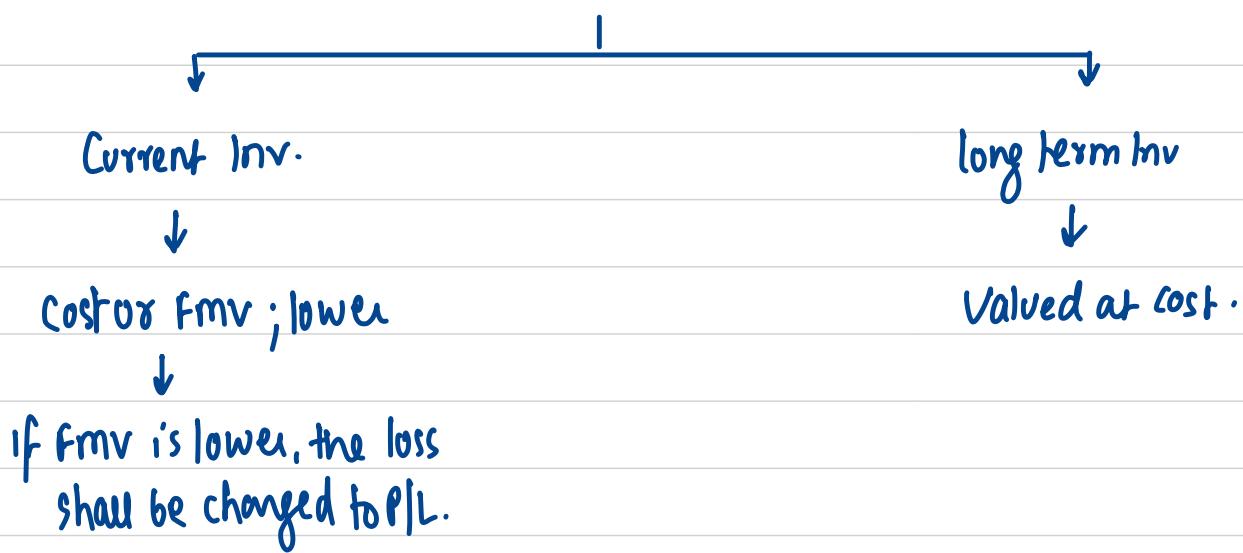
## e) Sale of investment:

On sale of Inv. in Eqsh, the profit or loss on sale will be calculated and transferred to P/L A/c.

Profit or loss on sale of Inv: [Net SP (-) Cost]

The cost of inv. sold shall be determined using Weighted Avg method. (FIFO if Q specifies)

## f) Closing balance of Investment:



\* No concept of Dividend Accrued but not due.

# INVESTMENT ACCOUNTS

## 8. RECLASSIFICATION OF INVESTMENT:

When there is a change in intention of holding the investment

Current to Long term

[PROSPECTIVE]

Long term to Current

The investments shall be reclassified to long term at "Cost or FMV on that date" whichever is lower.

The investment shall be reclassified to current at "Cost or Carrying Amt" in the case may be.

[loss if any on reclassification shall be charged to P/L.]

# FINANCIAL STATEMENTS

## 1. FINAL ACCOUNTS OF COMPANY:

Financial Statements as per Section 2(40) of the Companies Act, 2013, inter-alia include: among other things

- (i) a **Balance sheet** as at the end of the financial year;
- (ii) a **Profit and loss account**, or in the case of a company carrying on any activity not for profit, an income and expenditure account for the financial year; *Statement of P&L*
- (iii) a **Cashflow statement** for the financial year;
- (iv) a **statement of changes in equity**, if applicable; and
- (v) **Notes to Accounts**.

As per section 129 of the Companies Act, 2013, Financial statements should give a true and fair view of the state of affairs of the company or companies and comply with the accounting standards notified under section 133 and should be in the form or forms as provided in Schedule III under the Act.

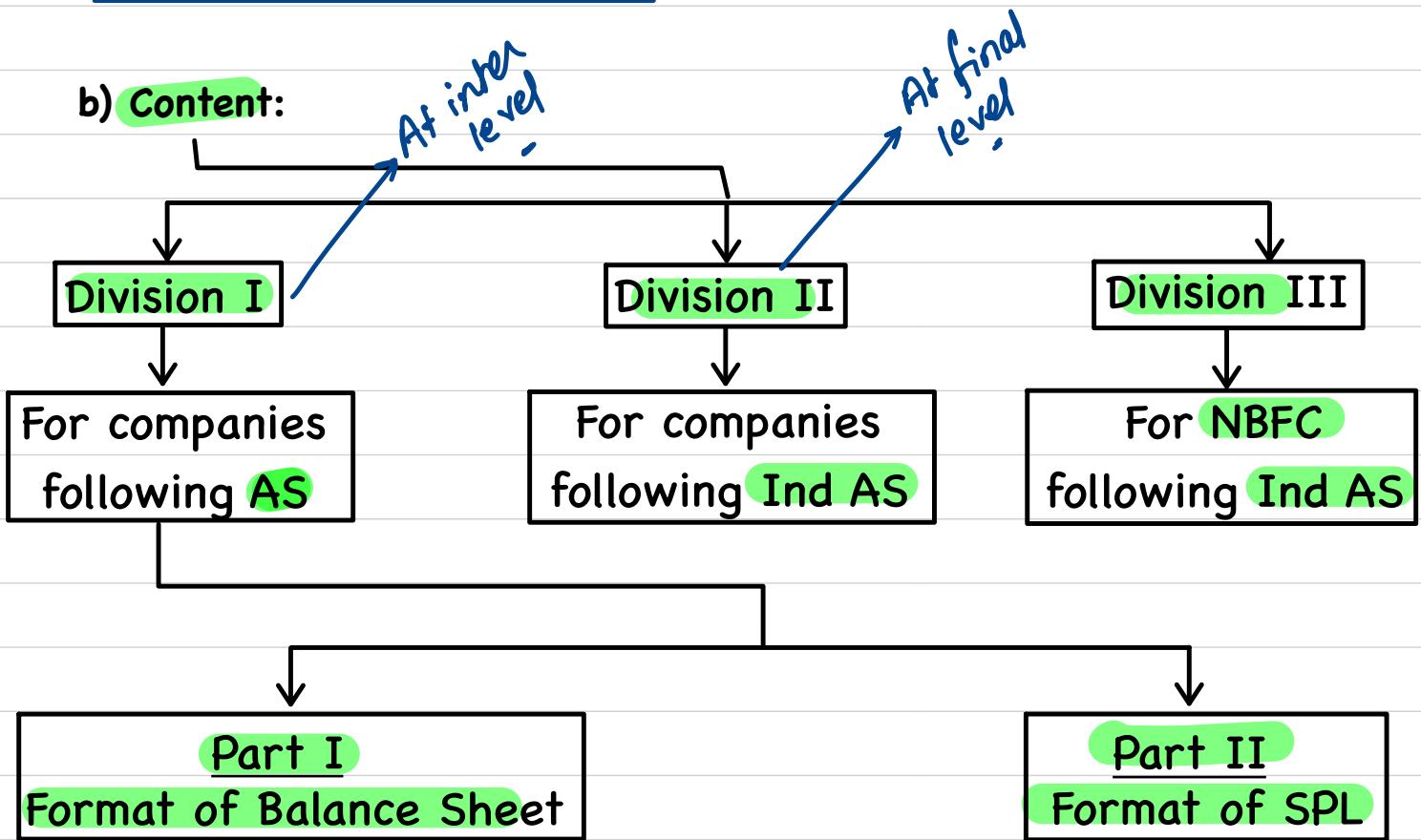
# FINANCIAL STATEMENTS

## 2. SCHEDULE III:

### a) Applicability:

- i) All companies shall prepare their financial statements as per the format provided under schedule III of the act.
- ii) However, companies governed by special statutes like banking and insurance companies shall comply with the format of financial statements given under their respective acts and they need not follow schedule III.

### b) Content:



# FINANCIAL STATEMENTS

## c) Features:

1. Vertical format of FS.
2. Co. law & AS shall override Sch. II.
3. Comparative figures of immediately preceding year.
4. Min. disclosure on face of SPL & B/S.
5. Provides min. disclosure requirements for Notes. Co. will also have to comply discl. req. given in AS, Co. law & other statutes.
6. Rounding off of amounts in FS:
  - (a) Compulsory Rounding off.
  - (b) limits
    - Total Income  $< 100$  crs  $\Rightarrow$  Hundreds, thousands, lakhs or millions & decimal thereof
    - Total Income  $\geq 100$  crs  $\Rightarrow$  lakhs, millions or crores & decimal thereof.
  - (c) Once a unit of R/o off is used, it shall be used in all components of FS

# FINANCIAL STATEMENTS

## 3. FORMAT OF BALANCE SHEET:

			Particulars	Note No.	Figures as at the end of current reporting period	Figures as at the end of previous reporting period
1.	a	1	<b>EQUITY AND LIABILITIES</b>	2	3	4
	b		<b>Shareholders' funds</b>			
	c		Share capital			
			Reserves and Surplus			
			Money received against share warrants			
2.			<b>Share application money pending allotment</b>			
3.	a		<b>Non-current liabilities</b>			
	b		Long-term borrowings			
	c		Deferred tax liabilities (Net)			
	d		Other long term liabilities			
			Long-term provisions			
4.			<b>Current liabilities</b>			
	a		Short-term borrowings			
	b		<b>Trade Payables</b>			
			(A) total outstanding dues of micro enterprises and small enterprises; and			
			(B) total outstanding dues of creditors other than micro enterprises and small enterprises.			
	c		Other current liabilities			
	d		Short-term provisions			
1			<b>Total</b>			
			<b>ASSETS</b>			
			<b>Non-current assets</b>			
	a	i	Property, plant and Equipment			
		ii	Intangible assets			
		iii	Capital Work-in-progress			
		iv	Intangible assets under development			
	b		Non-current investments			
	c		Deferred tax assets (Net)			
	d		Long-term loans and advances			
	e		Other non-current assets			
2			<b>Current assets</b>			
	a		Current investments			
	b		Inventories			
	c		Trade receivables			
	d		Cash and cash equivalents			
	e		Short-term loans and advances			
	f		Other current assets			
			<b>Total</b>			

## FINANCIAL STATEMENTS

### 3A. CURRENT & NON CURRENT ASSETS:

An asset shall be classified as current when it satisfies any of the following criteria:

- it is expected to be realized in, or is intended for sale or consumption in, the company's normal operating cycle;
- it is held primarily for the purpose of being traded;
- it is expected to be realized within twelve months after the reporting date; or
- it is cash or cash equivalent unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

All other assets shall be classified as non-current.

### 3B. CURRENT & NON CURRENT LIABILITIES:

A liability shall be classified as current when it satisfies any of the following criteria:

- it is expected to be settled in the company's normal operating cycle;
- it is held primarily for the purpose of being traded; Derivative Instrument
- it is due to be settled within twelve months after the reporting date;
- the company does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date. Terms of a liability that could, at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.

All other liabilities shall be classified as non-current.

Note: An operating cycle is the time between the acquisition of assets for processing and their realization in cash or cash equivalents. Where the normal operating cycle cannot be identified, it is assumed to have a duration of 12 months.

Operating cycle: Raw material holding period + WIP processing period

# FINANCIAL STATEMENTS

## 3C. PRESENTATION & DISCLOSURE:

### 1. Share Capital:-

Items :- Equity Share Capital, Preference Share Capital [PaidupValue]  
Paid up Capital: Called up Sh. Cap (-) Calls in arrear (+) Share forf. bal.

Disclosure:- (i) Face value & No. of shares

(ii) Authorised, issued, Subscribed, called up & Paid up Cap.

(iii) Bonus issue, Buyback, shares issued for consideration other than Cash

(iv) Promoter's shareholding

(v) Details of shareholder's holding 5% or more

(vi) Restrictions, if any, on any class of shares

### 2. Reserves & Surplus:-

Items :- Securities Premium, General Reserve, Capital Reserve, Revaluation Reserve, Capital Redemption Reserve, Deb. Redemption Reserve, P/L A/c balance.

#### Disclosures:-

Reserve:-

Op. bal. = XX

{ (i) Addition = XX

(ii) Utilisation = (XX)

U. bal. XX

100

#### \* P/L A/c bal:-

Op. bal of P/L A/c = XX

(i) Cr. 4 P.A.T (SPL) - XXX  
XXX

#### Appropriation

Dividend (XXX)

Transfer to Reserves (XXX)

Cr. bal of P/L (XXX)

If the Cr. bal of P/L A/c is negative, then also it will be shown in head Reserves & Surplus (as a deduction). Even if the negative bal of P/L exceeds the total of reserves, the total of R&S will be shown as a negative fig under the head Shareholders Fund

# FINANCIAL STATEMENTS

in liab side of B/S only.

3. Share application money pending allotment:-

(a) Recd application money for shares to be allotted in the next year

Application money  
against which  
share will be allotted

↓  
sh. app. money pending allotment

Application money  
which is due for  
refund  
↓

Other current liabilities

## 4. Borrowings

long term  
Debentures  
Term loan from Bank & FIs  
Finance lease obligation  
Deposits

Short term  
Deposits  
Bank o/D  
Cont/credit  
(current portion of long term  
loan (principal))

Disclosures: (a) Secured or Unsecured  
(b) Nature of Security  
(c) Default in repayment

## 5. Other Non Current liab:-

Items: Long term trade payables,  
Premium on redemption of debentures

## 6. long term Provision: Items:- Provision for Gravity.

# FINANCIAL STATEMENTS

## 7. Trade payables:-

Item:- Creditors, B/P.

## 8. Other Current Liab:-

Item: o/s Exp., Pre recd Income, Call in advance, Share appli. money due to refund, Unpaid matured deposits | Debentures, Interest accrued but not due, Interest accrued & due, Dividend payable, Unpaid/unclaimed dividend.

## 9. Short term Provisions:-

Item: Prov. for tax, Prov. for warranty, Prov. for emp. benefits.

## 10. PPE & Intangible Assets:-

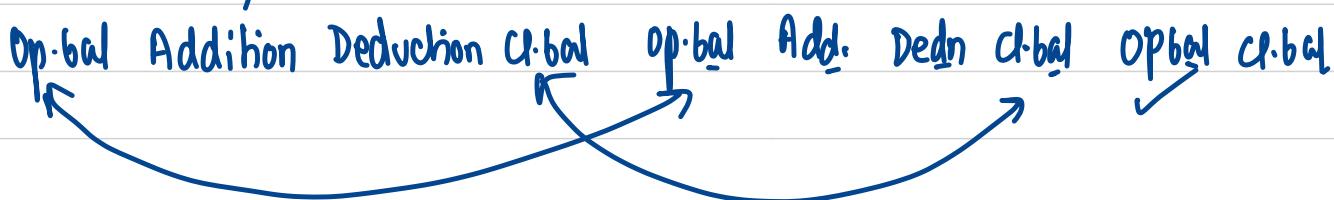
Disclosures  $\Rightarrow$  (a) Reconciliation of Op. Carrying Amt & U. Carrying Amt

Particular

Gross Block  
(cost)

Acc. - Depn

Net block



(b) if value of fixed assets has been written down due to capital redn. (internal reconstruction), the same shall be disclosed for a period of 5 years.

## 11. Investments:-

Non Current

Investment Property

/ Inv in Subsidiary, Assoc. & JV

Inv in Fcys h of Cos

CA AVINASH SANCHETI

Current

Inv in Fcys h of Co.

Inv in Gov Bonds etc.

Inv. in Gov Bonds etc.

NAVIN CLASSES

# FINANCIAL STATEMENTS

Disclosure:- (a) Quoted & Unquoted Inv.  
(b) Market value of Quoted Inv.  
(c) Prov. for diminution in value of Investment

## 12. Loans & Advances:

long term	Short term
Capital Advances	Advance tax
loans given	TDS loan given Advance to supplier

Disclosure: ① Secured and unsecured  
② Nature of security  
③ Doubtful  $\Rightarrow$  PBDD.

13. Other Non Current Assets: long term Trade receivable,  
Misc. exp. not w/ off

14. Inventories: Raw material, WIP, FG, Consumables

## 15. Trade Receivable

Items : Debtors, P/R

Disclosure:- (a) Good, Doubtful, Bad Debt  
(b) PBDD.  
(c) Debtors ageing schedule

## 16. Cash & Cash Equivalents:-

Items - Cash in hand, Bal. with Banks, Cheques in hand,  
Marketable Securities.

Disclosures - Bank bal restriction, Bank balance (deposits) for  
a period exceeding 3 month.

17. Other Current Asset:- Prepaid Exp., Accrued incomes,  
Int accrued but not due etc.

# FINANCIAL STATEMENTS

## 4. FORMAT OF SPL:

Particulars		Note No.	Figures for the current reporting period	Figures for the previous reporting period
	1	2	3	4
I.	Revenue from operations		xxx	xxx
II.	Other income		xxx	xxx
III.	Total Revenue (I + II)		xxx	xxx
IV.	Expenses:		xxx	xxx
	Cost of materials consumed		xxx	xxx
	Purchases of Stock-in-Trade		xxx	xxx
	Changes in inventories of finished goods		xxx	xxx
	work-in-progress		xxx	xxx
	and Stock-in-Trade		xxx	xxx
	Employee benefits expense		xxx	xxx
	Finance costs		xxx	xxx
	Depreciation and amortization expense		xxx	xxx
	Other expenses		xxx	xxx
	Total expenses		xxx	xxx
V.	Profit before exceptional and extraordinary items and tax (III-IV)		xxx	xxx
VI.	Exceptional items		xxx	xxx
VII.	Profit before extraordinary items and tax (V - VI)		xxx	xxx
VIII.	Extraordinary Items		xxx	xxx
IX.	Profit before tax (VII- VIII)		xxx	xxx
X.	Tax expense: (Profit before tax)		xxx	xxx
	(1) Current tax		xxx	xxx
	(2) Deferred tax		xxx	xxx
XI.	Profit (Loss) for the period from continuing operations (VII-VIII)		xxx	xxx
XII.	Profit/(loss) from discontinuing operations		xxx	xxx
XIII.	Tax expense of discontinuing operations		xxx	xxx
XIV.	Profit/(loss) from Discontinuing operations (after tax) (XII-XIII)		xxx	xxx
XV.	Profit (Loss) for the period (XI + XIV)		xxx	xxx
XVI.	Earnings per equity share:		xxx	xxx
	(1) Basic		xxx	xxx
	(2) Diluted		xxx	xxx

# FINANCIAL STATEMENTS

## 4A. PRESENTATION & DISCLOSURE:

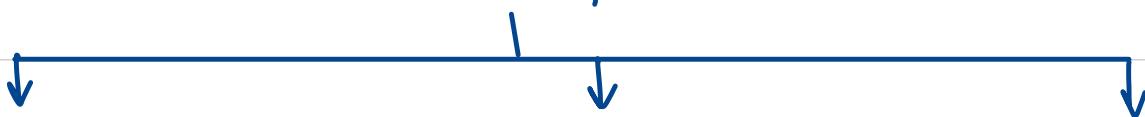
### 18. \* Contingent Liab. & Commitments:-

↓  
(AS-29)

↓

Eg. (a) Amount uncalled on partly paid Investments  
(b) Amt committed under a contract for a capital asset which is yet to be performed.

### Statement of P&L



#### A. Income (2)



Revenue from Operations  
Other Income

#### B. Expenses (7)



Cost of materials consumed

Purchases of Stock. in- trade

Profit before tax: xxx

(-) Tax Expenses = (xxx)

\*\*\* Changes in inventory of WIP & FG. { op. st - cl. st }

Employee Benefit costs

Finance cost

Depreciation & Amortisation Exp.

Other Expenses

### Imp. Notes:

#### (a) Other Income:

(a) Profit (loss) on Sale of FA & Investments will be shown under Other Income.

(b) Any directly attributable expense related to an item of other income shall be deducted from that particular income.

# FINANCIAL STATEMENTS

## (b) Changes in Inventory of WIP & FG:-

	WIP	FG	Total
Op. Stock	xx	xx	xx
(-) Cr. Stock	(xx)	(xx)	(xx)
	<u>xx</u>	<u>xx</u>	<u>xx</u>

## (c) Other Expenses:-

(a) Audit fees shall be separately disclosed in Notes as:-  
(statutory auditor)

Payment to Auditor:-

for Statutory Audit fees	xxx
Out of Pocket expenses	xxx
Fees for other services	xxx
Fees for Income tax matter	xxx
	<u>xxx</u>

\* (b) Any item shown under Other Exp. shall be disclosed separately in notes and not clubbed on Miscell. Expenses if the value of such item exceeds higher of:-  
1% of Turnover or ₹1,00,000/-.

# DIVIDEND

## 1. DIVIDEND:

A dividend is a distribution of divisible profit of a company among the members according to the number of shares held by each of them in the capital of the company and the rights attaching thereto.

↑ free reserves

## 2. SOURCES OF DIVIDEND:

Under Section 123 (1) of the Companies Act, 2013, no dividend should be declared or paid by a company for any financial year except:

- (a) Out of the profits of the company for that financial year arrived at after providing for depreciation in accordance with the provisions of section 123(2), or
- (b) Out of the profits for any previous financial years arrived at after providing for depreciation in accordance with the provisions of that sub section and remaining undistributed; or
- (c) Out of both the above;
- (d) Out of the moneys provided by the Central Government or any State Government for the payment of dividend by the Company in pursuance of any guarantee given by that government.

Provided that no dividend should be declared or paid by a company from its reserves other than free reserves. → P/L A/c bal, General Reserve, Dividend

Dividends cannot be declared except out of profits.

earvalisation  
reserve

Capital cannot be returned to the shareholders by way of dividend.

## 3. BASIC POINTS REGARDING DIVIDEND:

- (a) Pref. Dividend → fixed rate, to be paid before equity, if cumulative arrears of past dividends to be accumulated & paid.
- (b) Eq. Dividend → No fixed rate.
- (c) Div. is always paid at discretion of the Company.
- (d) Interim Dividend → C.Y Re profit se C.Y mai dividend  
Final Dividend → Div. declared at AGM out of profits of last year.

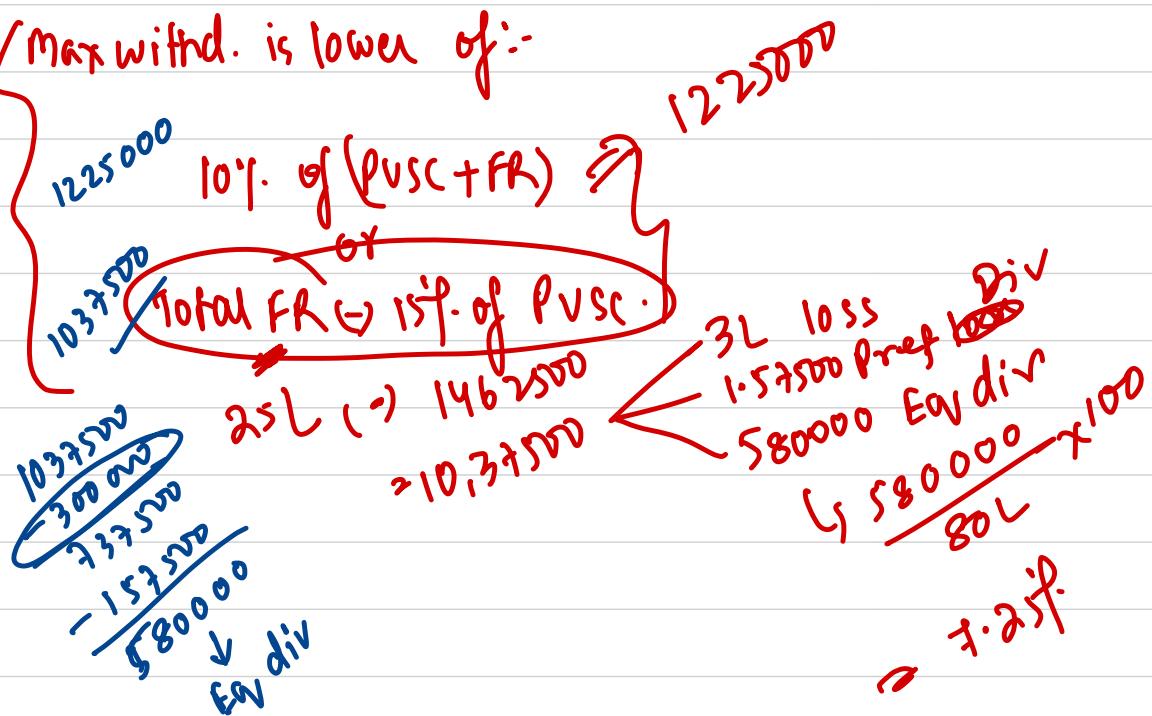
# DIVIDEND

## 4. DIVIDEND OUT OF RESERVES:

If in any financial year, due to inadequacy of profits/losses, co. decides to distribute dividends out of profits earned by it in previous years and transferred to reserve, the dividend shall be distributed subject to the foll. 4 conditions:-

- (i) Max rate of dividend: Avg dividend rate of immediately preceding 3 years
- ⇒ (ii) Max withdrawal from reserves: 10% of (PVSC + FR)
- (iii) The C-Y loss shall be 1st set off against amt. withdrawn.
- ⇒ (iv) Min bal in free reserves after withdrawal: 15% of PVSC.

Max withd. is lower of:-



# DIVIDEND

## 5. ACCOUNTING FOR DIVIDEND:

### a) Setting aside dividend on declaration:

P/L A/c ->  
to Dividend payable A/c

### b) Payment of dividend:

Dividend payable A/c ->  
to Bank A/c

## 6. FINANCIAL STATEMENT PRESENTATION:

(a) Dividend declared during the year  $\Rightarrow$  shown as an Appropriation from P/L in notes to A/c of R/s.

(b) Dividend payable at year end  $\Rightarrow$  Other Current Liabilities

(c) Proposed Dividend  $\Rightarrow$  Notes to A/c Disclosure

(d) Div. declared after B/s date  $\Rightarrow$  Disclosure in Notes.

# BUYBACK OF SHARES & SECURITIES

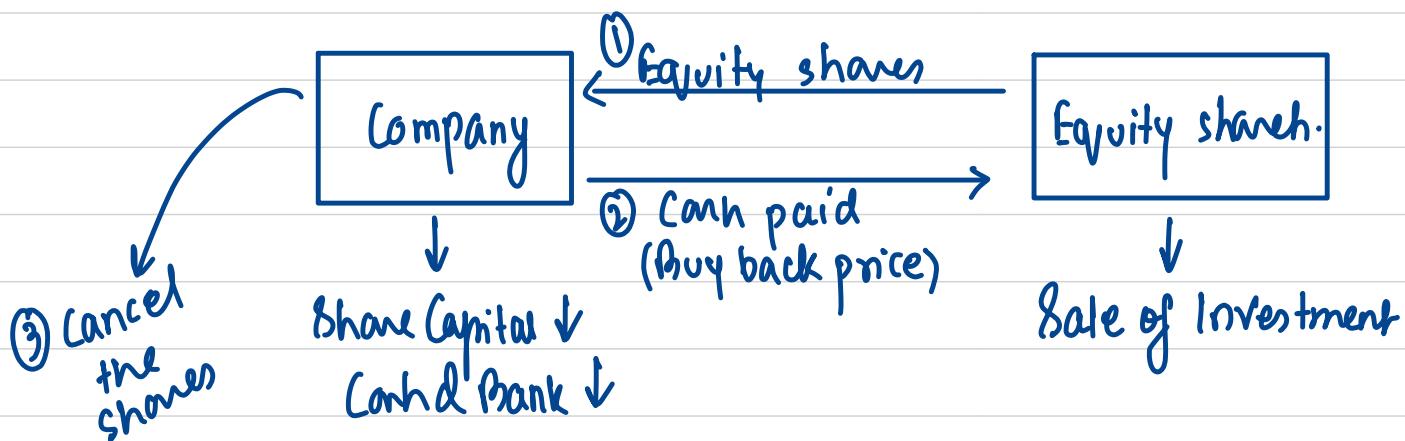
## 1. MEANING OF BUYBACK:

Buy-back of shares means purchase of its own shares by a company. When shares are bought back by a company, they have to be cancelled by the company. Thus, shares buy-back results in decrease in share capital of the company.

### Advantages of buyback:

- (a) to increase earnings per share if there is no dilution in company's earnings as the buy-back of shares reduces the outstanding number of shares.
- (b) to increase promoters holding as the shares which are bought back are cancelled.
- (c) to discourage others to make hostile bid to take over the company as the buy-back will increase the promoters holding.
- (d) to support the share price on the stock exchanges when the share price, in the opinion of company management, is less than its worth, especially in the depressed market.
- (e) to pay surplus cash to shareholders when the company does not need it for business.

## 2. TRANSACTION STRUCTURE:



## BUYBACK OF SHARES & SECURITIES

### 3. PROVISION OF SECTION 68:

a) Sources of Buyback: Conh kaha se aega??

(i) Out of existing assets to the extent of. bal in free reserves & Securities Premium ; or

(ii) Out of issue of new shares (Exception: Eq. shares cannot be issued to gather funds for buyback of Eq. shares)

(iii) Out of both

b) The existing shares must be fully paid up. If shares are partly paid, Final call must be made and received before buyback of those shares.

~~Imp.~~ c) Limits for buyback:

1) Resource test:

max amount that can be used for buyback = 25% of (PVSC + FR + SP)  
(money)

max. no. of eqshares that can be bought back  
= Max amt  
BB Price

2) Shares outstanding test:

max no. of Equity shares that can be bought back  
= 25% of o/s Equity shares

FV: ₹10  
PB: ₹40  
Eqsh Cap 10 ↓  
PDRB 30 ↓ SP & FR  
CRR 10 ↓ SP & FR

3) Debt Equity ratio test: (Solvency test) Post Buyback D/E ratio: max 2:1

(1) Present Debt: xxx (Debt includes all outside liabilities)

(2) Present Equity: xxx (Equity includes PVSC + FR + SP)

(3) Min Post Buyback Eq: xxx ( $\frac{1}{2}$  of Present Debt)

(4) Dilution in Equity = (2) - (3)

(5) Dilution/Eq. sh bought back: xxx (BB Price + CRR)

$\therefore$  Max no. of Eq. sh that can be BB =  $\frac{(4)}{(5)}$

## BUYBACK OF SHARES & SECURITIES

### 4. JOURNAL:

a) If existing shares are partly called and paid:

Equity share final call A/c -N/ XX  
To Equity share Cap A/c XX

Bank A/c -N/ XX  
To Equity share final call A/c XX

b) Buyback proceeds due:

Equity share Capital A/c -N/ (face value)  
Prem. on Buyback A/c -N/ (Prem over face value)  
To Equity shareholders A/c (Buyback price)

c) Issue of new shares:

Bank A/c -N/ XX  
To Pref. Share Capital A/c XX  
To Sec. Prem. A/c XX

d) Sale of Investment:

Bank A/c -N/ (SP)  
P/L A/c -N/ (loss)  
To Investment A/c (Carrying amt)  
To P/L A/c (Profit)

e) Payment to shareholders:

Equity shareholders A/c -N/ XX  
To Bank A/c XX

# BUYBACK OF SHARES & SECURITIES

### f) Writing off POBB:

ff POBB: SP | GR | P/L A/c -r/r  
TO Pgrem. on Buyback A/c xx  
xx 20 30 SP/GR/P/L 10 SP/GR/P/L

## Creation of CRR:- (Section - 69)

If equity shares are bought back out of existing assets, then an amount equal to the face value of equity shares so bought back shall be transferred from free res & sec. Prem. to a new reserve called CRR. This CRR can only be used for issue of fully paid bonus shares.

210

330

(a) kab banana hai !!)  $\Rightarrow$  when shares are bought back out of existing assets

(b) Ryu banana hei?? :) To protect the interest of creditors-

(c) Kitna banana hai ??, Face value of eq shares bought back

CRR =  $\frac{\text{Face value of Eq sh BB}}{\text{Face value of new sh issued}}$

(d) kaha se banana hai?!. Bal. of free reserves & sec. Prem.

SP Afc - 100

GR A/c → n

PLA  $\rightarrow$  m

TO CRR A/C

# CASHFLOW STATEMENT

(AS-3)

## 1. CASHFLOW STATEMENT:

- 1) Mandatory part of Financial statements of a company;
- 2) Governed by the principles of AS-3; (Cashflow Statement)
- 3) It is a summarised and organised cash book;
- 4) It shows movement of cash and cash equivalents during the reporting period;
- 5) Movement refers to inflow and outflow of cash and cash equivalent;
- 6) Non cash transactions like depreciation, provision, issue of shares or debentures for consideration other than cash etc. are not shown in Cashflow statement;  
Eg. Cash deposited into bank, Cash withdrawn from bank, Purchase/Sale of marketable securities etc.
- 7) Final result of Cashflow statement is "Net cash generated during the period" so any inter-se movement among items of cash and cash equivalents is not shown in Cashflow statement.

## 2. CASH & CASH EQUIVALENTS:

- a) Cash in hand;
- b) Balances with banks; (Demand deposits)
- c) Cheques or drafts in hand;
- d) Marketable securities - Investments having following 4 characteristics:-
  - (i) Very short term Inv. (max maturity 3 months from date of investment)
  - (ii) Highly liquid
  - (iii) Convertible into known amt of Cash
  - (iv) Insignificant risk of change in value. Eg. FD for 3m or less, Inv in Govt Sec. with maturity of 3m or less, Inv in Pref sh or Deb of Co. just before Note: Status of Bank overdraft: their maturity.

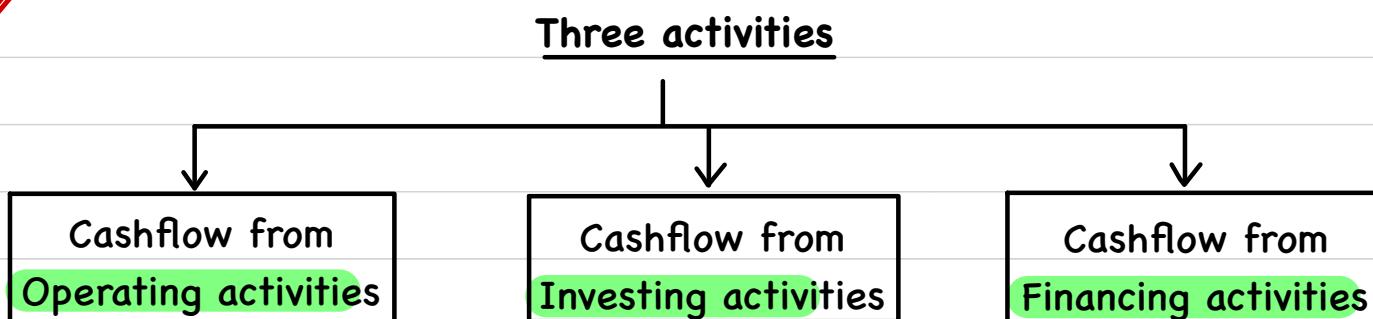
(1) If Bank Ovd is a temporary feature : It shall be treated as part of C&CE.

(2) " " " is taken as a borrowing facility = financing activity

¶ Irrespective of the above classification, in B/s Bank ovd will also be shown as Short term Borrowings

# CASHFLOW STATEMENT

## 3. SEGREGATION OF CASHFLOWS:



Cashflow related to:-

- ① Principal revenue producing activities
- &
- ② All residual items

Cashflow related to:-

- a) Purchase/Sale of FAs
- b) Purchase/Sale of Invest.
- c) Loan given & their repayments
- d) Int & div. related to loan/inv.

Cashflows related to:-

- (a) Share issued/Buyback
- (b) Deb issued/Redemp.
- (c) loan taken/repaym
- (d) Int. Div paid

# CASHFLOW STATEMENT



## 4. SOME SPECIAL ITEMS:

### a) Income tax:

(1) if segregation of Income tax is available: Classify it accordingly (eg. Dividend tax = Fin. Act., Capital Gains tax = Inv. Act. etc)  
 (2) if segregation is not available: Classify it under OA.

### b) Extraordinary items: (AS-5)

These items shall be separately disclosed under the head to which they are related.

### c) Loans & Advances and interest received:

Particulars	Non financing entity	financing entity
loans given in Ordinary course of business	IA	OA
Interest earned on such loans	IA	OA
Investments in Ordinary course of business	IA	OA
Dividend earned on such Inv.	IA	OA
Advance given to supplier/employees	OA	OA
loans/hv. in subsidiaries	IA	IA
Div. recd from Subsidiaries	IA	IA

### d) Loans taken and interest paid:

Particulars	Non financing	financing
Deposits accepted in Ordinary Course of Business	FA	OA
Int paid on such deposits	FA	OA
Borrowings taken	FA	FA
Int paid on Borr.	FA	FA
Dividend paid to shareholders	FA	FA

# CASHFLOW STATEMENT

## 5. PRESENTATION OF CASHFLOW STATEMENT:

Particulars	Amount
A. <u>Cashflows from Operating activities</u>	XXX
Comm from operation (Pt-6)      xx	
(→ Income tax paid <u>(xx)</u>	
B. Cashflows from Investing activities	XXX
C.      '      ' financing activities	XXX
Net Cash generated during the year	XXX
(+/-) Op. C&CF bal.	XXX
Cl. C&CF bal.	XXX

# CASHFLOW STATEMENT

## 6. COMPUTATION OF CASHFLOW FROM OPERATING ACTIVITIES: (Cash from Operations)



Under this method, CFO is calculated by identifying sources of inflows and outflows of Cdcf under operating activities.

Particulars	Amt
Cash Sales	xxx
Collection from Debtor	xxx
Other Operating Income recd	xxx
Cash purchases	(xxx)
Payment to Creditor (xxx)	
Payment of Expenses (xxx) (Operating nature)	

Cash from Operation xxx

Net Profit  $\Rightarrow$  Cash from operation

Particulars	Amt
NPBT & EOI $\Rightarrow$	xxx

Adjustment

① Non Cash item included in PBT = xxx +400

② Non operating item included in PBT = xxx +400

Operating profit (Accrued basis) xxx -300  
-200

③ Operating working Cap. changes

Inc in Debtor (xxx) (500)

Dec in Inventories xxx 1050

Dec in Creditors (xxx) (1740)

Inc in CL xxx

Cash from Operation 2550

(+) Income tax paid

EOI

Inc in CA (xxx)

Dec in CA xxx

Inc in CL xxx

Dec in CL (xxx)

Cash from Operation xxx

# CASHFLOW STATEMENT

## 7. COMPUTATION OF PROFIT BEFORE TAX: (when P/L info is not given)

If Cashflow statement is to be prepared from comparative Balance sheets without information about profit before tax, then PBT can be calculated as follows:

Particulars	Amount
Cr. bal of P&L A/c (Rs)	XXX
(-) Op. bal of P&L A/c (Rs)	(XXX)
Net profit after Appr. & tax	XXX
<u>Adjustment for Appropriation:-</u>	
(+) Div. declared	XXX
(+) Transfer to reserves	XXX
(+) Div. tax	XXX
Net profit after tax	XXX
(+) Income tax expense	XXX
Profit before tax	XXX
Revenue EoI in PBT (if any)	XXX
PBT & EoI $\Rightarrow$	XXX

## 8. TREATMENT OF PBDD & DEBTORS:

[Q13] PBT & EoI  $\Rightarrow$  XXX

### Alternative 1

(a) PBDD charged to P/L shall be reversed being a non cash item.

$$\text{PBDD charged to P/L: } \text{Cr. PBDD} - (\text{Op PBDD} - \text{B/D})$$

(b) Consider change in Gross Debtors in WC change after eliminating the effect of Bad Debts.

### Alternative 2: (Erann)

Directly consider Change in Net Debtors in WC change.  
Ignore PBDD, Bad Debts etc.

# CASHFLOW STATEMENT

## 9. TREATMENT OF FOREX FLUCTUATIONS IN CLOSING BALANCE OF FOREIGN CURRENCY CASH & CASH EQUIVALENTS: (Q19-Pg 58)

Eg. KP Pvt Ltd. received \$30000 from a US customer on 1-2-23. £/\$ rate on that day was 783/\$. At the y.e, \$30000 were still standing on cl. bal of CdCE in the B/s. £/\$ on 31-3 was 784/\$.

P/L	B/S
Exchange Gain 30000 (\$30000 x 784)	CdCE 25,20,000 (\$30000 x 784)

In CFS:

Adjustment 1:- The unrealised exchange gain of \$30000 shall be eliminated from PnT in CFFOA.

Reconciliation: After Adj 1, the cl. bal. CdCE on per CFS will not tally to CdCE bal. on per B/s. So on per AS-3, a reconciliation shall be presented in Notes to A/c.

Particulars	Amt
U. CdCE on per CFS	24,90,000 (\$30000 x 83)
(+) Exchange Gain	<u>30000</u>
U. CdCE on per B/s	<u>225,20,000</u>

# INTERNAL RECONSTRUCTION

## 1. MEANING OF INTERNAL RECONSTRUCTION:

When a company has been making losses for several years, the financial position does not present a true and fair view of the state of the affairs of the company.

In such a company the assets are generally overvalued, as the balance sheet consists of fictitious assets, unrepresented intangible assets and debit balance in the profit and loss account (showing the carry forward of losses).

Such a situation always leads the company to show a higher net worth and not depicting a true picture of financial statements. In short, the company is over capitalized. Such a situation brings the need for reconstruction/reorganization of the affairs.

Reconstruction is a process by which affairs of a company are reorganized by revaluation of assets, reassessment of liabilities and by writing off the losses already suffered, by reducing the paid up value of shares and/or varying the rights attached to different classes of shares.

The object of reconstruction is usually to reorganize capital or to compound with creditors so that company can be bailed out from present situation without winding up the existing company.

# INTERNAL RECONSTRUCTION

## 2. PROCEDURE OF INTERNAL RECONSTRUCTION:

Company is incurring huge losses and has huge accumulated losses and overvalued assets in its Balance Sheet

Directors makes a scheme of reconstruction

Scheme contains details about sacrifice/settlement with shareholders & creditors

From the profit arising from such sacrifices, the accumulated losses and overvalued assets are written off so as to present true and fair view of company's affairs

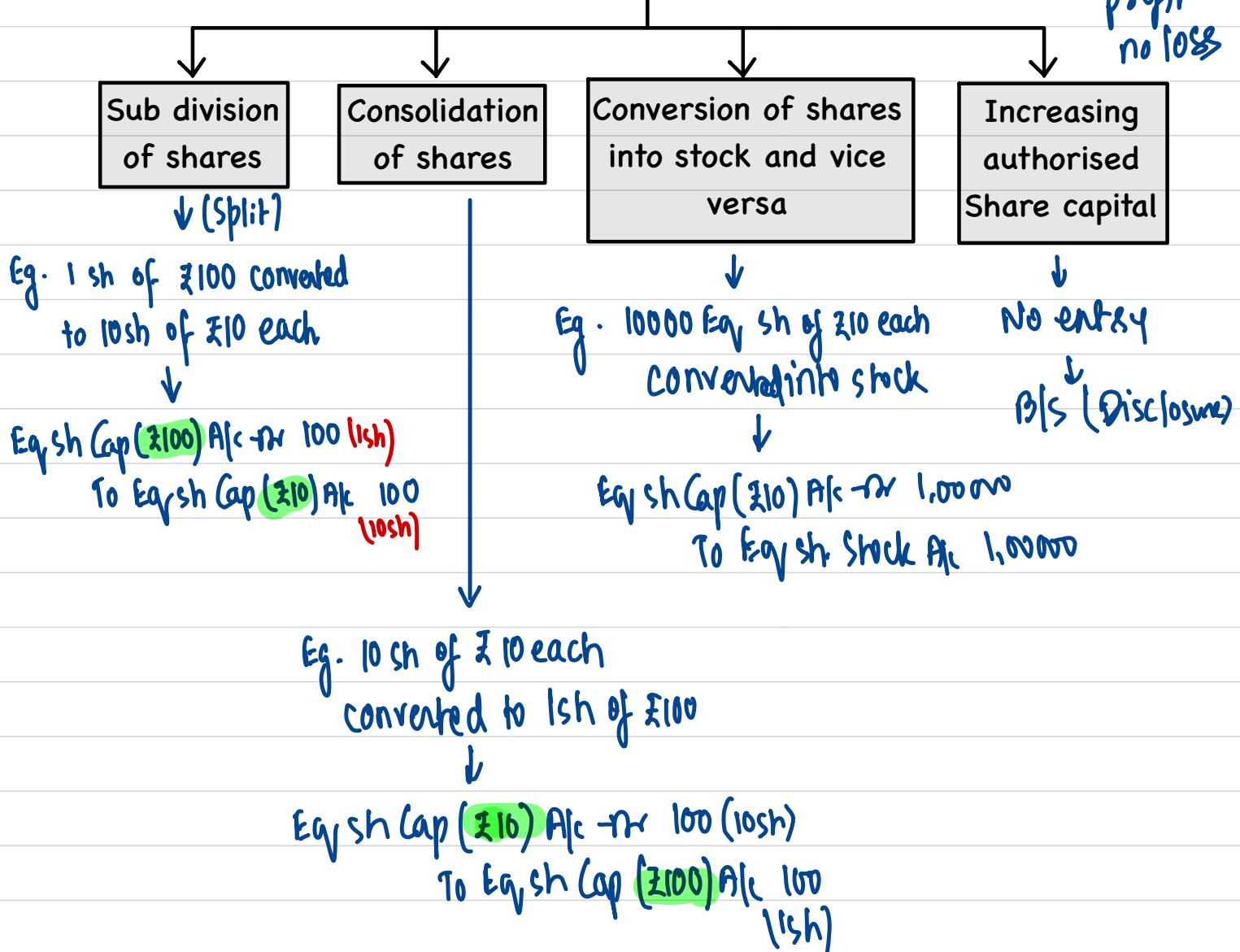
Company applies for new loan or issued shares to promoters or existing shareholders to gather new funds to continue business.



# INTERNAL RECONSTRUCTION

## 4. SACRIFICE FROM SHAREHOLDERS:

a) Alteration of Share capital: (Section 61)  $\Rightarrow$  No Capital Reduction ; on no profit no loss



# INTERNAL RECONSTRUCTION

b) Reduction of Share capital:  (Sec 66)

Reducing both paid up value  
and face value of shares

Reducing paid up value  
only

Eq sh - 1 sh of ₹10 fully paid  
↳ 1 sh of ₹6 fully paid

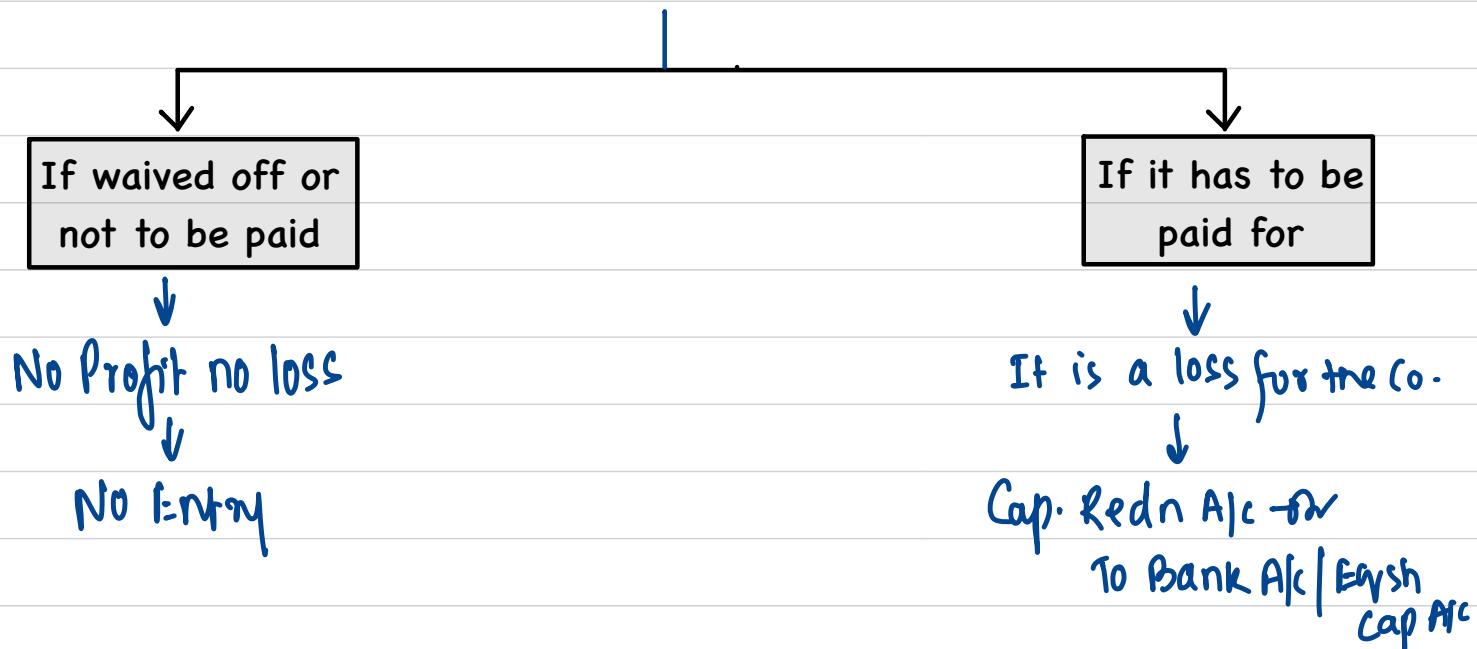
Eq sh Cap (₹10) → 10  
To Eq sh Cap (₹6) A/c 6  
10 Cap. Redn A/c 4

Eq. 1 sh of ₹10, FP  
↳ 1 sh of ₹10, ₹6 paid

Eq sh Cap A/c - 10  
To Cap Redn 4

# INTERNAL RECONSTRUCTION

## 5. TREATMENT OF CONTINGENT LIABILITY:



## 6. RECONSTRUCTION EXPENSES & PENALTY FOR BREACH OF COMMITMENT:

Capital Redn A/c -> XXX  
To Bank A/c XXX

# INTERNAL RECONSTRUCTION

## 7. SHARE SURRENDER: (QIS Pg 88)

In this method, shares are divided into shares of smaller denominations and then the shareholders are made to surrender their shares to the company. These shares are then allotted to debenture holders and creditors so that their liabilities are reduced. The unutilized surrendered shares are then cancelled by transferring them to Reconstruction Account.

Journal entries:

a) On surrender of Shares by Shareholders:

Equity Share Capital A/c  
To Share Surrender A/c

b) On issue of shares out of shares surrendered:

(1) Share Surrender A/c ->  
To Share Capital A/c

(2) Creditor/Liab. A/c ->  
To Capital Redn A/c  
(full value of liab. settled)

(1) Creditor A/c ->  
To Share Capital A/c  
To Cap. Redn A/c  
(2) Share Surrender A/c ->  
To Capital Reduction A/c

c) Unissued shares remaining at the end of reconstruction process:

Share Surrender A/c ->  
To Capital Reduction A/c  
(balance in share surrender A/c)

# INTERNAL RECONSTRUCTION

## 8. INTERNAL RECONSTRUCTION v/s EXTERNAL RECONSTRUCTION:

Basis	Internal Reconstruction	External Reconstruction
Liquidation and formation of new company	The existing company is not liquidated rather the capital and debt structure is changed to bring the company back to normalcy	The existing company is liquidated to form a new company in which the existing shareholders become shareholders of new company as well
Reduction of capital and varying rights	There is certain reduction of capital and sometimes the outside liabilities like debenture holders may have to reduce their claim in this scheme.	There is no reduction of capital. In fact, there is a fresh share capital of the company. The shareholders need not vary their rights in company
Legal position	Internal reconstruction is done as per provisions of section 61 and 66 of the Companies Act, 2013.	External reconstruction is regulated by section 232 of the Companies Act, 2013.
Legal formalities	It requires court's confirmation and other legal procedures before it can be implemented	It can be affected without the court's interference and less time-consuming process.

# AMALGAMATION

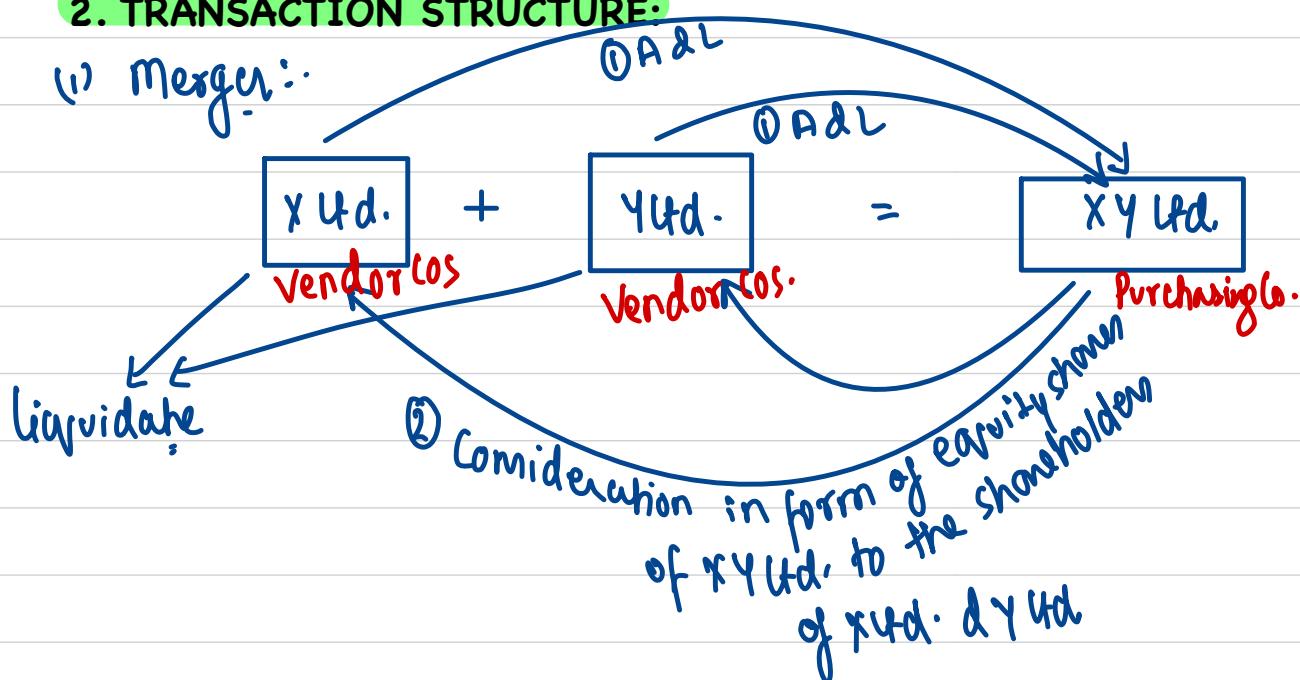
## 1. MEANING OF AMALGAMATION:

Amalgamation refers to the process of merger of two or more companies into a single entity or where one company takes over the other by outright purchase. Therefore, the term 'amalgamation' contemplates two kinds of activities:

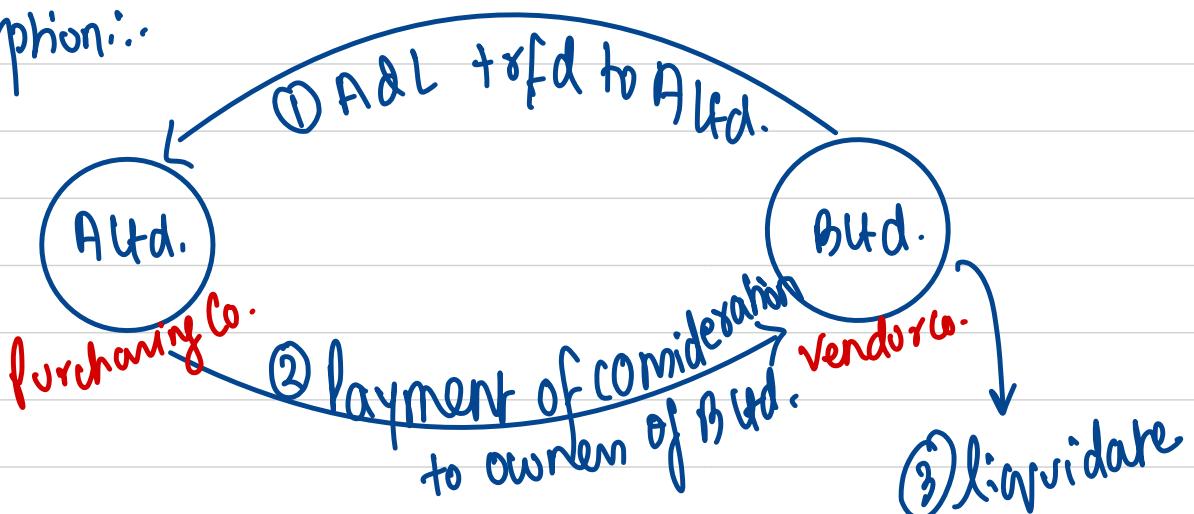
- (i) two or more companies join to form a new company - Mergers; or
- (ii) absorption and blending of one by the other - Absorption.

## 2. TRANSACTION STRUCTURE:

(1) Mergers:-



(2) Absorption:-



# AMALGAMATION

## 3. PURCHASE CONSIDERATION:

For purpose of accounting for amalgamations, we are essentially guided by AS 14 'Accounting for Amalgamations'. Para 3(g) of AS 14 defines the term purchase consideration as:

the "aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company". *Purchasing Co.*  
*Vendor Co.*

The important point to be noted here is the amount paid towards the equity shareholders and preference shareholders is only considered as part of the purchase consideration as per the definition under AS-14.

Hence, it should be noted that purchase consideration does not include the sum which the transferee company will directly pay to the debenture-holders or creditors of the transferor company.

## COMPUTATION OF PURCHASE CONSIDERATION:

### Net Payments method

$$\begin{aligned} \text{Amt paid to Eq. shdr. of V Co.} &= \underline{\underline{XXX}} \\ (+) \text{ " " " Pref " of V Co.} &= \underline{\underline{XXX}} \\ \text{PC} &= \underline{\underline{XXX}} \end{aligned}$$

### Net Assets method

$$\begin{aligned} \text{Total fair value of all assets} &= \underline{\underline{XXX}} \\ (-) \text{ Payable (fair) value of liab} &= \underline{\underline{(XXX)}} \\ \text{NATO} &= \underline{\underline{XXX}} \\ (+) \text{ FV of Goodwill} &= \underline{\underline{XXX}} \\ \text{PC} &= \underline{\underline{XXX}} \end{aligned}$$

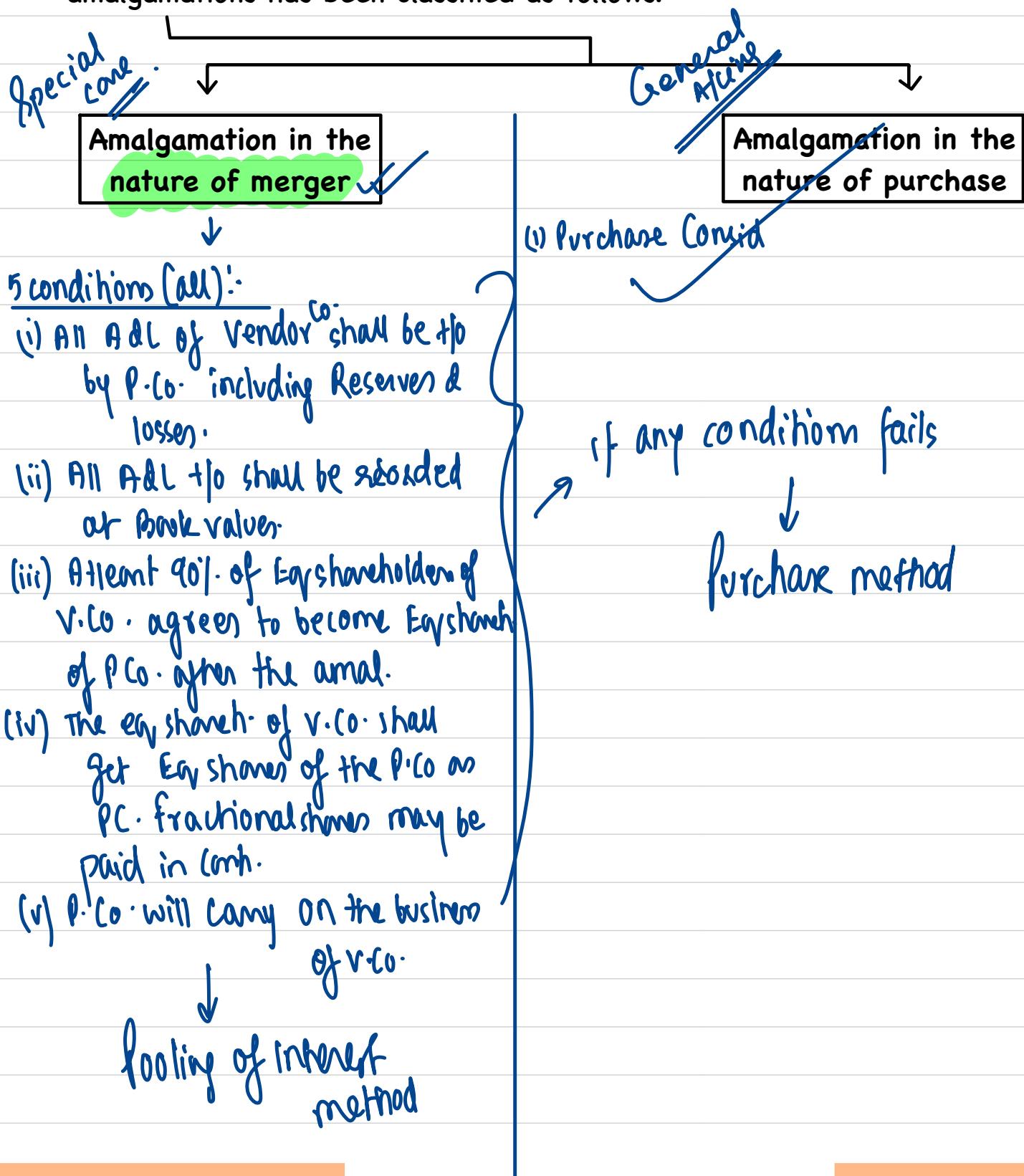
# AMALGAMATION

## 4. ACCOUNTING FOR AMALGAMATION:

For purpose of accounting for amalgamations, we are essentially guided by AS 14 'Accounting for Amalgamations'.

### BOOKS OF PURCHASING COMPANY:

For the purpose of accounting in the books of purchasing company, amalgamations has been classified as follows:



To be used only if auditor specifies

## AMALGAMATION

### JOURNAL ENTRIES:

Amalgamation in the nature of merger (Pooling of Int method)

Amalgamation in the nature of purchase

a) PC due:

Same

Business Purchase A/c - Dr (PC)  
To liquidator of Vendor Co. A/c.



b) Assets and liabilities taken over:

(AII) Assets A/c - Dr (at book value)

losses A/c - Dr

loss on merger A/c - Dr (B.f.v.)

To (AII) Liab. A/c (at book value)

To (AII) Reserves A/c

To Business Purchase A/c

To Profit on merger A/c (B.f.v.)

(Assets taken over) A/c - Dr (at fair value)

Net assets A/c - Dr (B.f.v.)

To Liab. (taken over) A/c (at payable value)

To Business Purchase A/c (PC)

To Capital Reserve A/c (B.f.v.)

(If PC > N.A.T.O  $\Rightarrow$  Goodwill  
PC < N.A.T.O  $\Rightarrow$  Cap. Reserve)

Profit on merger A/c - Dr  
To Capital Reserve A/c

CR | CR | P/L A/c - Dr  
To loss on merger A/c

c) PC discharged:

Same

Liab. of Vendor Co. A/c - Dr XX  
To Bank A/c XX  
To Equity Cap A/c XX  
To Sec Prem. A/c XX  
To Pref sh Cap A/c XX

# AMALGAMATION

## JOURNAL ENTRIES:

### Amalgamation in the nature of merger

d) Payment to debenture holders:

Same

### Amalgamation in the nature of purchase

Deb holder A/c -Dr XX  
Loss on issue of Deb A/c -Dr XX  
TO BANK A/c XX  
TO Debenture A/c XX  
TO SEC Prem. A/c XX

e) Amalgamation expenses paid:

CR/GR/P/L A/c -Dr  
TO BANK A/c

Goodwill/Cap Reserve A/c -Dr XX  
TO BANK A/c XX

f) Statutory reserves:

No Entry as all reserves  
are already t/o.

Amalgamation Adjustment Res. A/c -Dr XX

To Statutory Reserve A/c XX

To Statutory Res. & Amal. Adj. Res. will  
be shown under R&S in the B/S  
of purchasing Co - The Amal. Adj. Res.  
will appear as a -ve balance.

Eg. Development Rebate Reserve, Shipping Res.,  
Export profit Reserves, Inv. allowance Reserves, etc.

g) Mutual set off:

Same

Liabilities A/c -Dr XX  
TO Asset A/c XX

h) Unrealised profit in stock:

CR/GR/P/L A/c -Dr  
TO Stock A/c

Goodwill/Cap Reserve A/c -Dr  
TO Stock A/c  
URP = Value of Stock (x) GP margin

# AMALGAMATION

## BALANCE SHEET AFTER AMALGAMATION:

Case 1: If Purch. Co. is a new Co.  $\Rightarrow$  Uska khudka kuch nahi, Jo t/b hua hai asset woh wahi

Case 2 " " " is an existing Co.: aega

AdL : Khudka  $\oplus$  T/O Assets & Liab.

P/S

	Purchase method	merger method
R <sub>h</sub> Cap	same	same
R&S	<ul style="list-style-type: none"> <li>a) Purchasing Co.</li> <li>b) Statutory Res</li> <li>c) Amal Adj Res.</li> <li>d) Cap. Reserve</li> </ul>	<ul style="list-style-type: none"> <li>a) Purch. Co.</li> <li>b) Vendor Co.</li> <li>c) loss/Profit on merger adj to Reserves</li> </ul>

Debentures

Purchasing Co  $\oplus$  Deb issued to vendor Co.

Other Assets & Liab

Purch Co. ( $\pm$ ) Vendor Co.

{ $\leftarrow$  set off}

{ $\leftarrow$  unrealised profit}

{ $\leftarrow$  Payment of exp}

Goodwill

✓

✗

# AMALGAMATION

## BOOKS OF VENDOR COMPANY:

- a) The Accounting in the books of vendor company will remain same irrespective of the accounting method followed by the purchasing company.
- b) The books of vendor company will be closed by using a special account called "Realisation A/c".

### Journal entries:

Step 1: Transfer all assets to Realisation A/c at book value:

Realisation A/c - Dr

To Assets A/c

Note: (1) Don't close losses given on Asset side of B/s.  
(2) Debtors & P&D on FA & P&R for depn shall be closed separately at Gross amounts.  
(3) Cnh & Bank A/c shall be closed only if it is taken over by Purchasing Co.

Step 2: Transfer liabilities taken over to Realisation A/c at book value:

liab. A/c - Dr

To Realisation A/c

Note: (a) liab. not taken over shall not be closed.  
(b) Don't close Reserves & Share Capital.

# AMALGAMATION

Step 3: PC due:

Purchasing Co. A/c -Dr (PC)  
To Realisation A/c

Step 4: PC received:

50,000 mila { Bank A/c -Dr  
Eq. sh in P Co. A/c -Dr  
Dr. sh in P Co. A/c -Dr  
To Purchasing Co. A/c

Step 5: Assets not taken over, realised by vendor company:

Bank A/c -Dr  
To Realisation A/c

Note:- Ignore Profit/loss because that will automatically be adjusted.

Step 6: Liabilities not taken over, paid by vendor company:

Liab. A/c -Dr  
To Bank A/c

If any diff arises b/w Book value & Payment, P/Ls should be trfd to Realisation.

Step 7: Amalgamation expenses paid by vendor company:

Realisation A/c -Dr 3000  
To Bank A/c 3000

If Q. specifies that amalg exp paid by Vendor Co. will be reimbursed by Purchasing Co.:-

① Purch. Co. A/c -Dr 5000 ② Bank A/c -Dr 5000  
To Bank A/c 5000 To Purchasing Co. A/c 5000

# AMALGAMATION

Step 8: Payment to preference shareholders:

(a) Proceeds due:-

Pref. sh Cap A/c  $\rightarrow$  Dr (face value)

Realisation A/c  $\rightarrow$  Dr (Premium on redemption)

To Pref. shareholders A/c

(b) Payment of PC:-

Pref. shareholders A/c  $\rightarrow$  Dr

(To Pref. sh. in Purch. Co. A/c

(Jo kisi PC mai aya for them)

Step 9: Equity Share capital, reserves and losses transferred to Equity shareholders A/c:

Eq sh Cap A/c  $\rightarrow$  Dr (face value)

{ Reserves A/c  $\rightarrow$  Dr (all)

To losses A/c

To Equity shareholders A/c

Step 10: Close Realisation A/c and Transfer the profit or loss to Equity shareholders A/c:

{ Realis. Profit

Realisation A/c  $\rightarrow$  Dr

To Eq. shareholders A/c

loss

Eq. shareholders A/c  $\rightarrow$  Dr

To Realisation A/c

any bal. Cash & Bank

Step 11: Payment of PC to Equity shareholders:

Eq shareholders A/c  $\rightarrow$  Dr

To Eq sh in P Co. A/c

↓ To Cash & Bank A/c

(Jo jo inke liye PC mai aya)

# AMALGAMATION

## 6. CONCEPT OF ENTRIES OF SHARES ISSUED AS PC AT PAR VALUE:

The students will note that purchasing company is left with a large debit in the Goodwill Account (Step No. 2) accompanied by quite a large amount in the Securities Premium Account (Step No. 3). The two cannot be adjusted.

However, it would be permissible to negotiate on the basis to the market value of the shares but to make entries only on the basis of par value of shares of purchasing company. This will mean that Goodwill Account (or Capital Reserve) will be automatically adjusted for the securities premium.

(Refer Q2s)

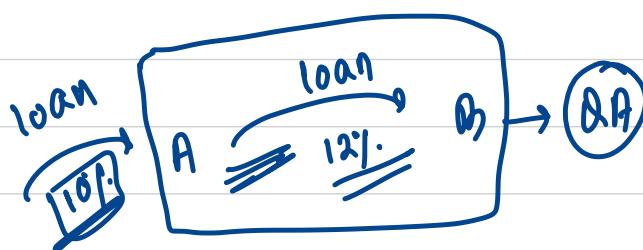
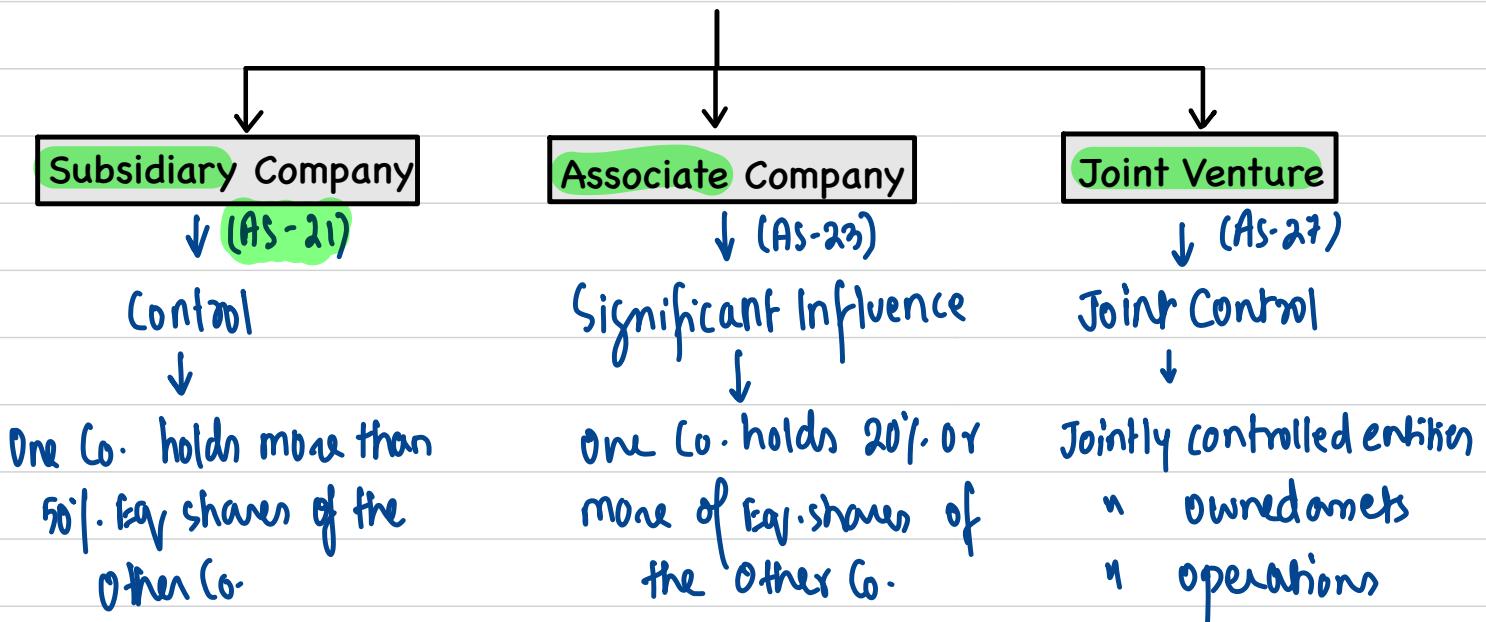
# CONSOLIDATED FINANCIAL STATEMENTS

## 1. CONCEPT OF GROUP COMPANIES:

a) Many a times, a company expands by keeping intact its separate corporate identity. In this situation, a company gains control over other company. This control is exercised by one company over the other, either by purchasing specified number of shares or by exercising control over the board of directors. The companies connected in these ways are called as Group of Companies.

### b) Constitution of Group:

#### Parent or Holding Company



# CONSOLIDATED FINANCIAL STATEMENTS

## 2. CONSOLIDATED FINANCIAL STATEMENTS:

g) Consolidated financial statements means financial statements of a group as a single entity.

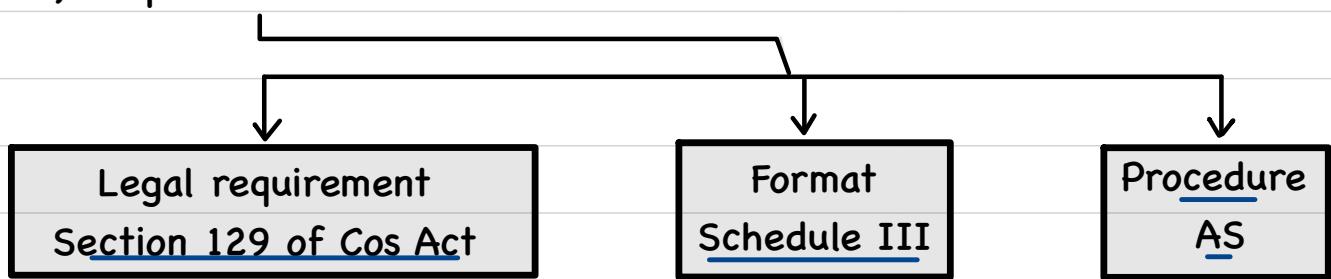
b) Group refers to a cluster of companies which includes a parent (holding) company and all its subsidiaries, associates and joint ventures.

c) Consolidated financial statements are prepared to provide information to the users of financial statements regarding the financial position of the group as a whole.

d) The consolidated financial statements are to be prepared by the parent company. So the holding company will prepare two sets of financial statements:



e) Preparation of CFS:



f) For preparation of consolidated financial statements, we will need the standalone financial statements of the holding company, subsidiaries, associates and joint venture.

# CONSOLIDATED FINANCIAL STATEMENTS

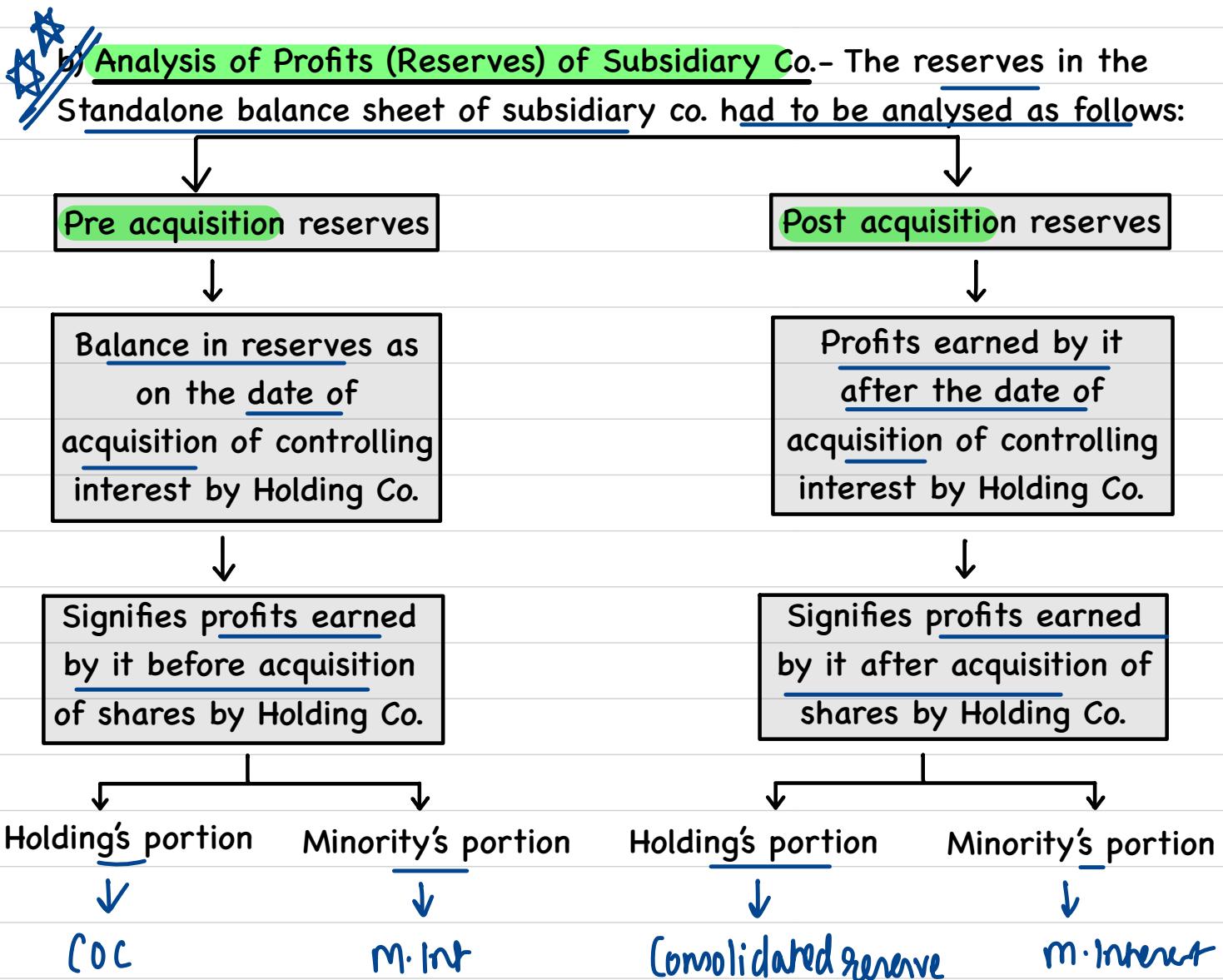
## 3. CONSOLIDATED FINANCIAL STATEMENTS WITH SUBSIDIARY:

(The procedure for preparation of consolidated financial statements of a holding company with its subsidiaries is provided in AS-21 "Consolidated financial statements".)

### A. Rules for Consolidated Balance Sheet:

a) Line by line addition - While preparing CFS of the group, the SFS of Parent and its subsidiaries shall be added on a line by line basis.

↳ **Full Consolidation method**



## CONSOLIDATED FINANCIAL STATEMENTS

### c) Cost of control:

The "Cost of Investment in Eq. shares of Subsidiary Co." in the B/s of Holding shall be eliminated against proportionate net assets of Subsidiary Co. on the **date of acquisition**.

Particulars	Amt. (₹)
Cost of Inv. in Eq. sh. of S	XXX
(→ Proportionate net assets of S belonging to H)	
Eq. Share Capital = XXX	
(pre acquisition) R&S = <u>XXX</u>	<u>(XXX)</u>
Goodwill   CR → <u>XXX</u>	
(PC > net assets) (PC < net assets)	

### d) Minority interest: Portion in net assets of Subsidiary Co. held by shareholders outside the group.

Particulars	Amt.
Portion of Sh. Cap of SLtd. belonging to outsiders	XXX
(+) " Preacq profit " " = <u>XXX</u>	
m. int. on date of Acq.      m. int. on date of Acq. → <u>XXX</u>	
(+) " Post acq. profit of SLtd. belonging to outsiders : <u>XXX</u>	
m. int. on B/s Date → <u>XXX</u>	
	[Net assets of SLtd. on B/s Date (X) minority 'l.]
m. int. is shown on liab. side of C/Bs as a separate heading between Sh. funds & Non current liab.	

## CONSOLIDATED FINANCIAL STATEMENTS

Special Case: - M. Int in case of losses of Subsidiary Co:-

- (a) In case Subsidiary Co incurs a loss in a particular year, the share of loss attributable to minority shall be adjusted to M. Interest.
- (b) The amt of share of loss of minority shall not exceed the Op. bal of M. Int for that year.
- (i) If the share of loss exceeds Op. bal, the extra loss shall be adjusted to the share of loss of Holding Co.
- (d) If in future S. Co. reports a profit, the minority's share of profit shall be adjusted to Holding's share of profit to the extent of loss of minority borne by Holding Co. in earlier year.

e) Consolidated reserves of the group:

Particulars	Amt
Bal. of Reserves of H. Co	XXX
(+) Holding's share in Post accv	
Profit of subsidiary	XXX
	<u>XXX</u>

f) Important points about Consolidated Balance Sheet:

- a) Share capital - Only Holding Co.
- b) Reserves - Step 5 (Consolidated reserves)
- c) Minority interest - Step 4
- d) Other liabilities - line by line addition subject to Intra group elimin.
- e) Investments in shares of Subsidiary Co - to be eliminated
- f) Other assets - line by line addition subject to Intra group elimin.

## CONSOLIDATED FINANCIAL STATEMENTS

### Adjustments:

#### a) Elimination of Intra group balances:

While doing line by line addition of Assets & Liab in CFS, any intra group balance (O/S) between Holding & Subsidiary shall be eliminated in full.

Care shall be taken for any difference in intra group balance which may result in Cash in transit | Stock in transit | Bill Discounted | Bill endorsed etc.

Example:-

## CONSOLIDATED FINANCIAL STATEMENTS

### b) Revaluation of fixed assets of Subsidiary Co.:

for fixation of price of shares to be paid by Holding Co. to shareholders of subsidiary, the PC is calculated based on the fair value of Assets & Liab of subsidiary on the date of acquisition.

However, Subsidiary Co. does not account for such changes in value of Assets & Liab. in its SBS.

So, the effect of such revaluation profit/loss & subsequent depn will have to be given at the time of consolidation.

### Effect of Revln & Depn:-

- ① Revln P/L  $\Rightarrow$  to be adjusted in AOP in Pre acq reserves
- ② Depn effect  $\Rightarrow$  " " " " in Post acq reserves
- ③ while presenting PPE in CBS, in addition to line by line addition adjust the effect of such Revln & Depn.

### Computation:

#### (a) Revln P/L

$$\Rightarrow \text{FV on DOA} : \text{XXX}$$

$$\Rightarrow \text{BV on DOA} \cancel{\text{XXX}} = \frac{\text{XXX}}{\text{XXX}}$$

#### (b) Depn effect after revaluation:-

Depn to be provided on Rev. amt = XXX

$\Rightarrow$  Depn already provided in books

$$\text{for that period} = \frac{(\text{XXX})}{\text{XXX}}$$

## CONSOLIDATED FINANCIAL STATEMENTS

c) Elimination of unrealised profit from stock: [Refer Q4]

\* There might be transactions related to purchase & sale of goods between Holding & subsidiary. These transactions are made at transfer price which may include transfer of profits.

\* If a portion of goods transferred remains unsold in the group, then the unrealised profit added by one group entity on the other shall be eliminated from CFS.

\* Journal entry for elimination of URP  $\Rightarrow$  P/L A/c -> xx  
TO Stock xx

\* CFS

Upstream transaction  
Goods sold by S Ltd to H Ltd.  
↓

(1) Eliminate unrealised profit from profits of S Ltd. in Step 2 (Analysis of Profits).

\* If date of sale is given:-

Sale before acquisition  $\Rightarrow$  Pre acq. profit

Sale after acquisition  $\Rightarrow$  Post acq. profit

\* If date of sale is not given, adjust against Post acq profit.

(2) Eliminate URP from Cl. stock in CFS while doing line by line addition.

Downstream transaction  
Goods sold by H Ltd to S Ltd.  
↓

(1) Eliminate URP from Profits of H Ltd. in Step 5 (Consolidated Reserves)

(2) Same

## CONSOLIDATED FINANCIAL STATEMENTS

d) Bonus shares issued by Subsidiary Co.:

(1) Treatment of Bonus by Co. to shareh. in SFS:

Company (Subsidiary)

NO. of Bonus ratio: of Eg.  $\frac{1}{2}$  Bonus  
(before Bonus) ratio

(a) Reserves A/c - Dr

To Bonus A/c

(b) Bonus A/c - Dr

To Share Capital A/c

Shareholder (Holding & minority)

No entry for bonus. Only No. of shares held increases.

(2) Treatment for CBS:

(1) Shareholding%:-

the shareholding% before & after Bonus issue will remain same.

\* while calculation either use both pre Bonus figures or use both post bonus figures.

(2) AOP:

a) 1st determine the profit for the current year before effect of bonus issue. Allocate this profit to pre & post acq. period as per the DDA.

b) Deduct the amount of total bonus issue from the reserve out of which such bonus shares have been issued.

In absence of info., assume bonus out of pre acquisition profits.

(3) COC & m-Int

Consider the Share Capital after bonus issue for the purpose of

calculation.

*Imp. for m-Int*  
Effect of Bonus:-

COC

m-Int

Our  
pre acq profit  
No change  
No change

Our of  
post acq profit  
Goodwill will decrease  
No change

## CONSOLIDATED FINANCIAL STATEMENTS

e) Dividend paid by Subsidiary Co.:

① Alking for Dividend in SFS:-

Company (Subsi.)

(a) P/L A/c ->  
To Div. Payable A/c

(b) Div. payable A/c ->  
To Bank A/c

Shareholder (Holding & Minority)

(a) Bank A/c ->  
To Dividend recd A/c

(b) Dividend recd A/c  
To P/L / Investment A/c  
(Post acy) (Pre acy profit)

→ \*

② Treatment of Dividend in CFS:-

(a) The analysis of profits will remain same as discussed in bonus issue.

\* In absence of info. about source of dividend, assume dividend from current year's profit.

(b) All other calculations like COC, m-I, com-reserves will be done in same manner.

\* If question specifies that Holding Co. has wrongly credited the pre acy dividend recd to its P/L, then the profit of H Co. shall be reduced & cost of Inv. shall be reduced by the amt of dividend recd by H Co.

(i) Effect of Dividend:-

on COC

on Minority Int.

Out of Pre acy

no effect

mI will decrease

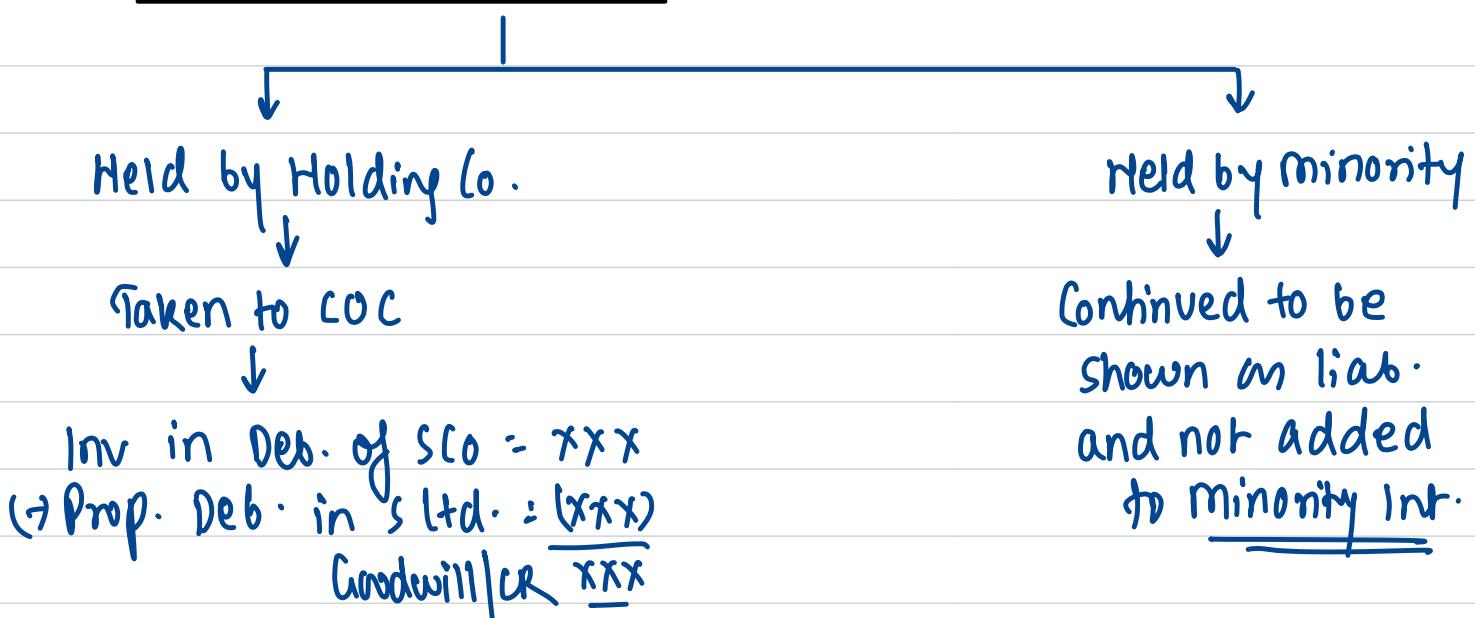
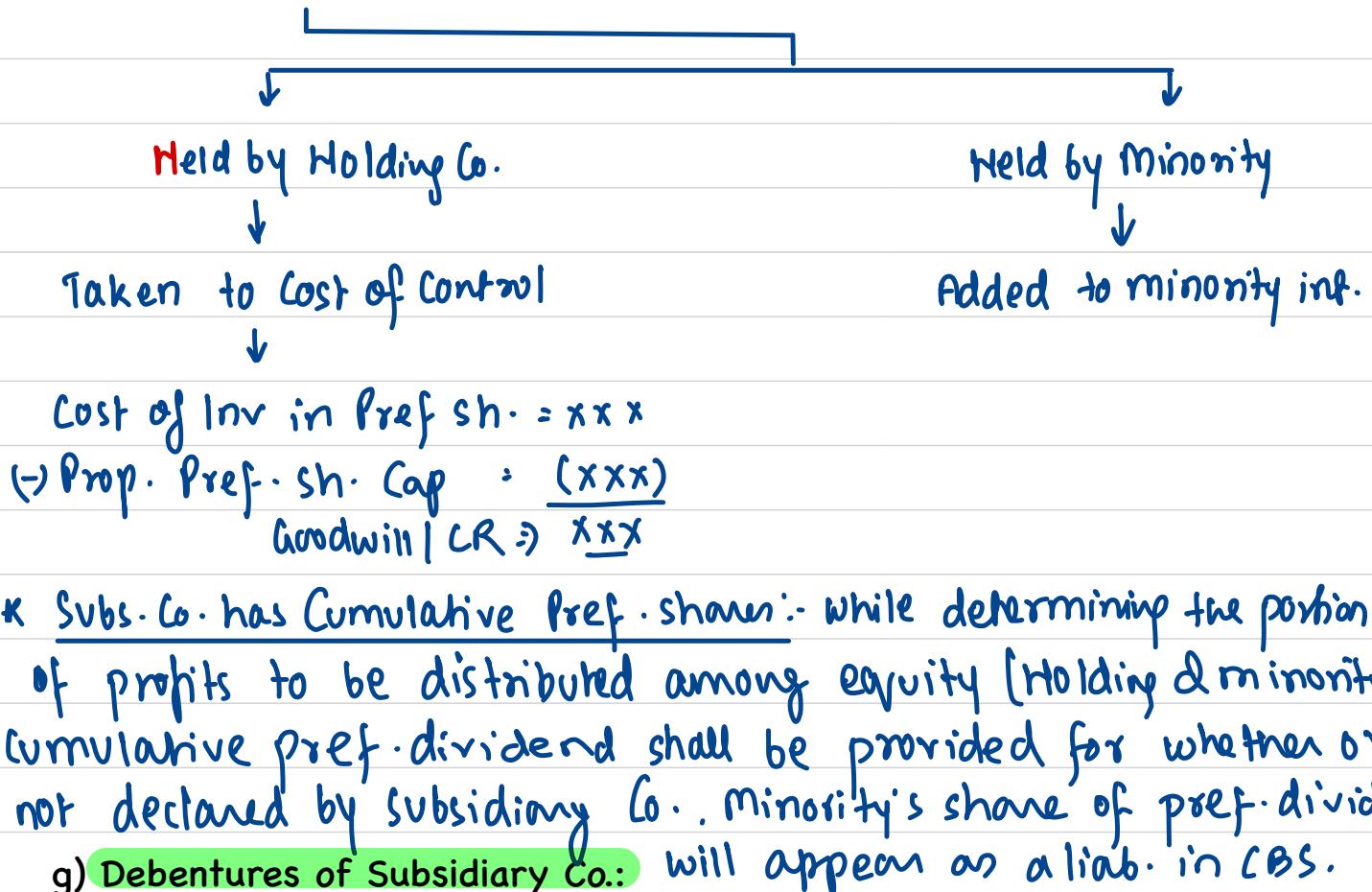
Out of Post acy.

no effect

mI will decrease

## CONSOLIDATED FINANCIAL STATEMENTS

### f) Preference shares of Subsidiary Co.:



## CONSOLIDATED FINANCIAL STATEMENTS

### h) Uniform Accounting policies:

- The SFS used for consolidation shall be prepared using same uniform Accounting policies for similar transactions.
- However, if the Accounting policies followed by SCo. are different from that of Holding, Subs. Co. shall prepare a revised set of FS using the Accounting policy of that of the Holding.
- If it is impractical to do so, disclosure shall be made in Notes to CFS.

### i) Uniform reporting period:

- The SFS used for consolidation shall be prepared using the same reporting period.
- If the reporting period of SCo. is different from Holding, S Co. shall prepare a revised set of FS using the reporting period of the Holding Co. for the purpose of CFS.

## CONSOLIDATED FINANCIAL STATEMENTS

### B. Rules for Consolidated SPL with Subsidiary:

#### a) Line by Line addition:

while preparing Consolidated P/L of the group, the Standalone P/L of Holding and all its subsidiaries shall be added on a line by line basis.

#### b) Elimination of intra group transactions:

Any intragroup transaction in P/L of H&S shall be eliminated in full while preparing Consolidated P/L both from Income & Expenses.

#### c) Elimination of unrealised profit in stock:

Any unrealised profit in c. stock arising from Intragroup transaction shall be eliminated while preparing Consolidated P/L.

## CONSOLIDATED FINANCIAL STATEMENTS

### C. Exclusion from Consolidation as per AS-21:

- a) Control is intended to be temporary;
- b) Subsidiary operates under severe long term restrictions that impairs its ability to transfer funds to the Holding Co.

### D. Exemption from Consolidation as per Section 129:

As per Companies (Accounts) Amendment Rules, 2016, preparation of consolidated financial statements by a company is not required if it meets the following conditions:

- (i) it is a wholly-owned subsidiary, or is a partially-owned subsidiary of another company and all its other members, including those not otherwise entitled to vote, having been intimated in writing and for which the proof of delivery of such intimation is available with the company, do not object to the company not presenting consolidated financial statements;
- (ii) it is a company whose securities are not listed or are not in the process of listing on any stock exchange, whether in or outside India; and
- (iii) its ultimate or any intermediate holding company files consolidated financial statements with the Registrar which are in compliance with the applicable Accounting Standards.

## CONSOLIDATED FINANCIAL STATEMENTS

### 4. CONSOLIDATED FINANCIAL STATEMENTS WITH ASSOCIATE:

AS 23 describes the principles and procedures for recognizing investments in associates (in which the investor has significant influence, but not a subsidiary or joint venture of investor) in the consolidated financial statements of the investor.

An investor which presents consolidated financial statements should account for investments in associates as per equity method in accordance with this standard but in its separate financial statements, AS 13 will be applicable.

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

#### A. Meaning of Significant Influence:

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

Any enterprise having 20% or more of the voting power or any interest directly or indirectly in any other enterprise will be assumed to have significantly influence the other enterprise unless proved otherwise.

An enterprise can influence the significant economic decision making by many ways like:

1. Having some voting power.
2. Representation on the board of directors or governing body of the investee.
3. Participation in policy-making processes.

## CONSOLIDATED FINANCIAL STATEMENTS

### B. Application of Equity Method:

The equity method is a method of accounting whereby the investment is initially recorded at cost, identifying any goodwill/capital reserve arising at the time of acquisition. ↳ not recognising

The carrying amount of the investment is adjusted thereafter for the post acquisition change in the investor's share of net assets of the investee.

The consolidated statement of profit and loss reflects the investor's share of the results of operations of the investee.

Investments in associates cannot be treated as a normal investment under AS 13. The intent of investing to such an extent (i.e.; 20% or more but less than 50% of equity) in an associate is an expression of the fact that the investor is not merely interested in the dividend distribution, but also is interested in the participation of decision-making process in the associate.

Thus, recognition of income on the basis of distributions received may not be an adequate measure of the income earned by an investor on an investment in an associate because the distributions received may bear little relationship to the performance of the associate.

### C. Rules for Consolidation:

Many of the rules followed under equity method for an associate is similar to consolidated financial statement rules as in case of subsidiary i.e. AS 21.

#### ✓) Goodwill or Capital Reserve:

Cost of Investment : XXX

↳ Prop. Net Assets of Assoc.

on date of acq. → (XXX)

Goodwill / CR : \*XX

This Goodwill / CR shall not be shown in CBS. It shall be disclosed in Notes to A/s.

## CONSOLIDATED FINANCIAL STATEMENTS

### (ii) Post acquisition profits of Associate:

The investor's share in post acq profits of Associate shall be consolidated by increasing the Carrying Amt on Investments in Associate.

Investment in Associate A/c to  
To P/L A/c.

### (iii) Post acquisition losses of Associate:

(a) If Associate Co. incurs a loss in post acquisition period, the investor shall consolidate it's share of loss in CFS.

Share of loss in Associate A/c to  
to Inv in Associate A/c

(b) However, the investor will bear the loss of the associate only to extent of Carrying Amt of Inv. held. Once the Carrying Amt of Inv. falls to zero, any further share of loss will not be recognised by investor.

(c) When Associate Co. earns profit, investor's share in that profit to the extent of loss not recognised earlier shall be ignored/ not be recognised. Once the loss is set off in full, any further profits shall be consolidated as usual.

(Same as comp. of minority Int in case of loss)

# CONSOLIDATED FINANCIAL STATEMENTS

**(iv) Dividends paid by Associate:**

Any dividend paid by Associate out of Post acq profits shall be recognised in CFS by reducing the carrying Amt of Investments.

{ P/L A/c -> xx  
To Inv in Assoc. A/c xx }

Any dividend paid by Associate out of Pre acq profits shall be ignored if the investor has already reduced the cost of investment in its SFS.

But if investor has wrongly credited such dividend to P/L in its SFS, then in CFS the following entry shall be passed:-

P/L A/c - Dr  
To Investment A/c

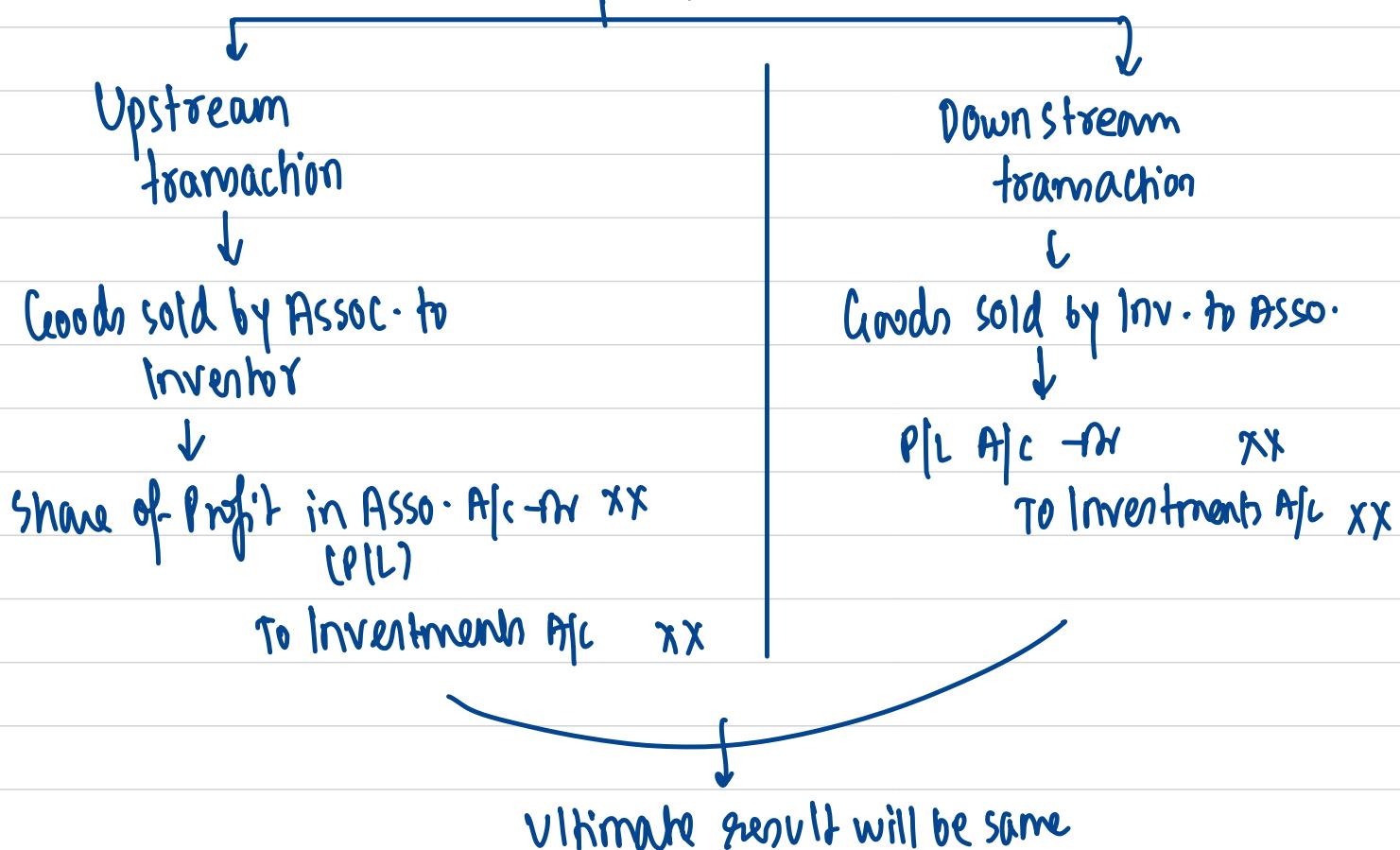
## CONSOLIDATED FINANCIAL STATEMENTS

### ✓ (i) Unrealised profits/losses on intragroup transactions:

Unrealised profit/loss on intragroup purchase & sale of stock shall be eliminated by the investor to the extent of its share in Associate.

VRP to be eliminated:  $(VRP \times \text{Investor's share})$   
 $\downarrow$   
 $(\text{Stock} \times \text{GP margin})$

This VRP will be Altered for as follows:-



\* No Intragroup elimination on A&L of Associate are not consolidated.

## CONSOLIDATED FINANCIAL STATEMENTS

### (vi) Step acquisition:

If the investor acquires stakes in Associate over time (i.e not in a single Inv. but various inv. over a period of time), multiple

the computations related to Goodwill, carrying Amt of Inv. shall be made as per individual acquisition and their respective dates.

Eg: A Ltd. acquired the foll. stakes in B Ltd.:-

1.4.21 15% at ₹ 5,00000 3m 15%

1.7.21 10% at ₹ 3,00000 9m 25%

Share Capital of B Ltd is ₹ 10,00000. R&S bal of B Ltd on 1.4.21 is ₹ 15,00000. B Ltd. earned a profit of ₹ 10L during 21-22.

make resp calculation?

### ① Goodwill:-

1.4.21 (15%)

Cost of Inv: ₹ 5,00000

(-) Prop Net Assets (₹ 3,75000)

$\{(10+15) \times 15\% \}$

Goodwill = ₹ 125000

1.7.21 (10%)

Cost of Inv: ₹ 3,00000

(-) Prop Net assets (₹ 75000)

$\{(10+15+10L \times \frac{3}{12}) \times 10\% \}$

Goodwill ₹ 25000

### ② CA of Inv:-

Cost of Investment = ₹ L + 3L = ₹ 8,00000

(+) Share of Post acq Profits

$\{ \frac{10L \times 3}{12} \times 15\% + \frac{10L \times 9}{12} \times 25\% \} = ₹ 225000$

CA of Inv on 9/3.

₹ 1025000

## CONSOLIDATED FINANCIAL STATEMENTS

✓ (vii) Uniform Accounting policies: Same as AS-21

- If Associate Co follow different Accounting policies as compared to Investor, the Assoc. Co. shall prepare a revised set of FS as per Accounting policy of Investor to facilitate investor to prepare CFS.

✓ (viii) Uniform reporting period: Same as AS-21

- If the reporting period of Associate is diff. from that of Investor, Associate shall prepare a revised set of FS as per reporting period of Investor to facilitate prepar. of CFS.

**D. Exclusion from Consolidation as per AS-23:** Same as AS-21

a) Control is intended to be temporary;

b) Subsidiary operates under severe long term restrictions that impairs its ability to transfer funds to the Holding Co.

not imp  
for exam

## CONSOLIDATED FINANCIAL STATEMENTS

### E. Disclosures: (Reading)

- 1) An appropriate listing and description of associates including the proportion of ownership interest and, if different, the proportion of voting power held should be disclosed in the consolidated financial statements.
- 2) Investments in associates accounted for using the equity method should be classified as long-term investments and disclosed separately in the consolidated balance sheet.
- 3) The investor's share of the profits or losses of such investments should be disclosed separately in the consolidated statement of profit and loss. The investor's share of any extraordinary or prior period items should also be separately disclosed.
- 4) Goodwill/capital reserve arising on the acquisition of an associate by an investor should be disclosed separately though it is included in the carrying amount of the investment.
- 5) The name(s) of the associate(s) of which reporting date(s) is/are different from that of the financial statements of an investor and the differences in reporting dates should be disclosed in the consolidated financial statements.
- 6) In case an associate uses accounting policies other than those adopted for the consolidated financial statements for like transactions and events in similar circumstances and it is not practicable to make appropriate adjustments to the associate's financial statements, the fact should be disclosed along with a brief description of the differences in the accounting policies.
- 7) If an associate is not accounted for using the equity method the reasons for not doing the same.

↳ 2 exception

## CONSOLIDATED FINANCIAL STATEMENTS

## 4. CONSOLIDATED FINANCIAL STATEMENTS WITH JOINT VENTURES:

AS-27 set out principles and procedures for accounting of interests in joint venture and reporting of joint venture assets, liabilities, income and expenses in the financial statements of venturers and investors regardless of the structures or forms under which the joint venture activities take place.

The standard deals with three broad types of joint ventures:

1. Jointly controlled operations,
2. Jointly controlled assets and
3. Jointly controlled entities.

## A. Definitions:

(i) A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity, which is subject to joint control.  
 (ii) Joint control is the contractually agreed sharing of control over an economic activity.  
 (iii) A venturer is a party to a joint venture and has joint control over that joint venture.  
 (iv) An investor in a joint venture is a party to a joint venture and does not have joint control over that joint venture.

## CONSOLIDATED FINANCIAL STATEMENTS

### B. Jointly Controlled Operations: (Q1)

(a) Features of JCO:-

- (i) No separate entity is created
- (ii) No separate books of A/c maintained for JV business.
- (iii) Venturers pays expenses, purchases assets for JV out of their own funds.
- (iv) All sales realisation of JV business are kept by venturers.
- (v) Venturers record their own transactions for JV business in their personal books of A/c by preparing a "JV business A/c"
- (vi) All revenues & exp. of JV business are consolidated by venturers proportionately as per their share.
- (vii) No further consolidation is required as transactions of JV business are already recorded in standalone books of venturer.

## CONSOLIDATED FINANCIAL STATEMENTS

### C. Jointly Controlled Assets:

Features of JCA:

Same as JCO except the fact that in case of JCA, one or more assets are jointly owned & controlled by ventures instead of business operations.

A SCA is formed to jointly construct, own, operate, maintain one asset or a group of assets.

## CONSOLIDATED FINANCIAL STATEMENTS

### D. Jointly Controlled Entities:

1. In this case, the venturers create a new entity to carry on the economic activities.
2. The venturers pool their resources (like cash, assets) to the new entity. These contributions are recognised by venturers as investments in their SFS.
3. The JCE incurs expenses, earns revenue, own assets & owes obligations in its own name like any other business entity. It prepares its own accounting records & fs like other entities.
4. At the year end, the JCE sends its SFS to the venturers for purpose of preparation of CFs. Venturers prepares CFs using "Proportionate Consolidation method".

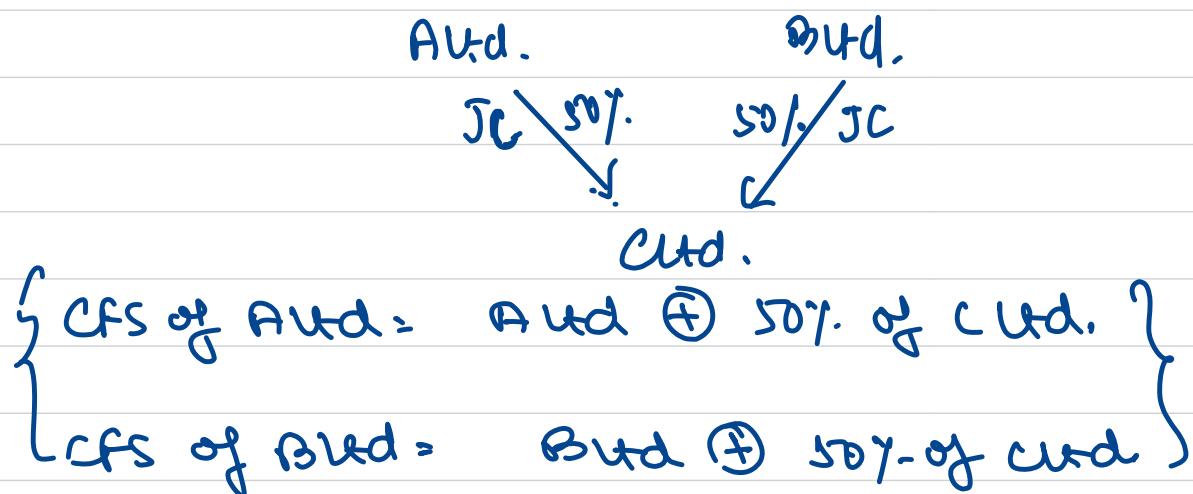
### 5. Proportionate Consolidation method:-

1. Goodwill/Cap Reserve will be calculated as usual on the date of acquisition. The Goodwill will appear in CFs as Intangible Asset & Cap. Reserve will appear in CFs under R&S.
2. There will be no minority interest.
3. All items of Revenues, Expenses and Assets, Liab. (in P:L) (in B:S) will be added on a line by line basis only to the extent of venturer's share in JCE.

# CONSOLIDATED FINANCIAL STATEMENTS

## **E. Rules for Consolidation:**

4. Consolidated R&S bal. will be calculated as usual
5. No intragroup eliminations in CFS.
6. Unrealised profit in stock shall be eliminated in same manner as subsidiary only to the extent of venturer's share
7. Uniform filing policies & uniform reporting period  
→ same as AS-21



## CONSOLIDATED FINANCIAL STATEMENTS

### F. Exclusion from Consolidation as per AS-27:

- a) Control is intended to be temporary;
- b) Subsidiary operates under severe long term restrictions that impairs its ability to transfer funds to the Holding Co.

### G. Disclosures: Read

- (i) A venturer should disclose a list of all joint ventures and description of interests in significant joint ventures.
- (ii) In respect of jointly controlled entities, the venturer should also disclose the proportion of ownership interest, name and country of incorporation or residence.
- (iii) A venturer should disclose, in its separate financial statements, the aggregate amounts of each of the assets, liabilities, income and expenses related to its interests in the jointly controlled entities.
- (iv) A venturer should disclose the aggregate amount of the contingent liabilities, unless the probability of loss is remote, separately from the amount of other contingent liabilities
- (v) A venturer should disclose the aggregate amount of the commitments in respect of its interests in joint ventures separately from other commitments.

# ACCOUNTING FOR BRANCHES

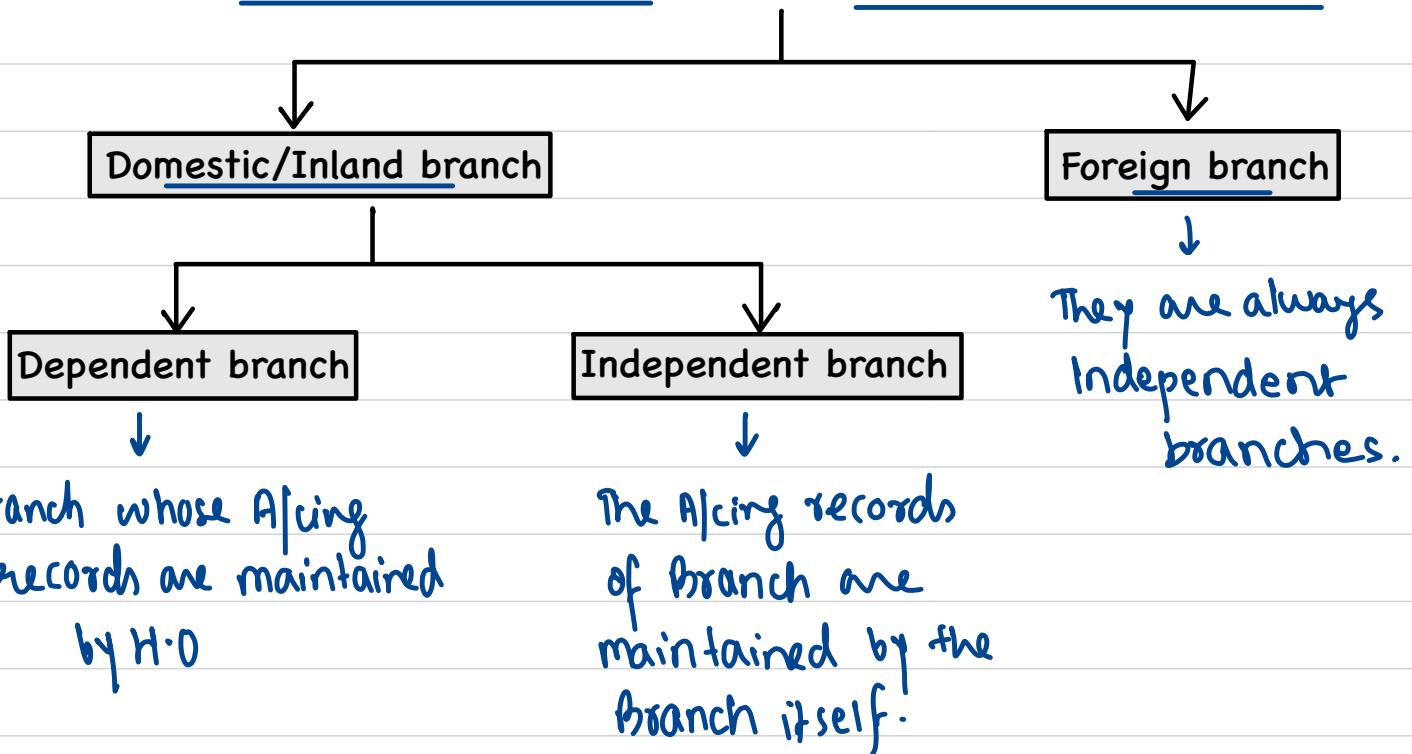
## 1. MEANING OF BRANCH:

A branch can be described as any establishment carrying on either the same or substantially the same activity as that carried on by head office of the company.

Branch offices are of a great utility in the sense that they allow business to be expanded closer to the clients and hence they facilitate face to face interaction with customers.

## 2. TYPES OF BRANCH:

From the accounting point of view, branches may be classified as follows:



# ACCOUNTING FOR BRANCHES

## 3. ACCOUNTING FOR DEPENDENT BRANCHES:

(When the business policies and the administration of a branch are wholly controlled by the head office and its accounts also are maintained by it, the branch is described as Dependent branch. Branch accounts, in such a case, are maintained at the head office out of reports and returns received from the branch.)

### Accounting method 1 - Debtors system: (Synthetic method)

This method of accounting is suitable for small sized branches. Under this method, separate branch account is maintained for each branch to compute profit or loss made by each branch.

#### Preparation of Branch A/c:

#### Step 1:- Opening balances of Branch A/c:-

Dr. side : Op. bal. of Assets at Branch

Cr. side : " " , liab. " "

#### Step 2: Recording of transactions at Branch:-

a) only those transactions which involves both HO & Branch shall be recorded.

b) Dr. side : Stock / Assets / cash given by HO to Branch  
Cr. side : Stock / Assets / cash sent by Branch to HO.

#### Step 3:- Closing balance of Branch A/c:-

Cr. side : By bal c/d  $\Rightarrow$  Cr. bal of Assets at Branch

Dr. side : To bal c/d  $\Rightarrow$  " " " liab. " "

#### Step 4: The bal. fig of Branch A/c will give us Net Profit/loss of Branch.

**Note:** To complete the Branch A/c, we might have to prepare some memo, Branch ledger A/c or workings like Br. Cash A/c, Br. Debit A/c, Br. Petty Cash A/c etc.

# ACCOUNTING FOR BRANCHES

## Accounting method 2 - Stock & Debtors system:

If it is desired to exercise a more detailed control over the working of a branch, the accounts of the branch are maintained under Stock and Debtors Method.

Under this method, H.O. maintains a complete set of Ledger accounts for its branch under double entry system.

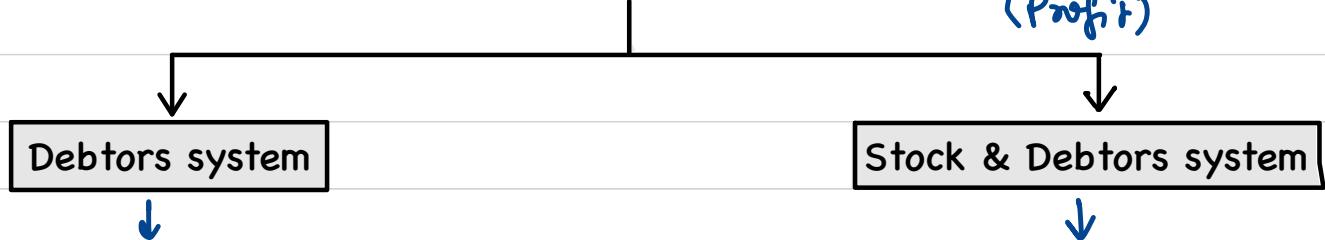
### Necessary Ledger A/cs prepared:

- (1) Branch Stock A/c - Trading A/c - Gross Profit
- (2) Branch Debit A/c
- (3) Branch Cash A/c
- (4) Branch Petty Cash A/c
- (5) Branch Expenses A/c
- (6)     " Assets A/c
- (7)     " P/L A/c - Net Profit

# ACCOUNTING FOR BRANCHES

## Adjustments:

a) Goods sent to branch at invoice value: = Cost  $\pm$  loading (Profit)



In Branch A/c, all stock related items like Op.stock, Cl.stock, GSTB, Return by Branch shall be recorded at invoice price & then loading shall be eliminated on the opposite side.

Dr.	Branch A/c	Cr.
To bld -Op.st (IP)	By Op. st reserve (loading)	
To GSTB (IP)	By GSTB (loading)	
To Cl.st reserve (loading)	By bal c/d - Cl.st (IP)	

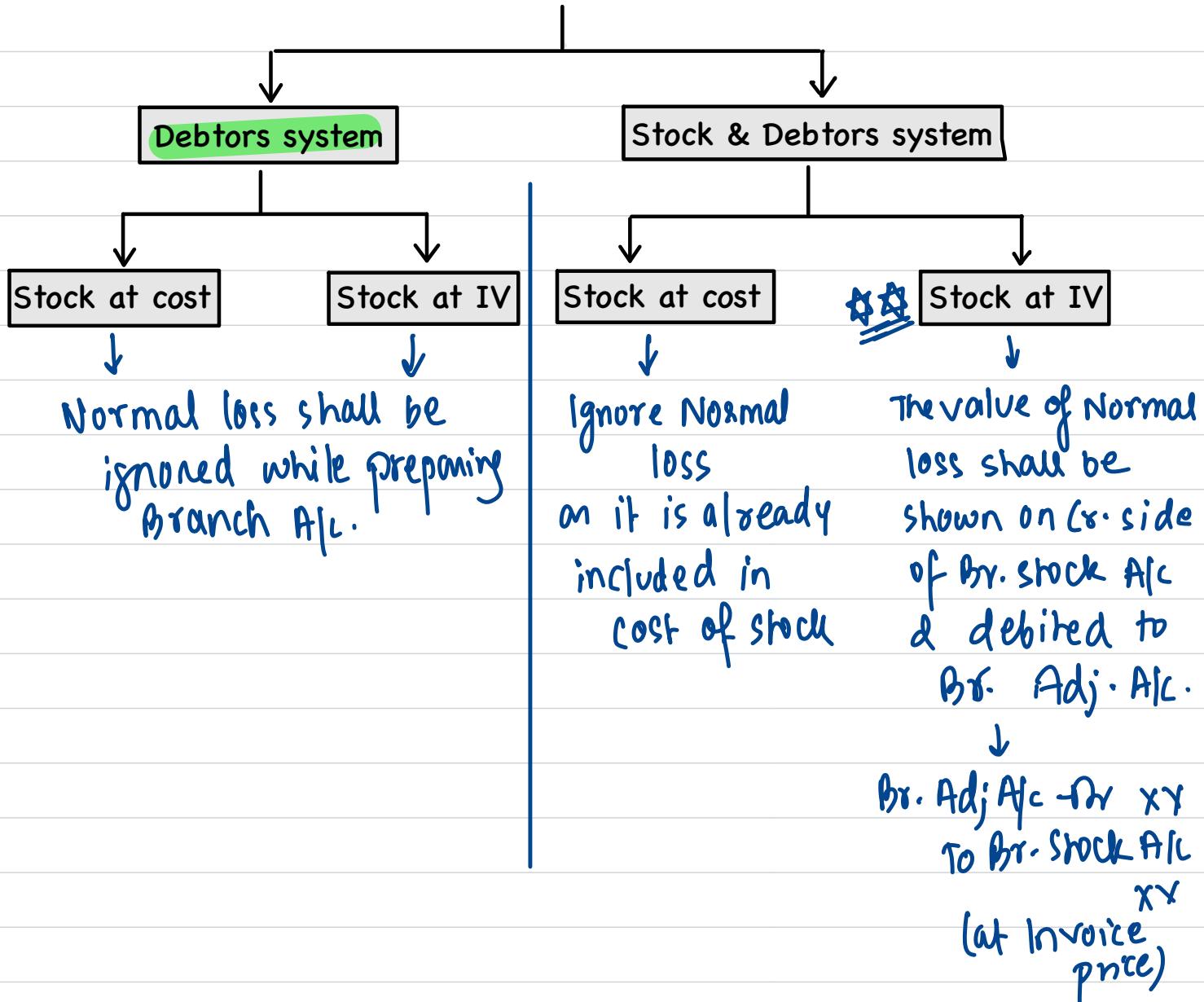
- a) Branch Stock A/c will be prepared at invoice price.
- b) loading will be shown in Branch Adjustment A/c.
- c) Gross Profit will be determined on a bal. fig of Branch Adjustment A/c.
- d) If there is any diff. in Branch stock A/c, it will be treated as follows:
  - Diff. on Dr. side  
→ Extra profit on sales  
This will be transferred to Br. Adj. A/c
  - Diff. on Cr. side  
→ Stock shortage / Ab. loss.

Reco:

- Net Sales = XXX  
 $\rightarrow$  Extra profit = (XXX) if any  
 IP of goods sold: XXX  
 GP on IP XX  
 $\rightarrow$  Extra profit XX

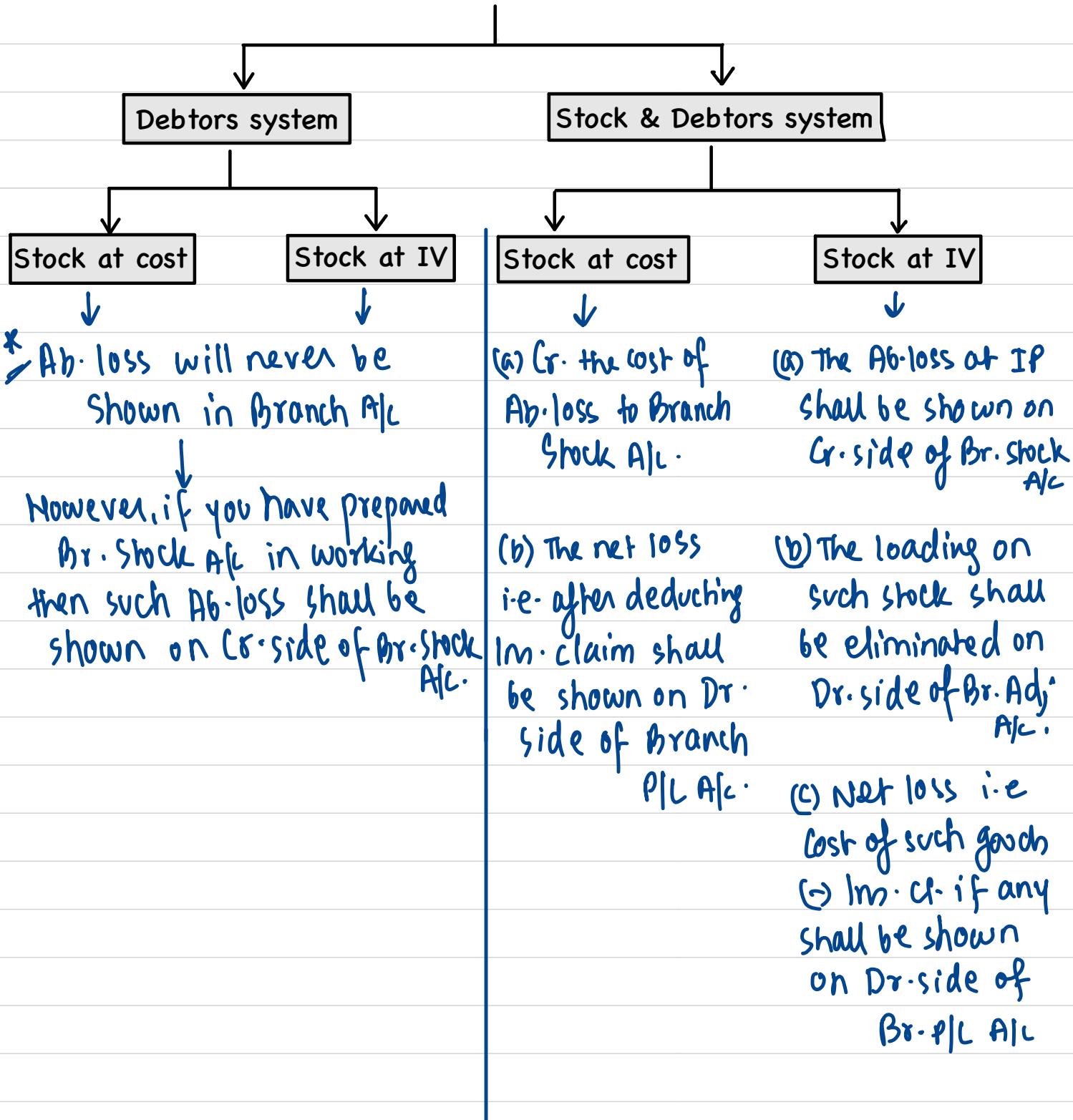
# ACCOUNTING FOR BRANCHES

## b) Normal loss of Stock:



# ACCOUNTING FOR BRANCHES

## c) Abnormal loss of Stock:



# ACCOUNTING FOR BRANCHES

d) Goods invoiced at wholesale price to retail branches:

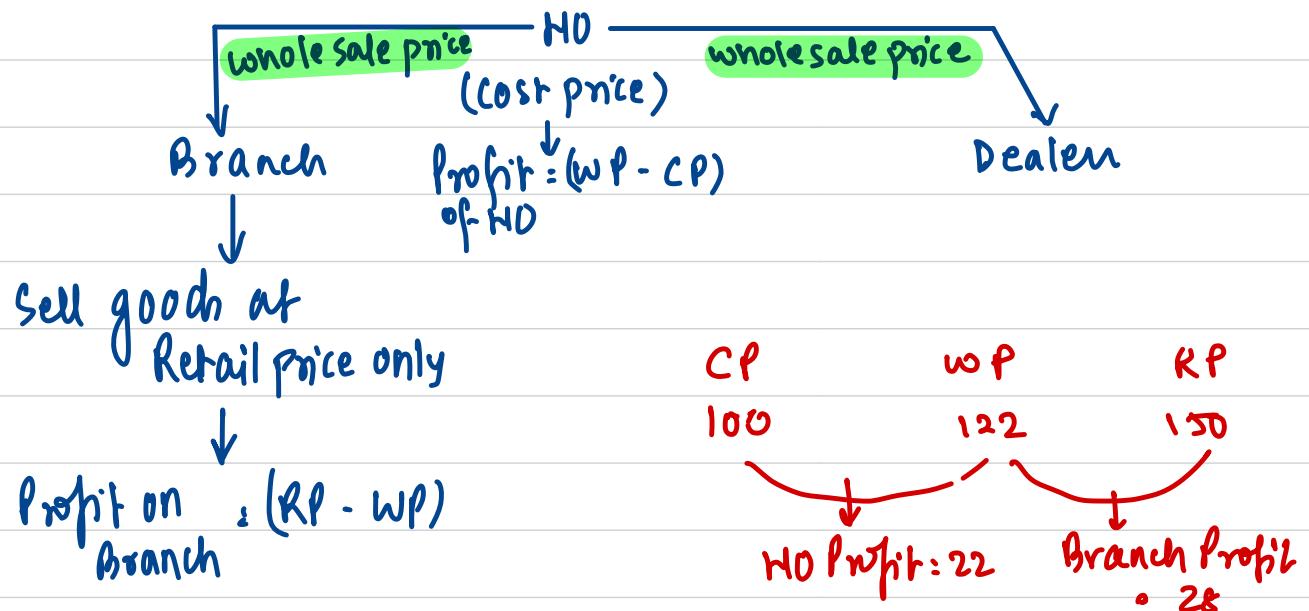
Under this method, the Head Office (particularly, the manufacturing concern) supplies goods to its retail branches at wholesale price which is cost plus wholesale profit.

Profit of branch =  $(\text{Sale proceeds at shop} - \text{wholesale price of the goods sold.})$   
Retail Price

For this purpose, it is assumed that Manufacturer would always be able to sell the goods on wholesale terms thereby,

Manufacturer profit = Wholesale price - Cost

Preparing Branch stock A/c or Branch Trading A/c:



While A/cing for Branch, the Br. stock A/c | Trading A/c shall now be prepared at wp and no loading shall be eliminated.

# ACCOUNTING FOR BRANCHES

#### 4. ACCOUNTING FOR INDEPENDENT BRANCHES:

When the size of the business is big, it is desirable that the branch maintains complete records of its transactions. These branches are called independent branches and each independent branch maintains comprehensive account books for recording their transactions; therefore, a separate trial balance of each branch can be prepared.

## Accounting process:

Step 1: In this case, there will be two sets of books of Afcos:-

- (i) Books of H.O
- (ii) n Branch.

Step 2: Both HO & Branch will record their respective transaction in their own books in usual manner.

Step 3: However, for transactions b/w HQ & Branch, HQ will prepare a Branch A/c and Branch will prepare a HQ A/c.  
(Debtor) (Creditor)

Both these A/u must show same balance of opposite nature-

Step 4:- HQ & Branch can now prepare their individual trial balances.

★ Steps:- If reqd. for internal reporting, HQ & Branch can prepare their individual Trading & P/L Accts & determine their financial results.

Step 6: Branch will remit its Trial bal to HQ for consolidation purpose.

Step 7: HQ incorporates Branch TB into its own TB & then prepares Consolidated FS of the whole entity.

# ACCOUNTING FOR BRANCHES



## Special Journal entries:

a) Fixed assets A/c of Branch maintained by H.O:

# Book of HO

(a) FA purchased by Ho:  
Branch FA A/c - Dr  
To Cash A/c

## Books of Branch

X

(b) FA purchased by Branch:

branch FA A<sub>1/2</sub> to  
to Branch A<sub>1/2</sub>

HO A/c  $\rightarrow$    
 TO Cash A/c

## (L) Depn on Branch FA:

Branch A/c - rv  
to Branch FA A/L

Depn A/I -> V  
TD Hb A/I

### b) Inter Branch transactions:

65.

## Branch A

Goods sent

HO

→ Branch B

HO Alc  $\rightarrow$  H  
to GRF HO Alc

## Adjustment entry

Branch B Afc - n

GRFH0 Afc-aw

To Ho A/c

To Branch A A/c

Dr. the receiver  
(s. the giver)

# ACCOUNTING FOR BRANCHES

## Incorporation of Branch Trial balance into H.O. Trial balance:

### Step 1: Reconciliation of Branch A/c balance with H.O A/c balance:

Generally the bal of Branch A/c (HO books) & HO A/c (Branch books) should tally. However, if there is a difference between the two bal., the same shall be reconciled before consolidation of TB by HO.

### Reasons of Difference:-

	HO Books	Branch Books
(1) Goods in transit (HO → Branch)	X	Goods in transit A/c -/r To HO A/c
(2) Comh in transit (Branch → Comh)	Comh in transit A/c -/r To Branch A/c	X
(3) Exp. allocated by HO to Branch	X	Exp. A/c -/r To HO A/c
(4) Income allocated by HO to Branch	X	HO A/c -/r To Income

# ACCOUNTING FOR BRANCHES

## Step 2: Incorporation of Trial balance:

### Case 1: Standalone P&L & Balance Sheet for each Branch:

Branch has already prepared its Trading & P/L A/c and as on today in Br. Trial bal. we cannot see individual Inc. & Exp. Rather we will see Net profit (P/L A/c bal) in the Br. TB.

#### Incorporation entries:-

	HO	Branch
a) Branch Assets:	Assets A/c ->V	HO A/c ->V
	To Branch A/c	To Assets A/c
b) Branch Liabilities:	Branch A/c ->V	Liab. A/c ->V
	To Liab. A/c	To HO A/c
c) Branch Net Profit:	Branch A/c ->V	P/L A/c ->V
(Loss $\Rightarrow$ reverse entry)	To P/L A/c	To HO A/c

Bal. of Branch A/c & HO A/c : 0

### Case 2: Consolidated P&L & Balance Sheet for Branch & H.O.:

#### Branch does not prepare standalone Trading & P/L A/c :-

	HO Books	Br. Books
(1) Br. Income:	Branch A/c ->V	Income A/c ->V
	To Income A/c	To HO A/c
(2) Br. Expense:	Exp A/c ->V	HO A/c ->V
	To Branch A/c	To Expenses A/c
(3) Br. Asset :-	Same as Above	
(4) Br. Liability:	Same as Above	

\* Cl. stock of Branch (in Adjustments) will be Cl. stock of HO.

# ACCOUNTING FOR BRANCHES

## 5. ACCOUNTING FOR FOREIGN BRANCHES:

Foreign branches generally maintain independent and complete record of business transacted by them in currency of the country in which they operate.

The accounting principles which apply to inland branches also apply to a foreign branch after converting the trial balance of the foreign branch in the Indian currency.

### Preparation of Final A/cs:

#### Step 1: Translation of foreign currency TB to reporting currency:

Items	Integral Operations	Foreign	Non Integral Foreign Operations
Monetary Items (Cash, Bank Balance, Debtor, Creditor, Loans, Bills receivable, Bills Payable)	Closing rate		Closing rate
Non-Monetary Items (Fixed Assets) <i>Prepaid exp, Inv in eqsh</i>	Rate on date of purchase		Closing rate <i>KK</i>
Inventory	Generally, closing rate (but if rate on the date of purchase of inventory is available, then that rate)		Closing rate
Profit and Loss items (revenue items)	Average rate (but if rate on the date of transaction is available, then that rate)		Average rate (but if rate on the date of transaction is available, then that rate)
Exchange Difference	Charge to P&L account		Accumulated in Foreign Currency Translation reserve

*HO related items  
Depn*

*HO Books  
Same on FA*

*HO Books  
Same on FA*

#### Step 2: Incorporation of translated TB into H.O. TB.

*Same as Independent Branch*

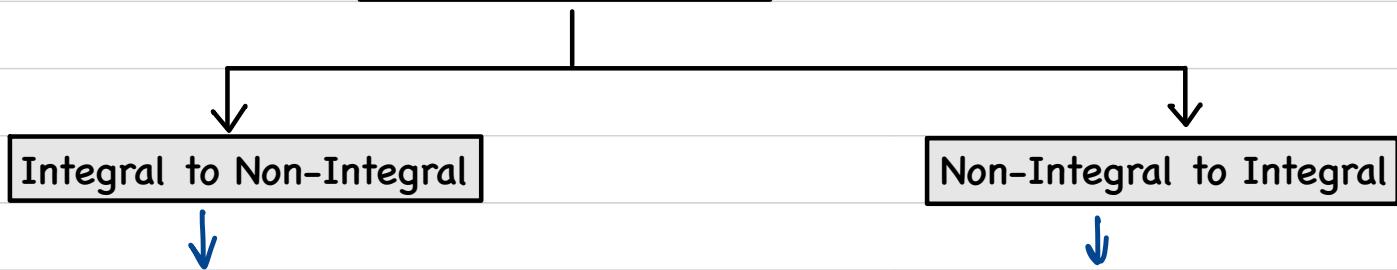
#### Step 3: Preparation of Final Accounts of business.

*Same as Independent Branch*

# ACCOUNTING FOR BRANCHES

## 6. CHANGE IN CLASSIFICATION OF FOREIGN BRANCHES:

When there is a change in classification, accounting treatment is as under:



Step 1: All non-monetary items shall be restated using exchange rate on date of reclassification.

Step 2: Any exchange diff. arising on such restatement shall be accumulated in FCFR.

Step 1: All non-monetary items shall be restated using exch. rate on date of reclassification (if the date is diff. from B/S Date)

This value shall be taken as [cost] for the purpose of Integral fo.

Step 2: Bal. in FCFR shall remain intact. It shall not be trfd to P/L until the fo is disposed off.