

## Accounting for specific Industries

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The logo of Galgotias University is a circular emblem with a stylized 'G' in the center. The 'G' is composed of three curved, overlapping bands in shades of yellow, blue, and red. The background of the emblem is a light, circular gradient.

## Lecture -5

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## Topic covered

- Issue of Bonus shares
- Bonus share treatment
- Numerical problem

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## Topic covered

When the bonus shares are issued by the subsidiary companies. It enhances the number of shares held by the parent company.

Till the time parent company issues Bonus share then there is no great impact on consolidated financial statement

Its treatment depends upon the sources (Capital Profit or Revenue Profit) from which bonus shares are issued out.

## Bonus share treatment

**Bonus shares issued out of Capital Profit or Pre-acquisition Profit** – No effect in the accounting treatment in the books of accounts.

**Bonus shares issued out of Current Profit or Post-acquisition Profit** – The holding company's share in the current profit of the subsidiary company should be calculated after making proper adjustments for bonus issue. Ultimately, it reduces the amount of holding company's share in the post-acquisition profit. It will affect the cost of goodwill.

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Course Code : BCOM3031

Course Name: Accounting for specific industries

## 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	300000	75000		262500	75000
Each			Fixed Assets		
General Reserve	75000	30000	Investments:		
Profit and Loss	37500	22500	6000 shares in S		
Account	37500	7500	Ltd.	75000	
Sundry Creditors	450000	135000	Current Assets	112500	60000
				450000	135000

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Continued

On the date of acquisition of shares in S Ltd. by H Ltd., S Ltd. had a General Reserve balance of Rs. 30000. S Ltd. capitalised Rs. 15000 out of profit earned after acquisition of its shares by H Ltd. by making a bonus issue of one share for every five shares held. Prepare the Consolidated Balance Sheet.

*Solution:*

Share of holdings by H Ltd. in S Ltd. = 6000 shares out of 7500 shares = 80%

Share of holdings by Outsiders in S Ltd. = 1500 shares out of 7500 shares = 20%

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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	300000
b. Reserves and Surplus	2	139500
Minority Interest		25500
Current Liabilities		
Sundry Creditors:		
H Ltd.	37500	
S Ltd.	7500	
Total		510000
B. Assets		
Non-current Assets		
Fixed Assets		
a. Tangible	3	337500
b. Intangible		Nil
Current Assets		

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Name: Financial Derivatives

continued

	H Ltd.	112500	
	S Ltd.	<u>60000</u>	172500
	Total		510000
Note No.	Particulars		Amount (Rs.)
1.	Share Capital Issued and Subscribed 30000 Shares of Rs. 10 each		300000
2.	Reserves and Surplus Capital Reserve General Reserve P & L A/c (37500 + 6000)		21000 75000 43500 139500
3.	Fixed Assets – Tangible H Ltd.	262500	
	S Ltd.	<u>75000</u>	337500

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Calculation of Revenue Profit in S Ltd.:

Profit and Loss Account balance for the year 2014	Rs. 22500
Less: Bonus Shares	15000
Revenue Profit	<u>7500</u>

Share of revenue profit due to H Ltd. =  $7500 \times 80\% = \text{Rs. } 6000$

Share of revenue profit due to Outsiders in S Ltd. =  $7500 \times 20\% = \text{Rs. } 1500$

Calculation of Capital Profit in S Ltd.:

General Reserve = 30000

Share of capital profit due to H Ltd. =  $30000 \times 80\% = \text{Rs. } 24000$

Share of capital profit due to Outsiders in S Ltd. =  $30000 \times 20\% = \text{Rs. } 6000$

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## Calculation of Capital Reserve:

	Rs.	Rs.
Cost of Shares in S Ltd.		75000
Less: Face value of shares in S Ltd.	60000	
(6000x10) Capital Profit	24000	96000
Face value of Bonus Shares (15000x80%)	12000	
Capital reserve		21000

## Calculation of Minority Interest

		Rs.
Paid up value of Shares held by outsiders in S Ltd.		1500
(1500x10) Add: Share of revenue profit due to Outsiders in S Ltd.	1500	0
Share of capital profit due to Outsiders in S Ltd.	6000	
Bonus Shares (15000x20%)	3000	
Minority Interest		<u>10500</u> 25500

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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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