1. Loss due to Earthquake is an example of **Extra Ordinary** item.
   (Exceptional Items, Extra Ordinary Items, Normal Items)

2. Unclaimed dividend is a **Other Current** Liability.
   (Contingent, Other Current, Long Term)

3. Deficiency or Surplus account prepared under list **H**.
   (List A, List H, List B)

4. The balance of Capital Reduction A/c is transferred to **Capital Reserve** A/c.
   (General Reserve, Capital Reserve, P& L A/c)

5. **Amalgamation** refers to the merger of two or more existing companies into a single new company.
   (Absorption, Amalgamation, External Reconstruction)

6. Two or more liquidation and one formation is take place in case of **Amalgamation**.
   (Absorption, Amalgamation, External Reconstruction)

7. One liquidation and no new formation take place in case of **Absorption**.
   (Absorption, Amalgamation, External Reconstruction)

8. One liquidation and one formation is take place in case of **External Reconstruction**.
   (Absorption, Amalgamation, External Reconstruction)

9. In External Reconstruction, there is one liquidation and **one Formation**.
   (Two Formation, One Formation, Three Formation)

10. In Amalgamation, there are **Two or More Liquidation and One Formation**.

11. In Absorption, there is **one liquidation** but **No New Formation**.
12. If ‘A Ltd’ is formed to take over the business of ‘B Ltd’ and ‘C Ltd’; then it is a case of **Amalgamation**.

(Absorption, Amalgamation, External Reconstruction)

13. If ‘A Ltd’ is formed to take over the business of ‘B Ltd’; then it is a case of **External Reconstruction**.

(Absorption, Amalgamation, External Reconstruction)

14. When the value of “Investment in subsidiary” in the holding company’s balance sheet is more than the book value of the net assets acquired, the difference represents **Goodwill** on consolidation.

(Capital Reserve, Goodwill, Capital Profit)

15. Minority interest is shown in Balance Sheet **Liabilities Side**.

16. When the value of “Investment in subsidiary” in the holding company’s balance sheet is less than the book value of the net assets acquired, the difference represents **Capital Reserve** on consolidation.

(Capital Reserve, Goodwill, Capital Profit)

17. A company who hold more than 50% of Sharea

18. Unquoted shares mean **Unlisted Shares**.

(Listed Shares, Unlisted Shares, Quoted Shares.)

19. Quoted shares means **Listed Shares**.

20. (Listed Shares, Unlisted Shares, Quoted Shares.)

21. Liquidation means **winding up** of a company.

(Open up, Winding up, Running up)

22. Winding up of a company by the creditors or members without any intervention of the court (Tribunal) is known as **Voluntary Winding Up**.
23. Liquidation without intervention of the court’s known as **Voluntary Liquidation.**

24. Winding up of a company by the creditors or members with any intervention of the court (Tribunal) is known as **Compulsory Winding Up.**

25. Compulsory winding up means winding up by **Court.**

26. Profit earned by the subsidiary company during pre-acquisition period is called as **Capital Profit.**

27. Profit earned by the subsidiary company during post-acquisition period is called as **Revenue Profit.**

28. AS-5 stands for **Net Profit or Loss for the period, Prior Period Items and Change in Accounting Policies.**

29. AS-6 Stand for **Depreciation Accounting.**

30. AS-10 Stand for **Accounting for Fixed Assets.**

31. AS 14 stands for **Accounting for amalgamation.**

32. As 21 stands for **Consolidated Financial Statement.**

33. Reserve are the amounts kept aside out of the **Profit.**

34. Internal reconstruction is generally resorted to write off the **Losses, Fictitious assets and Intangible assets.**

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(Tangible assets, Losses, Fictitious assets and Intangible assets, Liabilities)

35. The procedure of reduction in share capital is called as **Internal** Reconstruction.
   (External, Internal, Close)

36. Reduction of share capital requires approval of the **Court**.
   (Shareholders, Creditors, Court)

37. Dividend usually paid on **Paid up Capital**.
   (Authorised share capital, Paid up share capital, Current year profit)

38. A liability which can be measured only by using a substantial degree of estimation is called **Provision or contingent liability**.

39. Dividend paid between two annual general meetings is called **Interim** Dividend.
   (Unclaimed, Interim, Proposed)

40. Dividend declared in the annual meeting is called **Proposed** dividend.

41. Dividend which cannot pay is called as **Unpaid/ Unclaimed** Dividend.

42. The creditors who receive full amount of loan are called as **Fully Secured Creditors**.

43. The creditors who have preferential rights at time of repayment is called as **Preferential Creditors**.

44. The amount payable by purchasing company to the vendor company is called **Purchase Consideration**.

45. Assets less liabilities taken over by purchasing company is called **Net Assets**.
True or False

1. Acquisition of shares of a subsidiary company at a premium price by the holding company is treated as Goodwill : True
2. Acquisition of shares of a subsidiary company at a discount price by the holding company is treated as Capita Reserve : True
3. Intrinsic value and market price of equity shares are always equal : False
4. Under Payment method purchase consideration is calculated by adding the various payments made by the purchasing company : True
5. The process of internal reconstruction may be carried out by writing off accumulated losses and fictitious assets : True
6. AS-14 does not deal with accounting for livestock : True
7. A Liquidator is the official, who helps the court in the completion of the winding up proceedings : True
8. Bills/Trade Receivable is a fixed asset. : False (It’s current liabilities)
9. Valuation of shares is essential for conversion of preference shares into equity shares : True
10. Subsidiary company has separate legal entity : True
11. Balance on capital reduction account is transferred to share capital account: False (Its transfer to Capital Reserve account)
12. The amount of purchase consideration paid by the purchasing company to the vendor company is always in cash : False (It’s in Shares, debentures or cash)
13. In liquidation, directors sell the assets and pay the liabilities. : False (Liquidator doing this job)
14. AS-6 deals with investment accounting: **False (It's deals with Depreciation Accounting)**

15. Preference Shareholders receive dividend at variable rate: **False (receive at fixed rate given in capital)**

16. Preference Shareholders receive dividend at Fixed rate: **True**

17. Equity Shareholders receive dividend at variable rate: **True**

18. Equity Shareholders receive dividend at Fixed rate: **False**

19. Appreciation in the value of an asset is revenue profit: **True**

20. Share capital is borrowed capital of a company: **False (Share capital is owner capital)**

21. Debenture is owner capital: **False (Debenture is borrowed capital)**

22. Interim Dividend is proposed by the shareholders: **False (It’s proposed by Directors)**

23. Minority interest is payable to holding company: **True**

24. In case of holding company accounts, intercompany transactions are added to, both the sides of the Balance sheet: **False (Its lessor deducted from both side)**

25. Minority interest are the shareholders of the holding company: **False (Shareholders of Subsidiary Company)**

26. Intrinsic value of shares is useful for formulating amalgamation: **True**

27. In case of Amalgamation of company, accumulated loss are transferred to Realisation account: **False (transferred to Eq. Shareholders Account)**

28. A company cannot reduce its share capital unless it is authorised by its Article of Association: **True**

29. Accounting information is expressed only in monetary terms: **True**

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30. Fixed charge means charge on all assets : **True**

31. On Idle assets, no depreciation should be provided : **False**

32. Market value of share is always fixed : **False (value should be Change)**

33. Profit earned before the date of acquisition is called revenue profit : **False (It’s called capital profit)**

34. Profit earned after the date of acquisition is called revenue profit : **True**

35. Profit on revaluation of fixed assets is a revenue profit : **False (It’s Capital Profit)**

36. Realisation profit is transferred to debit side of the equity shareholder account : **False (It’s Transferred to Credit side of Eq. Shareholder A/c)**

37. Liquidation under supervision of court is voluntary liquidation : **False (Its Compulsory Liquidation)**

38. Coputerised accounting eliminates all types of errors in accounting : **True**

39. A change in the useful life of the depreciable asset is a change in accounting policy. : **True**

40. Investments are valued at Market Price : **True**

41. Floating charge means general charge on all assets of the company : **True**

42. The term trade liabilities include debentures and outstanding salaries : **False (Creditors and bills payables are trade liabilities)**

43. The company can carry forward accumulated losses for taxation purposes in case of internal reconstruction : **False (It should be written off)**

44. Pre-acquisition profit is treated as revenue profit. : **False (It’s treated as Capital Profit)**
Short Notes

1. Management Information System:

   When information systems are designed to provide information needed for effective decision making by managers, they are called management information systems. MIS is a formal system for providing management with accurate and timely information necessary for decision making.

   Definition

   MIS, or management information systems, are used to manage the data created within the structure of a particular business. These systems store the data and allow the business to manipulate.

   A Management Information System is an integrated user-machine system, for providing information, to support the operations, management, analysis & decision-making functions in an organization.

   In Other Words

   The System utilizes computer hardware & software, manual procedures, models for analysis, planning, control & decision making and a database is called MIS

   MIS provides information to the users in the form of reports and output from simulations by mathematical models. The report and model output can be provided in a tabular or graphic form.

   Management Reporting Alternatives MIS provide a variety of information products to managers which includes 3 reporting alternatives:

   1. Periodic Scheduled Reports: E.g. Weekly Sales Analysis Reports, Monthly Financial Statements etc.

   2. Exception Reports: E.g. Periodic Report but contains information only about specific events.

   3. Demand Reports and Responses: E.g. Information on demand.

   Advantages of MIS:
1. **It Facilitates planning**: MIS improves the quality of plans by providing relevant information for sound decision-making. Due to increase in the size and complexity of organizations, managers have lost personal contact with the scene of operations.

2. **In Minimizes information overload**: MIS change the larger amount of data in to summarized form and there by avoids the confusion which may arise when managers are flooded with detailed facts.

3. **MIS Encourages Decentralization**: Decentralization of authority is possibly when there is a system for monitoring operations at lower levels. MIS is successfully used for measuring performance and making necessary change in the organizational plans and procedures.

4. **It brings Co-ordination**: MIS facilities integration of specialized activities by keeping each department aware of the problem and requirements of other departments. It connects all decision centres in the organization.

5. **It makes control easier**: MIS serves as a link between managerial planning and control. It improves the ability of management to evaluate and improve performance. The used computers has increased the data processing and storage capabilities and reduced the cost.

6. **MIS assembles, process, stores, Retrieves, evaluates and Disseminates the information**.

**MIS Characteristics**:

1. Management Oriented/directed
2. Business Driven
3. Integrated
4. Common Data Flows
5. Heavy Planning Element
6. Subsystem Concept
7. Flexibility & Ease of Use

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2. **Payroll Accounting:**

Payroll accounting involves a company's recording of its employees' compensation. It is accounting of salary and wages paid to the employees in the organisation. It including:

**Payroll and benefits include items such as:**

- salaries
- wages
- bonuses & commissions to employees
- overtime pay
- payroll taxes and costs
  - Social Security
  - Medicare
  - federal income tax
  - state income tax
  - state unemployment tax
  - federal unemployment tax
  - worker compensation insurance
- employer paid benefits
  - holidays
  - vacations
  - sick days
  - insurance (health, dental, vision, life, disability)
  - retirement plans
  - profit-sharing plans

Many of these items are subject to state and federal laws; some involve labor contracts or company policies.
Process of Payroll Accounting: Though some systems that incorporate more or less automation may not include all of these steps, the general process flow will apply to most payroll systems:

1. **Set up new employees.** Have new employees fill out payroll-specific information as part of the hiring process, such as the W-4 form and medical insurance forms that may require payroll deductions. Set aside copies of this information in order to include it in the next payroll.

2. **Collect timecard information.** Salaried employees require no change in wages paid for each payroll, but you must collect and summarize information about the hours worked by non-exempt employees. This may involve having employees scan a badge through a computerized time clock.

3. **Verify timecard information.** Summarize the payroll information just collected and have supervisors verify that employees have correctly recorded their time.

4. **Summarize wages due.** Multiply the number of hours worked by the pay rate for each employee, also factoring in any overtime or shift differentials.

5. **Enter employee changes.** Employees may ask to have changes made to their paychecks, usually to the number of tax exemptions or pension withholdings. You may need to record much of this prior to calculating taxes, since it impacts the amount of wages to which taxes are applied.

6. **Calculate taxes.** Use IRS tax tables to determine the amount of taxes to be withheld from employee gross wages.

7. **Calculate wage deductions.** There may be a number of additional deductions to take away from employee net income, including deductions for medical insurance, life insurance, garnishments, and union dues. You must also track the goal amounts for these deductions, so that you stop deducting once the goal totals are reached.

8. **Deduct manual payments.** If manual payments have already been made to employees, such as advances, then deduct these amounts from the remaining net pay.

9. **Create a payroll register.** Summarize the wage and deduction information for each employee in a payroll register, which you can then summarize to also create a journal.
entry to record the payroll. This document is automatically created by all payroll software packages.

10. **Print paychecks.** Print employee paychecks using the information in the payroll register. You normally itemize gross wages, deductions, and net pay in a remittance advice that accompanies the paycheck.

11. **Pay by direct deposit.** Notify your direct deposit processor of the amount of any direct deposit payments, and issue remittance advices to employees for these payments.

12. **Issue paychecks.** Have a paymaster issue paychecks to employees, requiring employee identification if there are a large number of employees.

13. **Deposit withheld taxes.** Deposit all withheld payroll taxes and employer matched taxes at a bank that is authorized to handle these transactions.

3. **Inventory Accounting:**

**Meaning and Nature of inventory**

In accounting language it may mean stock of finished goods only. In a manufacturing concern, it may include raw materials, work in process and stores, etc. Inventory includes the following things:

(a) **Raw Material:** Raw material form a major input into the organisation. The quantity of raw materials required will be determined by the rate of consumption and the time required for replenishing the supplies.

(b) **Work in Progress:** The work-in-progress is that stage of stocks which are in between raw materials and finished goods.

(c) **Consumables:** These are the materials which are needed to smoothen the process of production.

(d) **Finished goods:** These are the goods which are ready for the consumers.

(e) **Spares:** Spares also form a part of inventory. The consumption pattern of raw materials, consumables, finished goods are different from that of spares.

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Inventory Accounting:

It is necessary for every management to give proper attention to inventory management. A proper planning of purchasing, handling storing and accounting should form a part of inventory management. An efficient system of inventory management will determine (a) what to purchase (b) how much to purchase (c) from where to purchase (d) where to store, etc.

There are conflicting interests of different departmental heads over the issue of inventory. The finance manager will try to invest less in inventory because for him it is an idle investment, whereas production manager will emphasise to acquire more and more inventory as he does not want any interruption in production due to shortage of inventory. The purpose of inventory management is to keep the stocks in such a way that neither there is over-stocking nor under-stocking. The over-stocking will mean reduction of liquidity and starving of other production processes; under-stocking, on the other hand, will result in stoppage of work. The investments in inventory should be kept in reasonable limits.

Objects of Inventory Management

The main objectives of inventory management are operational and financial. The operational objectives mean that the materials and spares should be available in sufficient quantity so that work is not disrupted for want of inventory. The financial objective means that investments in inventories should not remain idle and minimum working capital should be locked in it. The following are the objectives of inventory management:

1. To ensure continuous supply of materials spares and finished goods so that production should not suffer at any time and the customers demand should also be met.

2. To avoid both over-stocking and under-stocking of inventory.

3. To keep material cost under control so that they contribute in reducing cost of production and overall costs.

4. To minimise losses through deterioration, pilferage, wastages and damages.
(5) To ensure perpetual inventory control so that materials shown in stock ledgers should be actually lying in the stores.

(6) To ensure right quality goods at reasonable prices.

(7) To maintain investments in inventories at the optimum level as required by the operational and sales activities.

(8) To eliminate duplication in ordering or replenishing stocks. This is possible with help of centralising purchases.

(9) To facilitate furnishing of data for short term and long term planning and control of inventory.

(10) To design proper organisation of inventory. A clear cut accountability should be fixed at various levels of management.

Tools and Techniques of inventory Management

Effective inventory management requires an effective control system for inventories. A proper inventory control not only helps in solving the acute problem of liquidity but also increases profits and causes substantial reduction in the working capital of the concern. The following are the important tools and techniques of inventory management and control:

1. Determination of Stock Levels.
   a. Maximum Stock Levels
   b. Minimum Stock Level
   c. Reorder Level
   d. Danger Level

2. Determination of Safety Stocks.

3. Determination of Economic Order Quantity

4. A.B.C. Analysis

5. VED Analysis

6. Inventory Turnover Ratios

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7. Aging Schedule of Inventories
8. Just in Time Inventory

4. **Need of Valuation of Shares:**

   The following are the circumstances where need for the valuation of shares arises:

   1. Where companies amalgamate or are similarly reconstructed, it may be necessary to arrive at the value of shares held by the members of the company being absorbed or taken over.

   2. Where shares are held jointly by the partners in a company and partnership firm dissolved, it becomes necessary to value the shares.

   3. Where a portion of the shares is to be given by a member of proprietary company to another member as the member cannot sell it in the open market, it becomes necessary to certify the fair price of these shares by an auditor.

   4. When a loan advanced on the security of shares, it becomes necessary to know the value of shares on the basis of which loan has been advanced.

   5. When shares are given in a company as gift it may be necessary for the purpose of assessing gift tax, to place a value on the shares.

   6. When preference shares or debentures are converted into equity shares it becomes necessary to value the equity shares for ascertaining the number of equity shares required to be issued for debentures or preference shares which are to be converted.

   7. When equity shareholders are to be compensated on the acquisition of their shares by the government under a scheme of nationalization then it is necessary to value the equity shares.

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5. **The factors affecting the value of shares:**

1. The nature of the business
2. The income yielding capacity of the company
3. The demand and supply of shares
4. The percentage of dividend declared on shares
5. The availability of sufficient assets over liabilities
6. General economic condition e.g. availability of raw materials, possibility of new competitions.
7. Financial, political and other factors affecting the business
8. Reserves of the company

6. **AS 5 – Net Profit or Loss for the Period, Prior Period Items:**

All items of income and expense, which are recognised in a period, should be included in determination of net profit or loss for the period unless an accounting standard requires or permits otherwise.

All ordinary and extraordinary items relating to the financial statement should be disclosed if it effects on profit or loss period before changing of accounting policies.

**Terms to be known:**

**Ordinary activities:**

ordinary activities are any activities which are undertaken by an enterprise as part of its business and such related activities in which the enterprise engages in furtherance of, incidental to, or arising from, these activities.

**Extra-ordinary activities:**

Extraordinary Items are income or expenses that arise from events or transactions that are clearly distinct from the ordinary activities of the enterprise and, therefore, are not expected to recur frequently or regularly.
**Prior period items:**

Prior period items are income or expenses which arise in the current period as a result of errors or omissions in the preparation of the financial statements of one or more prior periods.

The net profit or loss for the period comprises the following components, each of which should be disclosed on the face of the statement of profit and loss:

(a) Profit or loss from ordinary activities; and
(b) Extraordinary items.

Extraordinary items should be disclosed in the statement of profit and loss as a part of net profit or loss for the period. The nature and the amount of each extraordinary item should be separately disclosed in the statement of profit and loss in a manner that its impact on current profit or loss can be perceived.

When items of income and expense within profit or loss from ordinary activities are of such size, nature, or incidence that their disclosure is relevant to explain the performance of the enterprise for the period, the nature and amount of such items should be disclosed separately.

The nature and amount of prior period items should be separately disclosed in the statement of profit and loss in a manner that their impact on the current profit or loss can be perceived.

**The effect of a change in an accounting estimate should be included in the determination of net profit or loss in:**

1. If the change affect the period only, or
2. The period of the change and future periods, if the change affects both. If it is impracticable to quantify the amount, this fact should be disclosed.

**Change in accounting policy:**

A change in an accounting policy should be made only if the adoption of a different accounting policy is required by statute or for compliance with an accounting standard or if it is considered that the change would result in a more appropriate presentation of...
the financial statements of the enterprise.
Any change in an accounting policy which has a material effect should be disclosed.

7. AS-14 : Accounting for Amalgamation

Amalgamation means combine together or joining together by voluntarily liquidation of two or more existing company by formation of one new company. Amalgamation could be done either by the transfer of two or more existing entity to new entity or by the transfer of one or more undertaking to an existing company.

This standard deals with accounting for amalgamation and the treatment of goodwill or reserves and AS-14 includes the direction for amalgamation of companies although it’s some of the provisions also applies to other entities. It is important to understand the difference between the word Amalgamation and Acquisition.

**Amalgamation**: Two or more liquidation and one new formation

**Absorption**: One liquidation and no new formation

**External Reconstruction**: One liquidation and one new formation.

There are two methods of amalgamation viz. “**Amalgamation in the nature of Purchase**” and “**Amalgamation in the nature of merger**”.

Acquisition includes the purchase of whole or part of the shares or whole or part of the assets of another company in consideration of cash or the payment by way of issuing the securities or partly by one method and partly by other method. The distinguishing feature of the acquisition is that during this process the company who is acquired does not loss its existence as separate entity.

**Definition:-**

**Transferor Company**: Company which is amalgamated into another company.

**Transferee Company**: A company into which a transferor company is amalgamated.

**Amalgamation in the Nature of Merger**: If it satisfies all the conditions mentioned below:

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• All the assets and liabilities of the transferor become the assets and liabilities of the transferee, after amalgamation.
• Not less than 90% of the equity shareholder agrees to become the shareholders of the transferee company.
• Consideration for the equity shareholders of the transferor company who agrees to become the shareholders of the transferee company is discharged wholly through the payment by way of issue of equity shares or other securities or a combination of both, only the fraction of the share could be paid by way of cash.
• Business of the transferor company is intended to be carried out, after amalgamation by the transferee company.
• No adjustment is intended to be made in the book value of the assets and liabilities of the transferor company when they are included in the financial statement of the transferee company except to ensure uniformity in the accounting policies.

Amalgamation In The Nature Of Purchase: If any one of the above mentioned condition get dissatisfied, then such amalgamation will be treated as the amalgamation in the nature of purchase.

Purchase Consideration: Purchase consideration is the purchase price paid by purchasing company to the vendor company for the taking over the assets and liabilities of the vendor company. It is paid in terms of Equity shares, Preference shares, debentures, and cash.

Methods of Purchase Consideration: There are four methods of purchase consideration

1. Lump sum method:
   Lump sum amount decided as a purchase consideration by purchasing company and vendor company.

2. Net assets method:
   It is calculated by assets taken over less liabilities taken over

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A) Agreed Value Of Assets Taken Over

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<tr>
<td>Land &amp; Building</td>
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<td>Plant &amp; Machinery</td>
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<td>Furniture</td>
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<td>Stock</td>
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<td>Debtors</td>
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<td><strong>Total A</strong></td>
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Less B. Agreed Value of Liabilities Taken Over:

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<td>Sundry Creditors</td>
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<td>Bills Payables</td>
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<td><strong>Total</strong></td>
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 Purchase Consideration / Net Assets

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3. **Payment method**:  
It mention the payment of purchase consideration either in Equity shares, Preference shares, Debentures or in Cash

4. **Net assets and payment method**:  
It is combination of above two method

**FAIR VALUE:** Fair value is the amount for which a assets could be exchanged between the transferor and transferee.

**POOLING OF INTEREST METHOD:** This is a method of accounting for the amalgamation the purpose of which is to account for amalgamation as if Transferee Company continued to be operated as separate entity. Accordingly, only minimal changes can be done in the financial statement of the amalgamating companies.

8. **AS 21: Consolidated Financial Statement:**

**Objective:-**

This Statement should be applied in the preparation and presentation of consolidated financial statements for a group of enterprise under the control of a parent. This Statement should also be applied in accounting for Investment in subsidiaries in the separate financial statements of apparent.

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**Definition:**

**Control:** Control the ownership, directly or indirectly through subsidiary, of more than one- half of the voting power of an enterprise

**Subsidiary Company:** A **Subsidiary** is an enterprise that is controlled by another enterprise (known as the parent)

**Holding Company:** A **holding or Parent is the enterprise** that control one or more subsidiaries.

A group is a parent and all its subsidiaries.

**Consolidated Financial Statement:** Consolidated **financial** statements are the financial statements of a group presented as those of a single enterprise.

Minority Shareholders: It is the shareholders other than holding company who take less than 50% share capital in subsidiary company.

**Presentation of Consolidated Financial Statements:**

A Parent which presents consolidated financial statements should present these statements in addition to its separate financial statements, will improve comparison of performance among different enterprise for the same period and among different accounting periods for the same enterprise.

**Scope of Consolidated Financial Statements:**

A Parent which presents consolidated financial statements should consolidate all subsidiaries, domestic as well as foreign.

**Consolidation Procedure:**

In preparing consolidated financial statements, the financial statements of the parent and its subsidiaries should be combined on a line by line basis basis by adding together like items of assets liabilities, income and expenses, In order that the consolidated financial statements present financial information about the group as that of a single enterprise, the following steps should be taken:

1. **Calculation of Capital Profit/Loss:** It is also known as pre acquisition profit. The first step in consolidation is calculation of capital profit in the subsidiary of holding company and minority’s shares. Capital profit is the profit of subsidiary up to the date of share acquisition.

   **It is calculated as under**

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<td>P&amp; L A/c (Opening)</td>
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<tr>
<td>Add G/R (Opening)</td>
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<tr>
<td>Add Profit (upto the date of acquisition)</td>
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2. **Calculation of Revenue Profit:** It is also known as post acquisition profit. Revenue profit is the profit in subsidiary company after date of share acquisition by holding company.

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<tbody>
<tr>
<td>Profit (from the date of acquisition)</td>
<td>XXX</td>
</tr>
<tr>
<td>Add G/R (from the date of acquisition)</td>
<td>XXX</td>
</tr>
<tr>
<td><strong>Revenue Profit</strong></td>
<td>XXX</td>
</tr>
<tr>
<td>Share of Holding</td>
<td>XXX</td>
</tr>
<tr>
<td>Share of minority</td>
<td>XXX</td>
</tr>
</tbody>
</table>

3. **Calculation of Cost of control:**
Cost of control is the calculation of Goodwill or capital reserve of subsidiary company in holding company. If purchase price of shares is more than face value which is paid by holding company to the subsidiary it is to be said that goodwill and vis versa Capital Reserve.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase price of shares</td>
<td>XXX</td>
</tr>
<tr>
<td>Less : Face value of Shares</td>
<td>XXX</td>
</tr>
<tr>
<td>Less : Share in Capital Profit</td>
<td>XXX</td>
</tr>
<tr>
<td>Add : Share in Capital Loss (If Loss)</td>
<td>XXX</td>
</tr>
<tr>
<td><strong>Goodwill/Capital Reserve</strong></td>
<td>XXX</td>
</tr>
</tbody>
</table>

4. **Minority Interest:** Minority interest is the share of minority shareholders in subsidiary company in terms of share capital, capital profit and revenue profit.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share Capital</td>
<td>XXX</td>
</tr>
<tr>
<td>Add : Share in Capital Profit</td>
<td>XXX</td>
</tr>
<tr>
<td>Add : Share in Revenue Profit</td>
<td>XXX</td>
</tr>
<tr>
<td><strong>Goodwill/Capital Reserve</strong></td>
<td>XXX</td>
</tr>
</tbody>
</table>

5. **UNREALISED PROFIT ON STOCK:** If intercompany transfer of stock takes place at a profit, there may be an unrealized profit on stock unsold at the close of financial year. The unrealized profits on stock should be deducted from stock on the asset side of the consolidated balance sheet. In the liability side, the amount of stock reserve should be deducted from the P&L account.
6. Inter Company Transaction: Transaction between debtors & creditors, bills payable & bills receivable etc. should be eliminated from both side.