

CORPORATE ACCOUNTING

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UNIT-IV

Accounts of Holding company - legal requirements relating to presentation of accounts - Consolidation of balance sheet (excluding chain holding).

INTRODUCTION OF HOLDING COMPANY

- When a company acquires majority shares in the ownership capital or is in a position to influence or control the management of the other company, the company is called a Holding Company and other company a Subsidiary.
- Subsidiaries have their separate existence and are managed by independent governing boards (in case of public enterprises) and Holding company (in case of commercial enterprises).
- Holding company is the one that holds either the whole of the share capital or a majority of shares in one or more companies.
- Its object is to promote combination movement
- Example = Coal India is a Holding Company. Bharat Holding Ltd, Mahanadi Coal Field Ltd are its Subsidiary Company.

Introduction

- If one company controls the other company by the way of acquire the share of the other company is know as holding company. The must acquire more than 51% share of the other one company is know as holding company . The holding co. Does not acquire the assets of the other company but it acquire only share of the other company .As only share are transferred from the old shareholder to the new holder.

Meaning of holding company

- ◉ Holding company is a company which has a control over another company by either of the following
 1. *Controls the board of directors*
 2. *Holds more than in nominal value of its equity share capital*

Meaning of subsidiary company

- ◉ A company controlled by a holding company is known as a subsidiary company
- ◉ By following way
 1. *Controlled the board of directors*
 2. *Holds more than in nominal value of its equity share capital by other company*

Types of holding

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graph TD; A[Types of holding] --> B[Wholly-owned]; A --> C[Partly-owned]
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Wholly-owned

Partly-owned

WHOLLY-OWNED

- When all the share of the subsidiary company are held by its holding company the subsidiary is called as wholly-owned holding company

PARTLY-OWNED

- When more than 50% share but not 100% of the subsidiary company are held by its holding company the subsidiary is called as partly-owned holding company

Important to solve problems

- ◉ *Analysis of capital profit*
- ◉ *Analysis of revenue profit*
- ◉ *Calculation of cost of control (goodwill/reserve)*
- ◉ *Calculation of minority interest*

ADVANTAGES OF HOLDING COMPANY



- Better quality decisions.
- Better utilization of financial and other reserves.
- Large Capital
- Avoidance of Competition
- Economies of large scale operations
- Secrecy Maintained
- Risk Avoided

CONSOLIDATED BALANCE SHEET

- In India, although a holding company is not required by law to prepare a consolidated Balance sheet or a consolidated P & L A/c is of much help to the holding company to show clear pictures.
- So, in addition to the 'legal' Balance sheet as prescribed in Schedule VI, the holding company may also publish in a consolidated Balance sheet in which the assets and liabilities of all the subsidiaries are given along with its own assets and liabilities as the Balance sheet.

1. Holding-Minority Ratio

**Holding Co Ltd. acquired 90% of shares in
Subsidiary Co Ltd.**

Minority holding in Subsidiary Co Ltd. = 10%

Ratio = 90: 10 or 9: 1

2.REVENUE PROFITS

			Rs.
Profit for the current year, given		=	
Profit made alter Date of acquisition	=	$\text{XXX} \cdot \frac{6}{12}$	= XXXX
Or Revenue profit			
Holding company's share	=	$\text{XXX} \cdot \frac{9}{10}$	= XXXX
Minority's share	=	$\text{XXX} \cdot \frac{1}{10}$	= XXXX

3.CAPITAL PROFITS

General reserve of Subsidiary co Ltd.	XXXX
Profit & Loss Account of Subsidiary co Ltd.	XXXX
	XXXX
Less: Revenue profit OR Profit after the Date of Acquisition	XXXX
Capital profit	XXXX

Holding company's share

$$= \cancel{XXXX} \times \frac{9}{10} = \cancel{XX}XXX$$

Minority's share

$$= \cancel{XXXX} \times \frac{1}{10} = ,\cancel{X}XXX$$

4. MINORITY INTEREST

Face value of minority shares (Share capital of Subsidiary co. X Minority share)	XXXX
Add: Minority share of capital profit	XXXX
Add: Minority share of revenue profit	XXXX
Minority interest	XXXX

5. Cost of control or goodwill

Amount paid by Holding co Ltd. for shares purchased in Subsidiary Ltd.		XXXXX
Less: Face value of shares purchased (share capital of holding X holding share)	XXXX	
Less: Holding company's share of capital profits	XXXX	XXXXX
Goodwill		XXXXX
Add: Goodwill in D Ltd. 's Balance Sheet		XXXXX
Goodwill to be shown in consolidated Balance Sheet		XXXXX

1. Holding-Minority Ratio

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Minority holding in Subsidiary Co Ltd. = 10%

Ratio = 90: 10 or 9: 1

2.REVENUE PROFITS

			Rs.
Profit for the current year, given		=	
Profit made alter Date of acquisition	=	$\text{XXX} \cdot \frac{6}{12}$	= XXXX
Or Revenue profit			
Holding company's share	=	$\text{XXX} \cdot \frac{9}{10}$	= XXXX
Minority's share	=	$\text{XXX} \cdot \frac{1}{10}$	= XXXX

3.CAPITAL PROFITS

General reserve of Subsidiary co Ltd.	XXXX
Profit & Loss Account of Subsidiary co Ltd.	XXXX
	XXXX
Less: Revenue profit OR Profit after the Date of Acquisition	XXXX
Capital profit	XXXX

Holding company's share

$$= \cancel{XXXX} \times \frac{9}{10} = \cancel{XX}XXX$$

Minority's share

$$= \cancel{XXXX} \times \frac{1}{10} = ,\cancel{X}XXX$$

Capital profit & revenue profit

X ltd purchased 60% shares of Y ltd on **1.1.2012** when the balance on their P& L a/c and general reserve were **Rs.1,50,000** and **Rs.1,60,000** respectively. On **31.12.2012**, the balance sheet of Y Ltd. Showed P&L a/c balance of **Rs.4,00,000** and general reserve **Rs.3,00,000**. calculate capital profits and revenue profits

2. Revenue profits- Profits earned by a subsidiary company after the date of acquisition of shares by the holding company

● Profit and loss a/c	Rs.1,50,000
● General Reserve	Rs.1,60,000
	<hr/>
Revenue Profit	Rs.3,10,000
	<hr/>

3. Capital profits-all the accumulated profits and reserves (balance sheet of subsidiary co) of the subsidiary company on the date of purchase of shares by the holding company(pre acquisition profit)

General reserve of D Ltd.	4,00,000
Profit & Loss Account of D Ltd.	3,00,000
	<hr/>
	7,00,000
<i>Less:</i> Revenue profit	3,10,000
	<hr/>
Capital profit	3,90,000
	<hr/>

Capital profit & revenue profit

P Ltd. Acquired 65% shares of Q Ltd. on **1.10.2002**. P & L a/c in the books of Q Ltd. Showed a debit balance of Rs.40,000 on **1.04.2002**. On **31.03.2003**, the Balance sheet of Q Ltd. Showed P&L a/c balance of Rs.1,20,000. calculate capital profits and revenue profits

2. Revenue profits- Profits earned by a subsidiary company after the date of acquisition of shares by the holding company(post or after acquisition)

● Profit and loss a/c	Rs. 40,000
● General Reserve	Rs. nil
	<hr/>
Revenue Profit	Rs. 40,000
	<hr/>

3. Capital profits-all the accumulated profits and reserves (balance sheet of subsidiary co) of the subsidiary company on the date of purchase of shares by the holding company(pre or before acquisition profit)

General reserve of Q Ltd.	nil
Profit & Loss Account of Q Ltd.	1,20,000
	<hr/>
	1,20,000
Less: Revenue profit	80,000
	<hr/>
Capital profit	40,000
	<hr/>

H Ltd, acquired 3000 equity shares in S Ltd. On 1st April 2007. S Ltd earned profit of Rs.60,000 for the year ended 31st December,2007. On 31st December 2007 the Balance sheet of S Ltd. was as follows

Liabilities		Rs.	Assets	Rs.
Share capital:			S.Assets	6,40,000
4000 equity shares of Rs.100 each		4,00,000		
General reserve on 1.1.2007		80,000		
Profit & Loss A/c				
Balance on 1.1.2007	20,000			
Profit for 2007	80,000	1,00,000		
Sundry creditors		60,000		
		6,40,000		6,40,000
Ascertain capital profits and revenue profits				

2. Revenue profits. Profits earned by a subsidiary company after the date of acquisition of shares by the holding company (post or after acquisition)

● Profit and loss a/c	Rs. 60,000
● General Reserve	Rs. nil
	<hr/>
Revenue Profit	Rs. 60,000
	<hr/>

3. Capital profits-all the accumulated profits and reserves (balance sheet of subsidiary co) of the subsidiary company on the date of purchase of shares by the holding company(pre or before acquisition profit)

General reserve of S Ltd.	80,000
Profit & Loss Account of S Ltd.	1,00,000
	<hr/>
	1,80,000
Less: Revenue profit	60,000
	<hr/>
Capital profit	1,20,000
	<hr/>

4. MINORITY INTEREST

Face value of minority shares (Share capital of Subsidiary co. X Minority share)	XXXX
Add: Minority share of capital profit	XXXX
Add: Minority share of revenue profit	XXXX
Minority interest	XXXX

5. Cost of control or goodwill

Amount paid by Holding co Ltd. for shares purchased in Subsidiary Ltd.		XXXXX
Less: Face value of shares purchased (share capital of holding X holding share)	XXXX	
Less: Holding company's share of capital profits	XXXX	XXXXX
Goodwill		XXXXX
Add: Goodwill in D Ltd. 's Balance Sheet		XXXXX
Goodwill to be shown in consolidated Balance Sheet		XXXXX

The Balance Sheets of C Ltd. and D Ltd. as at 31st December, 1986 are as follows:

<i>Liabilities</i>	<i>CLtd.</i>	<i>DLtd.</i>	<i>Assets</i>	<i>CLtd.</i>	<i>DLtd.</i>
	<i>Rs.</i>	<i>Rs.</i>		<i>Rs.</i>	<i>Rs.</i>
Share capital (in shares of Rs. 10 each)	2,00,00	1,00,000	Sundry assets	1,32,500	1,38,200
General reserve	18,000	20,000	Goodwill	--	20,000
Profit & Loss A/c	24,500	23,000	Shares in D Ltd. at cost	1,40,000	--
Creditors	30,000	15,200			
	2,72,500	1,58,200		2,72,500	1,58,200

In the case of 'D' Ltd., profit for the year ended 31st December 1986 is Rs. 12,000 . The holding of C Ltd. in D Ltd. is 90% acquired on 30th June 1986.

Draft a consolidated Balance Sheet of 'C Ltd. and its subsidiary

1. Holding-Minority Ratio

- **Working Notes**
- C Ltd. acquired 90% of shares in D Ltd.
- Minority holding in D Ltd. = 10%
- Ratio = 90: 10 or 9: 1

2. Revenue profits

			Rs.
Profit for the current year, given		=	12,000
Profit made alter June 30th or revenue profit	=	$12,000 \times \frac{6}{12}$	= 6,000
Holding company's share	=	$6,000 \times \frac{9}{10}$	= 5,400
Minority's share	=	$6,000 \times \frac{1}{10}$	= 600

3. Capital profits

General reserve of D Ltd.

20,000

Profit & Loss Account of D Ltd.

23,000

43,000

Less: **Revenue profit**

6,000

Capital profit

37,000

Holding company's share

$$= 37,000 \times \frac{9}{10} = 33,300$$

Minority's share

$$= 37,000 \times \frac{1}{10} = 3,700$$

4. Minority interest

Face value of minority shares $1,00,000 \times \frac{10}{100} =$	10,000
Add: Minority share of capital profit	3,700
Add: Minority share of revenue profit	600
Minority interest	14,300

5. Cost of control or goodwill

Amount paid by C Ltd. for shares purchased in D Ltd.		1,40,000
Less: Face value of shares purchased	$1,00,000 \times \frac{90}{100} =$	90,000
Less: Holding company's share of capital profits	33,300	1,23,300
Goodwill	<hr/>	16,700
Add: Goodwill in D Ltd. 's Balance Sheet		20,000
Goodwill to be shown in consolidated Balance Sheet		36,700

Consolidated Balance Sheet of 'C' Ltd. and its subsidiary 'D' Ltd. as on 31st

Dec.1986.

<i>Liabilities</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>	<i>Rs.</i>
<i>Share capital:</i>			<i>Goodwill</i>		36,700
20,000 shares of Rs. 10 each		2,00,000	<i>Sundry assets:</i>		
General reserve		18,000	C Ltd.	1,32,500	
Profit & Loss A/c	24,500		D Ltd.	1,38,200	2,70,700
Add: 'C' Ltd.'s share of profit	5,400	29,900			
Creditors:					
C Ltd.	30,000				
D Ltd.	15,200	45,200			
Minority interest		14,300			
		3,07,400			3,07,400

Consolidate the following Balance sheets as at 31.12.2006

Liabilities	H Rs.	S Rs.	Assets	H Rs.	S Rs.
Capital Re.1 shares	1400	1000	900 shares in S at cost	1200	-
creditors	-	500	Sundry assets	200	1800
P&L A/c	-	300			
	1400	1800		1400	1800

H Ltd,acquired the shares on 30.06.2006

S ltd profit for the year ended 31.12.2006 is Rs.200

Draft a consolidated balance sheet of H Ltd.and its subsidiary

1. Holding-Minority Ratio

- **Working Notes**
- H Ltd. acquired 90% of shares in S Ltd.
- Minority holding in S Ltd. = 10%
- Ratio = 90: 10 or 9: 1

2. Revenue profits

				Rs.
Profit for the current year, given			=	200
Profit made alter June 30th or revenue profit	=	$200, \times \frac{6}{12}$	=	100
Holding company's share	=	$100, * \frac{9}{10}$	=	90
Minority's share	=	$100, * \frac{1}{10}$	=	10

3. Capital profits

General reserve of S Ltd.	nil
Profit & Loss Account of S Ltd.	300
	<hr/>
	300
<i>Less:</i> Revenue profit	100
	<hr/>
Capital profit	200
<hr/>	
Holding company's share	$= ,200 \times \frac{9}{10} = ,180$
Minority's share	$= ,200 \times \frac{1}{10} = 20$

4. Minority interest

Face value of minority shares $1,000 * \frac{.10}{100} =$	100
Add: Minority share of capital profit	20
Add: Minority share of revenue profit	10
Minority interest	130

5. Cost of control or goodwill

Amount paid by H Ltd. for shares purchased in S Ltd.			1200
Less: Face value of shares purchased	1000,	$\ast \frac{90}{100} =$	900
Less: Holding company's share of capital profits		180	1080
Goodwill		<hr/>	120
Add: Goodwill in D Ltd. 's Balance Sheet			0
Goodwill to be shown in consolidated Balance Sheet			120

Consolidated Balance Sheet of 'H' Ltd. and its subsidiary 'S' Ltd. as on 31st Dec.2006.

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Share capital		1400	goodwill		120
P&l A/c	0		Sundry asset H	200	
(+)revenue profit(H'S share)	90	90	S	1800	2000
Creditors H	0				
S	500	500			
Minority interest		130			
		2120			2120

Consolidate the following Balance sheets as at 31.12.2006

Liabilities	H Rs.	S Rs.	Assets	H Rs.	S Rs.
Capital Re.1 shares	1400	1000	800 shares in S at cost	1200	-
creditors	-	500	Sundry assets	200	1800
P&L A/c	-	300			
	1400	1800		1400	1800

H Ltd,acquired the shares on 30.03.2006

S ltd profit for the year ended 31.12.2006 is Rs.200

Draft a consolidated balance sheet of H Ltd.and its subsidiary

1. Holding-Minority Ratio

- **Working Notes**
- H Ltd. acquired 80% of shares in S Ltd.
- Minority holding in S Ltd. = 20%
- Ratio = 80: 20 or 4: 1

2. Revenue profits

				Rs.
Profit for the current year, given			=	200
Profit made alter March 31st or revenue profit	=	$200, \times \frac{9}{12}$	=	150
Holding company's share	=	$,150 \times \frac{4}{5}$	=	120
Minority's share	=	$150, \times \frac{1}{5}$	=	30

3. Capital profits

General reserve of S Ltd.

nil

Profit & Loss Account of S Ltd.

300

300

Less: **Revenue profit**

150

Capital profit

150

Holding company's share

$$= ,150 \times \frac{4}{5} = ,120$$

Minority's share

$$= ,150 \times \frac{1}{5} = 30$$

4. Minority interest

Face value of minority shares $1000 \times \frac{20}{100} =$	200
Add: Minority share of capital profit	30
Add: Minority share of revenue profit	30
Minority interest	260

5. Cost of control or goodwill

Amount paid by H Ltd. for shares purchased in S Ltd.				1200
Less: Face value of shares purchased	1000,	* $\frac{80}{100} =$	800	
Less: Holding company's share of capital profits			120	920
Goodwill				280
Add: Goodwill in S Ltd. 's Balance Sheet				0
Goodwill to be shown in consolidated Balance Sheet				280

Consolidated Balance Sheet of 'H' Ltd. and its subsidiary 'S' Ltd. as on 31st Dec.2006.

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Share capital		1400	goodwill		280
P&l A/c	0		Sundry asset H	200	
(+)revenue profit(H'S share)	120	120	S	1800	2000
Creditors H	0				
S	500	500			
Minority interest		260			
		2280			2280

(On 31st March, 2016 the balance sheets of H Ltd. and its subsidiary S Ltd. stood as follows:

<i>Liabilities</i>	<i>HLtd.</i>	<i>SLtd.</i>	<i>Assets</i>	<i>HLtd.</i>	<i>SLtd.</i>
	<i>Rs.</i>	<i>Rs.</i>		<i>Rs.</i>	<i>Rs.</i>
Equity share capital	8,00,000	2,00,000	Fixed assets	5,50,000	1,00,000
General reserve	1,50,000	70,000	75% shares in		
Profit & Loss A/c	90,000	55,000	S Ltd. (at cost)	2,80,000	-
Creditors	1,20,000	80,000	Stock	1,05,000	1,77,000
			current assets	2,25,000	1,28,000
	11,60,000	4,05,000		11,60,000	4,05,000

Draw a consolidated Balance Sheet as at 31st March, 2016 after taking into consideration the following information:

- **(i) H Ltd. acquired the shares on 31st July, 2015.**
- **(ii) S Ltd. earned profit of Rs. 45,000 for the year ended 31st March, 2016.**
- **(iii) In January 2016 S Ltd. sold to H Ltd. goods costing Rs. 15,000 for Rs.20,000. On 31st March, 2016 half of these goods were lying as unsold in the god own of H Ltd.)**
- **Give your working notes**

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as on 31.3.2016

<i>Liabilities</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>	<i>Rs.</i>
Share capital:		8,00,000	Goodwill		58,750
General reserve		1,50,000	<i>Fixed assets:</i>		
Profit & Loss A/c	90,000		H Ltd.	5,50,000	
<i>Add: H Ltd. 's share of</i>			S Ltd.	1,00,000	6,50,000
revenue profits	22,500		<i>Stock:</i>		
	1,12,500		H Ltd.	1,05,000	
<i>Less: Provision for</i>			S Ltd.	1,77,000	
unrealized profit	2,500	1,10,000		2,82,000	
Creditors: H Ltd.	1,20,000		<i>Less: Provision for</i>	2,500	2,79,500
			unrealised profit		
S Ltd.	80,000		<i>current assets: H Ltd.</i>		
		2,00,000		2,25,000	
Minority interest		81,250	SLtd.	1,28,000	3,53,000
		13,41,250		13,41,250	

1. Holding-Minority Ratio :

- **H Ltd. acquired 75% shares in S Ltd.**
- **Minority holding in S Ltd. 25%**

Ratio = 75 : 25 or 3 : 1

2. Revenue profits

Current year profit of S Ltd., given		45,000
Profit earned by S Ltd. after 31st July or		
	$45,000 \times 8 \div 12$	
revenue profit		30,000
Holding company's share	$30,000 \times \frac{3}{4} =$	22,500
Minority share	$30,000 \times \frac{1}{4} =$	7,500

3. Capital profits

3. Capital profits

General reserve of S Ltd. on 31.3.96		70,000	
Profit & Loss account of S Ltd. on 31.3.96		55,000	
		<hr/>	
		1,25,000	
Less: Revenue profit		30,000	
		<hr/>	
Capital profit		95,000	
Holding company's share	$95,000 \times \frac{3}{4}$	=	71,250
Minority share	$95,000 \times \frac{1}{4}$	=	23,750

4. Minority interest

Face value of minority shares	$2,00,000 \times \frac{25}{100}$	50,000
<i>Add:</i> Minority share of capital profits		23,750
<i>Add:</i> Minority share of revenue profits		7,500
Minority interest		<u>81,250</u>

5. Cost of control or goodwill

Amount paid for shares purchased by H Ltd. in S Ltd.	2,80,000	
Less: Face value of shares purchased $2,00,000 \times \frac{3}{4}$	1,50,000	
Holding company's share of capital profits	<u>71,250</u>	<u>2,21,250</u>
Goodwill		<u>58,750</u>

6. Provision for unrealized profit in stock

Profit in stock of H Ltd. acquired from S Ltd.

$$(20,000 - 15,000) \frac{1}{2} = 5,000 \times \frac{1}{2} = 2,500$$

∴ Provision to be created = 2,500.

From the following Balance Sheet relating to H Ltd. and S Ltd. prepare a consolidated Balance Sheet as on 31.12.2012

<i>Liabilities</i>	<i>HLtd.</i>	<i>SLtd.</i>	<i>Assets</i>	<i>HLtd.</i>	<i>SLtd.</i>
	<i>Rs.</i>	<i>Rs.</i>		<i>Rs.</i>	<i>Rs.</i>
Share capital (Shares of Rs. 10 each)	10,00,000	2,00,000	Sundry fixed assets	8,00,000	120,000
Profit and Loss A/c	4,00,000	1,20,000	Stock	6,10,000	2,40,000
Reserves	1,00,000	60,000	Debtors	1,30,000	1,70,000
Creditors	2,00,000	1,20,000	Bills receivable	10,000	-
Bills payable	-	30,000	Shares in 'S Ltd.' at cost (15,000 shares)	1,50,000	
	17,00,000	5,30,000		17,00,000	530,000

(a) All profits of S Ltd. have been earned after the shares were acquired by H Ltd. But there was already a reserve of Rs. 60,000 on that date.

(b) All the bills payable of S Ltd. were accepted in favour of H Ltd.

(c) The stock of H Ltd. includes Rs. 50,000 purchased from S Ltd.

The profit added was 25% on cost.

Consolidated Balance Sheet of H Ltd. and its subsidiary S Ltd. as on 31.12.2012

<i>Share capital:</i>			<i>Sundry assets:</i>		
1,00,000 shares		10,00,000	H Ltd.	8,00,000	
of Rs. 10 each	4,00,000		S Ltd.	1,20,000	9,20,000
Profit & Loss A/c			<i>Stock:</i>		
<i>Add:</i> H Ltd.'s share of			H Ltd.	6,10,000	
revenue profits	90,000		S Ltd.	2,40,000	
	4,90,000			8,50,000	
<i>Less:</i> Provision for			<i>Less:</i> Provision	10,000	8,40,000
unrealised profit	10,000	4,80,000	Debtors :		
Reserves		1,00,000	H Ltd.	1,30,000	
Capital reserve		45,000	S Ltd.	1,70,000	3,00,000
<i>Creditors:</i>			Bills receivable	10,000	
H Ltd.	2,00,000		<i>Less:</i>	10,000	
S Ltd.	1,20,000	3,20,000	Mutual obligation		
Bills payable	30,000				
<i>Less:</i> Mutual obligation	10,000	20,000			
Minority interest		95,000			

1. Holding-minority ratio

Total shares in S Ltd. $\frac{2,00,000}{10}$ 20,000

Shares acquired by H Ltd. in S Ltd. 15,000

Minority shares 5,000

∴ Ratio = 15,000: 5,000 = 3: 1

2. Capital profits

Reserve of S Ltd. on the date of purchase of shares in S Ltd. by H Ltd

∴ Capital profit = 60,000

Holding company's share = $60,000 \times \frac{3}{4}$ = 45,000

Minority share = $60,000 \times \frac{1}{4}$ = 15,000

3. Revenue profits

Profits earned by S Ltd. after shares were

acquired by H Ltd. in S Ltd. = P & L A/c = 1,20,000

∴ Revenue profits = 1,20,000

Holding company's share

= $1,20,000 \times \frac{3}{4}$ = 90,000

Minority's share

= $1,20,000 \times \frac{1}{4}$ = 30,000

4. Minority interest

Face value of minority shares 5,000 x 10	=	50,000
Add: Minority's share of capital profits	=	15,000
Add: Minority's share of revenue profits	=	<u>30,000</u>
Minority interest		<u>95,000</u>

5. Cost of control or goodwill

Amount paid for shares purchased by

HLtd. in SLtd. = 1,50,000

Less: Face value of shares purchased $15,000 \times 10 = 1,50,000$

Holding company's share of capital profits 45,000 = 1,95,000

Capital reserve or cost of control 45,000

Provision for unrealized profits in stock

Stock with H Ltd. purchased from S Ltd. = 50,000

Profit included in stock 25% on cost

(or) 20% on sale price $50,000 \times \frac{20}{100}$ = 10,000

∴ Provision to be made = 10,000

Thank you