

Example	A Ltd. and B Ltd. amalgamate to form C Ltd.	A Ltd. takes over the business of another existing company B Ltd.	B Ltd. is formed to take over the business of an existing company A Ltd.
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Space to write important points for revision

2

Types of Amalgamation

Q.2.1 2015 - Nov [7] (b)

Descriptive

Attempt the following:
Describe the conditions to be satisfied for Amalgamation in the nature of merger as per AS-14. (4 marks) [IPCC Gr. II]

Answer :

An amalgamation should be considered to be an amalgamation in the nature of merger when all the following conditions are satisfied:

- (i) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.
- (ii) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation.
- (iii) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares.
- (iv) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.

- (v) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

Space to write important points for revision

3

Purchase Consideration

Q.3.1 RTP

Practical

The following is the Balance Sheet of X Ltd. as on 31st March:

Liabilities	₹	Assets	₹
14,000 Equity Shares of ₹ 100 each fully paid	14,00,000	Sundry Assets	18,00,000
General Reserve	10,000	Discount on Issue of Debentures	10,000
10% Debentures	2,00,000	Preliminary Expenses	30,000
Sundry Creditors	2,00,000	Profit & Loss A/c	60,000
Bank Overdraft	50,000		
Bills Payable	40,000		
Total	19,00,000	Total	19,00,000

Y Ltd. agreed to take over the business of X Ltd. Calculate Purchase Consideration under Net Assets Method. The Market Value of 75% of the Sundry Assets is estimated to be 12% more than the Book Value and that of the remaining 25% at 8% less than the Book Value. The Liabilities are taken over at Book Values. There is an unrecorded liability of ₹ 25,000.

Answer:
Computation of Purchase Consideration under Net Assets Method

Particulars	Computation	₹
Sundry Assets taken over	(18,00,000 × 75% × 112%) + (18,00,000 × 25% × 92%)	19,26,000
Less Liabilities taken over	10% Deb + Sundry Creditors + Bank OD + Bills Payable + New/ Liabilities 2,00,000 + 2,00,000 + 50,000 + 40,000 + 25,000	(5,15,000)
	Net Assets Taken Over = Purchase Consideration	14,11,000

Hence, Purchase Consideration per Equity Share = $\frac{14,11,000}{14,000} = ₹ 100.79$

Q.3.2	RTP	Practical			
A Limited and B Limited propose to amalgamate. Their Balance Sheets as on 31 st March were:					
Liabilities	A	B	Assets	A	B
Share Capital of ₹ 10 each	5,00,000	2,00,000	PPE less Depreciation	4,00,000	1,00,000
			Investments 6% Tax Free G.P. Notes (Face Value ₹ 1,00,000)	1,00,000	
Reserves and Surplus:			Current Assets:		
General Reserve	2,00,000	20,000	Stock	2,00,000	1,30,000
Profit and Loss A/c	1,00,000	30,000	Debtors	1,70,000	60,000
Current Liabilities: Creditors	1,00,000	50,000	Cash and Bank Balances	30,000	10,000
Total	9,00,000	3,00,000	Total	9,00,000	3,00,000

The details of Not Profit after taxation for the past three years are:

Not Profit after taxation for the year	Year before last	Last Year	This Year
A Ltd.	1,30,000	1,25,000	1,50,000
B Ltd.	45,000	40,000	56,000

Goodwill may be taken as 4 year's purchase of Average Super Trading Profits on the basis of 15% Trading Profits on Closing Capital invested. Stocks of A Ltd. and B Ltd to be taken at ₹ 2,04,000 and ₹ 1,42,000 respectively for the purpose of amalgamation.

AB Ltd. was formed for the purpose of amalgamation of both the Companies. You are required to - (a) Advise AB Ltd. on the scheme of exchange of Shares, and (b) Draft the Balance Sheet of AB Ltd.

Answer:

Computation of Trading Capital Employed, Goodwill and Purchase Consideration

Particulars	A	B
(a) Share Capital	5,00,000	2,00,000
General Reserve	2,00,000	20,000
Profit and Loss Account	1,00,000	30,000
Total of above	8,00,000	2,50,000
Less: Non-Trading Investments	(1,00,000)	—
Trading Capital Employed	7,00,000	2,50,000
(b) Average Net Profits (See Note below)	1,35,000	47,000
Less: Income from Non-Trading Invt's: 6% on ₹ 1,00,000	(6,000)	Nil
Average Trading Profits	1,29,000	47,000

(c) Normal Profit at 15% on Capital Employed	15% on (a) = 1,05,000	15% on (a) = 37,500
(d) Super Profits (b) - (c)	24,000	9,500
(e) Goodwill at 4 years' Purchase of Super Profits 4 × (d)	96,000	38,000
Add: Other Assets:		
PPE	4,00,000	1,00,000
6% Investments	1,00,000	—
Stock (at agreed value)	2,04,000	1,42,000
Debtors	1,70,000	60,000
Cash and Bank Balances	30,000	10,000
Total Assets Including Goodwill	10,00,000	3,50,000
Less: Creditors	(1,00,000)	(50,000)
(f) Net Assets taken over = Purchase Consideration	9,00,000	3,00,000
(g) Number of Shares in Selling Company	50,000	20,000
(h) Intrinsic Value per Share (i.e. Book Value)	₹ 18	₹ 15
(i) No. of Shares to be issued by AB Ltd. (FV = ₹ 10)	$50,000 \times \frac{18}{10} = 90,000$	$20,000 \times \frac{15}{10} = 30,000$
(ii) Scheme of Exchange of Shares [Comparing (g) & (i)]	9 Shares of New Co. for every 5 Shares in Old Co.	3 Shares of New Co. for every 2 Shares in Old Co.

Hence, AB Ltd. will issue $90,000 + 30,000 = 1,20,000$ Shares of ₹ 10 each, to settle the Purchase Consideration to both the Companies.

Note: Avg. NP: A: $\frac{1,30,000 + 1,25,000 + 1,50,000}{3} = 1,35,000$

B: $\frac{45,000 + 40,000 + 56,000}{3} = 47,000$

Balance Sheet of AB Limited as at 31st March (after Takeover)

Particulars as at 31 st March		Note	This year	Pre. Year
I	Equity and Liabilities:			
(1)	Shareholder' Funds:			
	(a) Share Capital	1	12,00,000	
(2)	Current Liabilities:			
	Trade Payables			1,50,000
	Creditors (1,00,000 + 50,000)			
	Total			13,50,000
II	Assets:			
(1)	Non-Current Assets:			
(a)	PPE & Intangible Assets (i) PPE (4,00,000 + 1,00,000)			5,00,000
	(ii) Intangible Assets (Goodwill) (96,000 + 38,000)			1,34,000
(b)	Non-Current Investments (6% Tax Free G.P Notes)			1,00,000
(2)	Current Assets:			
(a)	Inventories			3,46,000
	Stock-in-Trade (2,04,000 + 1,42,000)			
(b)	Trade Receivables			2,30,000
	Debtors (1,70,000 + 60,000)			
(c)	Cash and Cash Equivalents			40,000
	(30,000 + 10,000)			
	Total			13,50,000

Note 1: Share Capital

Particulars	This Year	Prev. Year
Authorised: ... Equity Shares of ₹ ... Each		
Issued, Subscribed & Paid up: 1,20,000 Equity Shares of ₹ 10 each (All the above Shares Issued for non-cash consideration under a scheme of amalgamation)	12,00,000	
Total	12,00,000	

Space to write important points for revision

4 **Methods of Accounting for Amalgamation**

Q.4.1	2011 - Nov [7] (c), RTP	Descriptive
Answer the following: What disclosures should be made in the first financial statements following the amalgamation? (4 marks) [IPCC Gr. I]		

Answer :
According to Para 24 of AS-14 (Revised) 'Accounting for Amalgamations' for all amalgamations (whether for amalgamations accounted for under the pooling of interests method or amalgamations accounted for under the purchase method), the following disclosures are considered appropriate in the first financial statements following the amalgamation;

- Names and general nature of business of the amalgamating companies;
- Effective date of amalgamation for accounting purposes;
- The method of accounting used to reflect the amalgamation; and
- Particulars of the scheme sanctioned under a statute.

Space to write important points for revision

5 **Methods of Accounting for Amalgamation: Amalgamation by way of Merger**

Q.5.1	2017 - May [2]	Practical
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P Ltd. and Q Ltd. agreed to amalgamate and form a new company called PQ Ltd. The balance sheets of both the companies on the date of amalgamation stood as below:

Liabilities	P Ltd. (₹)	Q Ltd. (₹)	Assets	P Ltd. (₹)	Q Ltd. (₹)
Equity Shares (₹ 100 each)	8,20,000	3,20,000	Goodwill	1,00,000	80,000
9% Pref. Shares (₹ 100 each)	3,80,000	2,80,000	Land and Building	4,50,000	3,40,000
8% Debentures	2,00,000	1,00,000	Furniture and Fittings	1,00,000	50,000
General Reserve	1,50,000	50,000	Plant and Machinery	6,20,000	4,50,000
Profit & loss A/c	3,52,000	2,05,000	Debtors	3,25,000	1,50,000
Unsecured Loan	—	1,75,000	Stock	2,33,000	1,05,000
Creditors	88,000	1,60,000	Cash at bank	1,08,000	95,000
			Cash in hand	54,000	20,000
	19,90,000	12,90,000		19,90,000	12,90,000

PQ Ltd. took over the assets and liabilities of both the companies at book value after creating provision @ 5% on Stock and Debtors respectively and depreciating Furniture and Fittings by @ 10%, Plant and Machinery by @ 10%. The debtors of P Ltd. include ₹ 25,000 due from Q Ltd.

PQ Ltd., will issue

- 5 Pref. shares of ₹ 20 each @ ₹ 18 paid up at a premium of ₹ 4 per share for each pref. share held in both the companies.
- 6 Equity shares of ₹ 20 each @ ₹ 18 paid up at a premium of ₹ 4 per share for each equity share held in both the companies.
- 6% Debentures to discharge the 8% debentures of both the companies.
- 20,000 new Equity shares of ₹ 20 each for cash @ ₹ 18 paid up at a premium of ₹ 4 per share.

PQ Ltd. will pay cash to equity shareholders of both the companies in order to adjust their rights as per the intrinsic value of the shares of both the companies.

Prepare ledger accounts in the books of P Ltd. and Q Ltd. to close their books. (16 marks) [IPCC Gr. I]

Answer :

In the books of P Ltd.

Realisation A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Goodwill	1,00,000	By 8% Debentures	2,00,000
To Land & Building	4,50,000	By Unsecured Loan	—
To Furniture and Fittings	1,00,000	By Creditors	88,000
To Plant & Machinery	6,20,000	By PQ Ltd.	16,02,100
To Debtors	3,25,000	By Equity Shareholders	1,37,900
To Stock	2,33,000		
To Cash at bank	1,08,000		
To Cash in hand	54,000		
To Pref. Shareholders	38,000		
	20,28,000		20,28,000

Equity Shareholders A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Equity Share in PQ Ltd.	10,82,400	By Share Capital	8,20,000
To Cash	1,01,700	By General Reserve	1,50,000
To Realisation A/c	1,37,900	By P & L A/c	3,52,000
	13,22,000		13,22,000

9% Preference Shareholders A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Pref. Shareholders in PQ Ltd.	4,18,000	By Share Capital	3,80,000
		By Realisation A/c	38,000
	4,18,000		4,18,000

PQ Ltd. A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Realisation A/c	16,02,100	By Equity Share in PQ Ltd.	
		Equity	10,82,400
		Preference	4,18,000
		By Cash	1,01,700
	16,02,100		16,02,100

In the books of Q Ltd.

Realisation A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Goodwill	80,000	By 8% Debentures	1,00,000
To Land and Building	3,40,000	By Unsecured Loan	1,75,000
To Furniture and Fittings	50,000	By Creditors	1,60,000
To Plant and Machinery	4,50,000	By PQ Ltd.	7,92,250
To Debtors	1,50,000	By Equity Shareholders	90,750
To Stock	1,05,000		
To Cash at bank	95,000		
To Cash in hand	20,000		
To Pref. Shareholders	28,000		
	13,18,000		13,18,000

Equity Shareholders A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Equity Share of PQ Ltd.	4,22,400	By Share Capital	3,20,000
To Cash	61,850	By General Reserve	50,000
To Realisation A/c	90,750	By P & L A/c	2,05,000
	5,75,000		5,75,000

9% Preference Shareholders A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Preference Share of PQ Ltd.	3,08,000	By Share Capital	2,80,000
	3,08,000	By Realisation	28,000
			3,08,000

PQ Ltd. A/c

Particulars	Amount (₹)	Particulars	Amount (₹)
To Realisation A/c	7,92,250	By Equity Share in PQ Ltd.	
		Equity 4,22,400	
		Preference 3,08,000	7,30,400
		By Cash	61,850
	7,92,250		7,92,250

Working Notes:

1. Purchase Consideration:

	P Ltd.	Q Ltd.
• Preference Shareholders (3800 × 5) = 19000 Shares × ₹ 22 (2800 × 5) = 14000 Shares × ₹ 22	4,18,000	3,08,000
• Equity Shareholders (8200 × 6) = 49200 Share × ₹ 22 (3200 × 6) = 19200 Share × ₹ 22	10,82,400	4,22,400
• Cash (W. N. - 2)	1,01,700	61,850
	16,02,100	7,92,250

2. Value of Net Assets:

	P Ltd.	Q Ltd.
Goodwill	1,00,000	80,000
Land and Building	4,50,000	3,40,000
Furniture and Fittings	90,000	45,000
Plant and Machinery	5,58,000	4,05,000
Debtors	3,08,750	1,42,500
Stock	2,21,350	99,750
Cash at bank	1,08,000	95,000
Cash in hand	54,000	20,000
	18,90,100	12,27,250
Less: 8% Debentures	(2,00,000)	(1,00,000)
Unsecured Loan	-	(1,75,000)
Creditors	(88,000)	(1,60,000)
	16,02,100	7,92,250
Payable in Shares	(15,00,400)	(7,30,400)
Payable in Cash	1,01,700	61,850

Students write important points for revision



**Method of Accounting for Amalgamation:
Amalgamation in the Nature of Purchase**

Q.6.1

2014 - May [4]

Practical

P Ltd. and Q Ltd. were carrying on the business of manufacturing of auto components. Both the companies decided to amalgamate and a new company PQ Ltd. is to be formed with an Authorized Capital of ₹ 10,00,000 divided into 1,00,000 equity shares of ₹ 10 each. The Balance Sheet of the companies as on 31.03.2014 were as under:

P Limited Balance Sheet as at 31.03.2014	
Particulars	Amount ₹
I. Equity and Liabilities	
1. Shareholders' Funds	
(a) Share Capital	1,40,000
(b) Reserve and Surplus Profit and Loss A/c	30,000
2. Non Current Liabilities 8% Secured Debentures	1,10,000
3. Current Liabilities Trade Payables	54,000
Total Liabilities	3,34,000
II. Assets	
1. Noncurrent assets	
(a) Property Plant and Equipment and Intangible Assets	
Building at cost less Depreciation	1,00,000
Plant and Machinery at cost less Depreciation	25,000
2. Current Assets	
(a) Inventories	1,35,000
(b) Trade Receivables	44,000
(c) Cash at Bank	30,000
Total Assets	3,34,000

Q Limited Balance Sheet as at 31.03.2014	
Particulars	Amount ₹
I. Equity and Liabilities	
1. Shareholders' Funds	
(a) Share Capital	2,50,000
(b) Reserve and Surplus General Reserve	1,20,000
Profit & Loss A/c	35,000
2. Current Liabilities Trade Payables	1,40,000
Total Liabilities	5,45,000
II. Assets	
1. Noncurrent assets	
(a) Property Plant and Equipment and Intangible Assets	
Building at cost less Depreciation	1,90,000
Plant and Machinery at cost less Depreciation	80,000
Furniture and Fixture at cost less Depreciation	25,000
2. Current Assets	
(a) Inventories	50,000
(b) Trade Receivables	1,42,000
(c) Cash at Bank	58,000
Total Assets	5,45,000

The assets and liabilities of the existing companies are to be transferred at book value with the exception of some items detailed below:

- (i) Goodwill of P Ltd. was worth ₹ 50,000 and of Q Ltd. was worth ₹ 1,50,000.
- (ii) Furniture and Fixture of Q Ltd. was valued at ₹ 35,000.
- (iii) The debtors of P Ltd. are realized fully and bank balance of P Ltd. are to be retained by the liquidator and the sundry creditors are to be paid out of the proceeds thereof.
- (iv) The debentures of P Ltd. are to be discharged by issue of 8% debentures of PQ Ltd. at a premium of 10%.

You are required to:

- (i) Compute the basis on which shares in PQ Ltd. will be issued at par to the shareholders of the existing companies.
- (ii) Draw up a Balance Sheet of PQ Ltd. as at 1st April, 2014, the date of completion of amalgamation,
- (iii) Write up journal entries including bank entries for closing the books of P Ltd. (16 marks)

Answer :

Calculation of Purchase Consideration

	P Ltd.	Q Ltd.
Purchase Consideration	₹	₹
Goodwill	50,000	1,50,000
Building	1,00,000	1,90,000
Plant and Machinery	25,000	80,000
Furniture and Fixtures	—	35,000
Inventories	1,35,000	50,000
Trade Receivables		1,42,000
Cash at bank	—	58,000
	3,10,000	7,05,000

Less : Liabilities 8% secured Debentures (1,10,000 × 110%)	(1,21,000)	—
Trade Payable	—	(1,40,000)
Net Asset taken over	1,89,000	5,65,000
To be satisfied by issue of shares of PQ Ltd. @ 10 each.	18,900	56,500

(ii) **Balance Sheet of PQ Ltd. as on 1st April, 2014**

Particulars	Note No.	Amount (₹)
EQUITY AND LIABILITIES:		
1. Shareholders' Funds		
(a) Share Capital	1	7,54,000
(b) Reserves and Surplus	2	11,000
2. Non current liabilities		
Long term borrowings	3	1,10,000
3. Current Liabilities		
Trade Payables		1,40,000
Total		10,15,000
ASSETS :		
1. Non Current Assets		
(a) Property Plant and Equipment and Intangible Assets		
(i) PPE	4	4,30,000
(ii) Intangible Assets	5	2,00,000

2. Current Assets		
(a) Inventories (1,35,000 + 50,000)		1,85,000
(b) Trade Receivables		1,42,000
(c) Cash and cash equivalents		58,000
Total		10,15,000

Notes to Accounts:

	Particulars	₹	
1.	Share Capital		
	Authorized		
	1,00,000 Shares of ₹ 10 each		10,00,000
	Equity Share Capital 75,400 shares of ₹ 10 each		7,54,000
2.	Reserves and surplus		
	Securities premium A/c (w.n.)		11,000
3.	Long term borrowing		
	Secured 8% debentures		1,10,000
4.	PPE		
	Building		
	P Ltd	1,00,000	
	Q Ltd.	1,90,000	2,90,000
	Plant and Machinery		
	P Ltd.	25,000	
	Q Ltd.	80,000	1,05,000
	Furniture and fixtures		
	Q Ltd.		35,000
			4,30,000

5. Intangible Assets			
Goodwill			
P Ltd.		50,000	
Q Ltd.		<u>1,50,000</u>	2,00,000

(iii) **In the books of P Ltd.
Journal Entries**

	Particulars	L.F.	Amt. (₹)	Amt. (₹)
1.	Realisation A/c To Building To Plant and Machinery To Inventories To Trade Receivables (Being all assets except cash transferred to Realisation Account)	Dr.	3,04,000	1,00,000 25,000 1,35,000 44,000
2.	8% Debentures A/c Trade Payables To Realisation A/c (Being all liabilities transferred to Realisation Account)	Dr. Dr.	1,10,000 54,000	1,64,000
3.	Equity Share Capital A/c Profit and Loss A/c To Equity Shareholder A/c (Being Equity transferred to equity shareholders account)	Dr. Dr.	1,40,000 30,000	1,70,000
4.	PQ Ltd. To Realisation A/c (Being purchase consideration due)	Dr.	1,89,000	1,89,000

5.	Bank A/c To Realisation A/c (Being cash received from trade receivables in full)	Dr.	44,000	44,000
6.	Realisation A/c To Bank A/c (Being payment made to Trade Payable)	Dr.	54,000	54,000
7.	Shares in PQ Ltd. To PQ Ltd. (Being purchase consideration received in form of Equity Shares of PQ Ltd.)	Dr.	1,89,000	1,89,000
8.	Realisation A/c To Equity shareholders A/c (Being Profit on realization transferred to Equity Share-holders A/c)	Dr.	39,000	39,000
9.	Equity Shareholders A/c To Shares in PQ Ltd. To Bank A/c (Being final payment to shareholders)	Dr.	2,09,000	1,89,000 20,000

Working Note:

Calculation of securities premium debenture issued by PQ Ltd. to P Ltd. at 10% premium

$$\text{Securities premium} = (1,10,000 \times 10\%) = ₹ 11,000$$

Some important points for revision

Q.6.2	2015 - May [2]	Practical
The financial position of two companies M/s. Abhay Ltd. and M/s. Asha Ltd. as on 31-3-2015 is as follows:		
Balance Sheet as on 31-3-2015		
	Abhay Ltd. (₹)	Asha Ltd. (₹)
Sources of Funds		
Share Capital - Issued and Subscribed		
15,000 equity shares @ ₹ 100, fully paid	15,00,000	
10,000 equity shares @ ₹ 100, fully paid		10,00,000
General Reserve	2,75,000	1,25,000
Profit & Loss	75,000	25,000
Securities Premium	1,50,000	50,000
Contingency Reserve	45,000	30,000
12% Debentures, @ ₹ 100 fully paid		2,50,000
Sundry Creditors	55,000	35,000
	21,00,000	15,15,000
Application of Funds		
Land and Buildings	8,50,000	5,75,000
Plant and Machinery	3,45,000	2,25,000
Goodwill		1,45,000
Inventory	4,20,000	2,40,000
Sundry Debtors	3,05,000	2,85,000
Bank	1,80,000	45,000
	21,00,000	15,15,000

They decided to merge and form a new company M/s. Abhilasha Ltd. as on 1-4-2015 on the following terms:

- (1) Goodwill to be valued at 2 years purchase of the super profits. The normal rate of return is 10% of the combined share capital and general reserve. All other reserves are to be ignored for the purpose of goodwill. Average profits of M/s. Abhay Ltd. is ₹ 2,75,000 and M/s. Asha Ltd. is ₹ 1,75,000.
- (2) Land and Buildings, Plant and machinery and Inventory of both companies to be valued at 10% above book value and a provision of 10% to be provided on Sundry Debtors.
- (3) 12% debentures to be redeemed by the issue of 12% preference shares of M/s. Abhilasha Ltd. (face value of ₹ 100) at a premium of 10%.
- (4) Sundry creditors to be taken over at book value. There is an unrecorded liability of ₹ 15,500 of M/s. Asha Ltd. as on 1-4-2015.
- (5) The bank balance of both companies to be taken over by M/s. Abhilasha Ltd. after deducting liquidation expenses of ₹ 60,000 to be borne by M/s. Abhay Ltd. and M/s. Asha Ltd. in the ratio of 2 : 1.

You are required to:

- (i) Compute the basis on which shares of M/s. Abhilasha Ltd. are to be issued to the shareholders of the existing company assuming that the nominal value of per share of M/s. Abhilasha Ltd. is ₹ 100.
- (ii) Draw Balance Sheet of M/s. Abhilasha Ltd. as on 1-4-2015 after the amalgamation. (16 marks) [IPCC Gr. I]

Answer :

- (i) **Basis on which shares of M/s. Abhilasha Ltd. to be issued**
(Calculation for PC)

Particulars	Abhay Ltd.	Asha Ltd.
Assets		
Land and Building	9,35,000	6,32,500
Plant and Machinery	3,79,500	2,47,500

Goodwill (W.N. 1)	1,95,000	1,25,000
Inventory	4,62,000	2,64,000
Bank (W.N. 2)	1,40,000	25,000
Sundry debtors	3,05,000	2,85,000
Liabilities		
(-) 12% debentures	-	(2,50,000)
(-) Sundry creditors	(55,000)	(35,000)
(-) Provision for debtors	(30,500)	(28,500)
(-) Unrecorded liability	-	(15,500)
Net Assets	23,31,000	12,50,000
÷ Value per share of Abhilasha	100	100
No. of shares to be issued	23,310	12,500
Price Consideration	23,31,000	12,50,000

- (ii) **Balance Sheet of M/s. Abhilasha Ltd. as on 1.4.2015**

Particulars	Note	Amount	Amount
I Equity and Liabilities			
A Shareholder's fund			
(a) Share Capital	1	38,56,000	
(b) Reserves & Surplus	2	(25,000)	38,31,000

B Non-Current Liabilities			
C Current Liabilities			
(a) Trade Payables	3	<u>1,05,500</u>	1,05,500
			<u>39,36,500</u>
II Assets			
A Non-Current Assets			
(a) Property Plant and Equipment and Intangible Assets			
(i) PPE	4	21,94,500	
(ii) Intangible Assets	5	<u>3,20,000</u>	
(b) Investment			25,14,500
B Current Assets			
(a) Trade receivables	6	5,31,000	
(b) Inventory		7,26,000	
(c) Cash & Cash Equivalents		1,65,000	14,22,000
			<u>39,36,500</u>

2	Reserves and Surplus		
	Premium on redemption	-	25,000
3	Trade Payable		
	Creditor for Abhay	55,000	
	Creditor for Asha	35,000	
	Unrecorded Liabilities	<u>15,500</u>	1,05,500
4	PPE		
	Land and Building	15,67,500	
	Plant and Machinery	<u>6,27,000</u>	21,94,500
5	Intangible Asset		
	Goodwill		3,20,000
6	Trade receivable		
	Debtors (2,74,500 + 2,56,500)		5,31,000

* Working Note:

1. Calculation of Goodwill for Abhay and Asha Ltd.

	Abhay Ltd.	Asha Ltd.
Firms Average Profits	2,75,000	1,75,000
(-) Normal Profit (Capital Employed × Normal rate of return)		
[(15,00,000 + 2,75,000) × 10%]	(1,77,500)	
[(10,00,000 + 1,25,000) × 10%]		(1,12,500)
Super Profit	97,500	62,500
Goodwill = Super Profit × 2 years	1,95,000	1,25,000

2. Calculation of Bank Balance:

Particulars	Abhay	Asha
Bank	1,80,000	45,000
(-) Liquidation Exp. (2 : 1)	(40,000)	(20,000)
Bank balance taken over	1,40,000	25,000

*Notes to Accounts:

Particulars	Amount	Amount
1 Share Capital		
(i) Preference Shares (2750 Preference share of ₹ 100 each)	2,75,000	
(ii) Equity shares (35,810 Equity shares of ₹ 100 each)	35,81,000	38,56,000

Q.6.3	2015 - May [4]	Practical
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The summarised Balance Sheet of M/s. A Ltd. and M/s. B Ltd. as on 31.03.2014 were as under:

Liabilities	A Ltd. ₹	B Ltd. ₹	Assets	A Ltd. ₹	B Ltd. ₹
Share Capital: 40,000 Equity Shares of ₹ 10 each, Fully Paid	4,00,000	-	Freehold Property Plant and Machinery	3,00,000	2,40,000
30,000 Equity Shares of ₹ 10 each, Fully Paid	-	3,00,000	Motor Vehicle	60,000	40,000
General Reserve	2,40,000	-	Trade Receivables	30,000	20,000
Profit and Loss Account	50,000	50,000	Inventory	2,00,000	80,000
Trade Payables	2,10,000	1,30,000	Cash at Bank	2,30,000	1,80,000
6% Debentures	-	1,20,000		80,000	40,000
	9,00,000	6,00,000		9,00,000	6,00,000

M/s. A Ltd. and M/s. B Ltd. carry on business of similar nature and they agreed to amalgamate. A new Company, M/s. AB Ltd. is formed to take over the Assets and Liabilities of M/s. A Ltd. and M/s. B Ltd. on the following basis:

Assets and Liabilities are to be taken at Book Value, with the following exceptions:

- Goodwill of M/s. A Ltd. and M/s. B Ltd. is to be valued at ₹ 1,40,000 and ₹ 40,000 respectively.
- Plant and Machinery of M/s. A Ltd. are to be valued at ₹ 1,00,000.
- The Debentures of M/s. B Ltd. are to be discharged by the issue of 6% Debentures of M/s. AB Ltd. at a premium of 5%.

You are required to:

- Compute the basis on which shares in M/s. AB Ltd. will be issued to Shareholders of the existing Companies assuming nominal value of each share of M/s. AB Ltd. is ₹ 10.

- Draw up a Balance Sheet of M/s. AB Ltd. as on 1st April, 2014, when Amalgamation is completed.
- Pass Journal entries in the Books of M/s. AB Ltd. for acquisition of M/s. A Ltd. and M/s. B Ltd. (16 marks)

Answer :

Calculation of Purchase consideration (or basis for issue of shares of AB Ltd.)

Particulars	A Ltd.	B Ltd.
Purchase Consideration	₹	₹
Goodwill	1,40,000	40,000
Freehold Property	3,00,000	2,40,000
Plant and Machinery	1,00,000	40,000
Motor vehicles	30,000	20,000
Inventory	2,30,000	1,80,000
Trade receivables	2,00,000	80,000
Cash at Bank	80,000	40,000
	10,80,000	6,40,000
Less: Liabilities:		
6% Debentures (1,20,000 × 105%)	-	(1,26,000)
Trade Payables	(2,10,000)	(1,30,000)
Net Assets taken over	8,70,000	3,84,000
To be satisfied by issue of shares of AB Ltd. @ ₹ 10 each	87,000	38,400

Balance Sheet AB Ltd. as at 1st April, 2014

	Particulars	Note No.	Amt. (₹)
	Equity and Liabilities		
1.	Shareholder's fund		
	(a) Share Capital	1	12,54,000

2.	Non Current liabilities		
	(a) Long term borrowings	2	1,26,000
3.	Current liabilities		
	(a) Trade Payables (2,10,000 + 1,30,000)		3,40,000
	Total		17,20,000
	Assets		
1.	Non Current Assets		
	(a) Property Plant and Equipment and Intangible Assets		
	(i) PPE	3	7,30,000
	(ii) Intangible Assets	4	1,80,000
2.	Current Assets		
	(a) Inventories (2,30,000 + 1,80,000)		4,10,000
	(b) Trade receivables (2,00,000 + 80,000)		2,80,000
	(c) Cash & Cash Equivalents (80,000 + 40,000)		1,20,000
	Total		17,20,000

Notes to accounts:

Note No.	Particulars	Amt. (₹)	Amt. (₹)
1.	Share Capital:		
	Equity Share Capital		
	1,25,400 shares of ₹ 10 each (All the above shares are issued for consideration other than cash)		12,54,000
2.	Long term borrowings		
	Secured		
	6% Debentures		1,26,000

3.	PPE		
	Freehold property		
	A Ltd.	3,00,000	
	B Ltd.	2,40,000	5,40,000
	Plant and Machinery		
	A Ltd.	1,00,000	
	B Ltd.	40,000	1,40,000
	Motor vehicles A Ltd.		
	A Ltd.	30,000	
	B Ltd.	20,000	50,000
			7,30,000
4.	Intangible Assets		
	Goodwill		
	A Ltd.	1,40,000	
	B Ltd.	40,000	1,80,000

Journal Entries
In the Books of AB Ltd.

Particulars	Amount (₹)	Amount (₹)
Business Purchase A/c	Dr. 12,54,000	
To Liquidator of A Ltd. A/c		8,70,000
To Liquidator of B Ltd. A/c		3,84,000
(Being the amount of purchase consideration payable to liquidator of A Ltd. and B Ltd. for assets taken over)		
Goodwill	Dr. 1,40,000	
Freehold property	Dr. 3,00,000	
Plant and Machinery	Dr. 1,00,000	

Motor vehicles	Dr.	30,000	
Trade receivables	Dr.	2,00,000	
Inventory	Dr.	2,30,000	
Cash at Bank	Dr.	80,000	
To Trade payables			2,10,000
To Business purchase account			8,70,000
(Being assets and liabilities of A Ltd. taken over)			
Goodwill	Dr.	40,000	
Freehold property	Dr.	2,40,000	
Plant and Machinery	Dr.	40,000	
Motor vehicles	Dr.	20,000	
Trade receivables	Dr.	80,000	
Inventory	Dr.	1,80,000	
Cash at Bank	Dr.	40,000	
To Trade payables			1,30,000
To 6% Debentures of B Ltd.			1,26,000
To Business purchase account			3,84,000
(Being assets and liabilities of B Ltd. taken over)			
6% Debentures of B Ltd.	Dr.	1,26,000	
To 6% debentures			1,26,000
(Being issue of 6% debentures to debenture holders of B Ltd.)			
Liquidator of the A Ltd. A/c	Dr.	8,70,000	
Liquidator of the B Ltd. A/c	Dr.	3,84,000	
To Equity share capital account			12,54,000

(Being the allotment of equity shares of ₹ 10 each, as per the agreement for discharge of purchase consideration)

Note:

- (1) It is assumed that the nominal value of debentures of B Ltd. is ₹ 100 each.
- (2) It has been presumed that 6% Debentures of M/s B Ltd. are discharged at premium of 5% by issue of 6% Debentures of M/s AB Ltd. At par.

— Space to write important points for revision —

Q.6.4	2016 - May [2]	Practical	
Given below are the Balance Sheet of two companies as on 31 st December, 2015.			
A Limited			
Liabilities	₹	Assets	₹
Share Capital:		Patent	1,00,000
<u>Issued and fully paid up</u>		Building	5,40,000
50,000 8% Cumulative	5,00,000	Plant and Machinery	15,10,000
Preference Shares of ₹ 10		Furniture	75,000
each 1,50,000 Equity shares		Investment	1,55,000
of ₹ 10 each	15,00,000	Stock	3,58,000
General Reserve	7,65,000	Sundry Debtors	72,000
Profit and Loss account	1,25,000	Cash and Bank	1,40,000
Sundry Creditors	60,000		
	29,50,000		29,50,000
B Limited			
Liabilities	₹	Assets	₹
Share Capital:		Goodwill	62,000

Issued and fully paid		Motor Car	1,26,000
50,000 Shares of ₹ 10 each	5,00,000	Furniture	58,000
Profit and Loss Account	45,000	Stock	2,40,000
Sundry Creditors	31,000	Sundry Debtors	70,000
		Cash and Bank	20,000
	5,76,000		5,76,000

It has been agreed that both these companies should be wound up and a new company AB Ltd. should be formed to acquire the assets of both the companies on the following terms and conditions:

- (i) AB Ltd. is to have an authorized capital of ₹ 36,00,000 divided into 60,000, 8% cumulative preference shares of ₹ 10 each and 3,00,000 equity shares of ₹ 10 each.
- (ii) AB Ltd. is to purchase the whole of the assets of A Ltd. (except cash and Bank balances) for ₹ 28,25,000 to be settled as to ₹ 5,75,000 in cash and as to the balance by issue of 1,80,000 equity shares, credited as fully paid, to be treated as valued at ₹ 12.50 each.
- (iii) AB Ltd. is to purchase the whole of the assets of B Ltd. (except cash and Bank balances) for ₹ 4,91,000 to be settled as to ₹ 16,000 in cash and as to the balance by issue of 38,000 equity shares, credited as fully paid, to be treated as valued at ₹ 12.50 each.
- (iv) A Ltd. and B Ltd. both are to be wound up, the two liquidators distributing the shares in AB Ltd. in kind among the equity shareholders of the respective companies.
- (v) The liquidator of A Ltd. is to pay the preference shareholders ₹ 12 in cash for every share held in full satisfaction of their claims.
- (vi) AB Ltd. is to make a public issue of 60,000, 5% cumulative preference shares at a premium of 10% and 30,000 equity shares at the issue price of ₹ 12.50 per share, all amount payable in full on application.

It is estimated that the cost of liquidation (including the liquidators' remuneration) will be ₹ 10,000 in case of A Ltd. and ₹ 5,000 in case of B Ltd. and that the preliminary expenses of AB Ltd. will amount to ₹ 24,000 exclusive of the underwriting commission of ₹ 38,900 payable on the public issue.
You are required to prepare the initial Balance Sheet of AB Ltd. on the basis that all assets other than goodwill are taken over at the book value.
(16 marks) [IPCC Gr. I]

Answer :

Balance Sheet of AB Limited

Particulars	Notes	Amount (₹)
Equity and Liabilities		
1. Shareholders' funds		
a. Share Capital	1	30,80,000
b. Reserves and Surplus	2	6,17,100
2. Current liabilities		
a. Other liabilities		38,900
Total		37,36,000
Assets		
1. Non-current assets		
a. Property Plant and Equipment and Intangible Assets		
(i) PPE	3	23,09,000
(ii) Intangible assets	4	1,12,000
b. Non-current investments		1,55,000
2. Current assets		
a. Inventories (3,58,000 + 2,40,000)		5,98,000
b. Trade receivables (72,000 + 70,000)		1,42,000
c. Cash and cash equivalents		4,20,000
Total		37,36,000

Notes to Accounts:

Particulars	₹	₹
1. Share Capital		
Authorized Share Capital 3,00,000 equity shares of ₹ 10 each	30,00,000	
60,000, 8% Cumulative Preference Shares of ₹10 each	<u>6,00,000</u>	<u>36,00,000</u>
Equity Share Capital 2,48,000 equity shares of ₹ 10 each (Of the above shares, 2,18,000 shares have been issued for consideration other than cash)		
Preference Share Capital 60,000, 8% Cumulative Preference Shares of ₹10 each		24,80,000
		<u>6,00,000</u>
Total		<u>30,80,000</u>
Reserves and Surplus		
2. Debit balance of Profit and Loss Account		
Underwriting commission		
Preliminary expenses	38,900	(62,900)
Securities Premium A/c (2,48,000 equity shares x 2.50) (60,000 Preference shares x ₹ 1)	<u>24,000</u>	
	6,20,000	
PPE	<u>60,000</u>	<u>6,80,000</u>
3. Building		<u>(6,17,100)</u>
Motor Car		
Plant & Machinery	5,40,000	
Furniture	1,26,000	
	15,10,000	
Intangible assets	<u>1,33,000</u>	23,09,000
4. Goodwill (W.N. 4) (15,000 + 62,000 - 65,000)		
Patents	12,000	
	<u>1,00,000</u>	<u>1,12,000</u>

Working Notes:

1. Mode of discharge of Purchase Consideration of A Ltd.

	₹
Cash payment	5,75,000
Equity shares (1,80,000 Shares x ₹ 12.5)	22,50,000
Total Purchase consideration	<u>28,25,000</u>

2. Mode of discharge of Purchase Consideration of B Ltd.

	₹
Cash payment	16,000
Equity shares (38,000 shares x ₹ 12.5)	4,75,000
Total Purchase consideration	<u>4,91,000</u>

3. Cash at bank balance in the initial balance sheet of AB Ltd.

Cash and Bank Account

Particulars	₹	Particulars	₹
To Issue of preference shares (60,000 x 11)	6,60,000	By Payment to A Ltd.	5,75,000
To Equity shares (30,000 x 12.50)	3,75,000	By Payment to B Ltd.	16,000
		By Preliminary expenses	24,000
		By Balance c/d	4,20,000
	<u>10,35,000</u>		<u>10,35,000</u>

4. Calculation of Goodwill/ Capital Reserve of A Ltd. & B Ltd.

Particulars	A Ltd.	B Ltd.
Business Purchase A/c	28,25,000	4,91,000
Less: Goodwill		62,000
Patent A/c	1,00,000	-
Building A/c	5,40,000	-
Plant and Mach. A/c	15,10,000	-
Motor Car A/c	-	1,26,000

Furniture A/c	75,000		58,000	
Investment A/c	1,55,000		-	
Stock A/c	3,58,000		2,40,000	
Debtors A/c	72,000	(28,10,000)	70,000	(5,56,000)
Goodwill/Capital reserve (Bal. fig.)		15,000		(65,000)
Net goodwill (15,000 + 62,000 – 65,000) = 12,000				

Note:

- As per the information given in the question, only the assets of A Ltd. and B Ltd. are taken over by AB Ltd. Thus the creditors are considered to be paid by the liquidators of the respective companies and hence being not taken over by AB Ltd.
- As per the information given in the second last para of the question, it is stated that the preliminary expenses of AB Ltd. will amount to ₹ 24,000 exclusive of the underwriting commission of ₹ 38,900 payable on the public issue. It has been assumed that ₹ 24,000 has been paid and underwriting commission is still payable in the balance sheet of the amalgamated company. Alternatively, any other reasonable assumption about this may be considered.
- Preliminary expenses and underwriting commission have been written off as per the provisions of Accounting Standards.

— Space to write important points for revision —

Q.6.5 2017 - May [4]

Practical

P Ltd. and Q Ltd. agreed to amalgamate their business. The scheme envisaged a share capital, equal to the combined capital of P Ltd. and Q Ltd. for the purpose of acquiring the assets, liabilities and undertakings of the two companies in exchange for share in PQ Ltd. The Balance Sheets of P Ltd. and Q Ltd. as on 31st March, 2017 (the date of amalgamation) are given below:

Summarised Balance Sheet as at 31-03-2017

Liabilities	P Ltd. ₹	Q Ltd. ₹	Assets	P Ltd. ₹	Q Ltd. ₹
Equity and Liability:			Assets:		
1. Shareholders Fund			Non-current Assets:		
(a) Share Capital	6,00,000	8,40,000	PPE	7,20,000	10,80,000
(b) Reserves	10,20,000	6,00,000	(excluding Goodwill)		
2. Current Liabilities:			Current Assets		
Bank Overdraft	—	5,40,000	(a) Inventories	3,60,000	6,60,000
Trade Payable	2,40,000	5,40,000	(b) Trade receivables	4,80,000	7,80,000
			(c) Cash at Bank	3,00,000	—
	18,60,000	25,20,000		18,60,000	25,20,000

The consideration was to be based on the net assets of the companies as shown in the above Balance Sheets, but subject to an additional payment to P. Ltd. for its goodwill to be calculated as its weighted average of net profits for the three years ended 31st March, 2017. The weights for this purpose for the years 2014-15, 2015-16 and 2016-17 were agreed as 1, 2 and 3 respectively.

The profit had been:

2014-15 ₹ 3,00,000; 2015-16 ₹ 5,25,000 and 2016-17 ₹ 6,30,000.

The shares of PQ Ltd. were to be issued to P Ltd. and Q Ltd. at a premium and in proportion to the agreed net assets value of these companies.

In order to raise working capital, PQ Ltd. increased its authorized capital by ₹ 12,00,000 and proceeded to issue 72,000 shares of ₹ 10 each at the same rate of premium as issued for discharging purchase considerations to P Ltd. and Q Ltd.

You are required to:

- Calculate the number of shares issued to P Ltd. and Q Ltd.; and
- Prepare the Balance Sheet of PQ Ltd. as per Schedule III after recording its journal entries.

(16 marks)

Answer :

Calculation of the No. of shares issued to P Ltd. and Q Ltd.

Particulars	P Ltd.	Q Ltd.
Assets:		
PPE (Excluding Goodwill)	7,20,000	10,80,000
Goodwill (W.N.1)	5,40,000	
Current Assets: Inventories	3,60,000	6,60,000
Trade Receivables	4,80,000	7,80,000
Cash at Bank	3,00,000	-
Total	24,00,000	25,20,000
Less: Liabilities		
Bank Overdraft	-	(5,40,000)
Trade Payable	(2,40,000)	(5,40,000)
Net Assets	21,60,000	14,40,000
No. of shares of PQ Ltd. (W.N.2)	86,400	57,600
Issue Price of Share $\left(\frac{\text{Net Assets}}{\text{No. of Shares}} \right)$	₹ 25 per share	₹ 25 per share

Working Notes:

1. Calculation of Goodwill:

Year	Net Profit	Weight	Weighted Profit
2014-15	3,00,000	1	3,00,000
2015-16	5,25,000	2	10,50,000
2016-17	6,30,000	3	18,90,000
Total		6	32,40,000

$$\text{Goodwill} = \frac{32,40,000}{6} = ₹ 5,40,000$$

2. No. of shares of PQ Ltd.

Shares of P Ltd	60,000
Shares of Q Ltd.	<u>84,000</u>
Total Shares	1,44,000



$$1,44,000 \times \frac{216}{360} = 86,400 \text{ Shares} \quad 1,44,000 \times \frac{144}{360} = 57,600 \text{ Shares}$$

**In the books of PQ Ltd.
Journal Entries**

No.	Particulars	Dr. (₹)	Cr. (₹)	
1.	Property Plant and Equipment A/c	Dr. 7,20,000		
	Goodwill A/c	Dr. 5,40,000		
	Inventories A/c	Dr. 3,60,000		
	Trade Receivables A/c	Dr. 4,80,000		
	Cash at Bank A/c	Dr. 3,00,000		
	To Trade Payable A/c		2,40,000	
	To Liquidator of P Ltd. A/c		21,60,000	
	(Being Purchase Consideration of P Ltd. accounted for)			
	2.	Property Plant and Equipment A/c	Dr. 10,80,000	
		Inventories A/c	Dr. 6,60,000	
Trade Receivables A/c		Dr. 7,80,000		
To Bank O.D. A/c			5,40,000	
To Trade Payable A/c			5,40,000	
To Liquidator of Q Ltd. A/c			14,40,000	
(Being Purchase Consideration of Q Ltd. accounted for)				

3.	Liquidator of P Ltd. A/c To Share Capital (86,400 × ₹ 10) To Securities Premium (86,400 × ₹ 15) (Being shares issued to P Ltd.)	Dr.	21,60,000		
				8,64,000	
				12,96,000	
4.	Liquidator of Q Ltd. A/c To Share Capital (57,600 × ₹ 10) To Securities Premium (57,600 × ₹ 15) (Being shares issued to Q Ltd.)	Dr.	14,40,000		
				5,76,000	
				8,64,000	
5.	Bank A/c To Share Capital (72,000 × ₹ 10) To Securities Premium (72,000 × ₹ 15) (Being shares issued to Public at premium of ₹ 15 per share)	Dr.	18,00,000		
				7,20,000	
				10,80,000	

Balance Sheet of 'PQ' Ltd. As on 31st March, 2017

Particulars		Notes	Amount (₹)
I. EQUITY and LIABILITIES			
1. Shareholder's Fund			
(a)	Share Capital	1	21,60,000
(b)	Reserves and Surplus		32,40,000
2. Non-Current Liabilities			
3. Current Liabilities			
(a)	Trade Payables		7,80,000
(b)	Bank Overdraft		-
Total			61,80,000
II. ASSETS			
1. Non-Current Assets			
(a)	Property Plant and Equipment and Intangible Assets		
(i)	PPE		18,00,000
(ii)	Intangible Assets		5,40,000

2. Current Assets			
(a)	Inventories		10,20,000
(b)	Trade Receivables		12,60,000
(c)	Cash and Cash equivalents	2	15,60,000
Total			61,80,000

Notes to Accounts:

- Share Capital:**
 Authorised 26,40,000
 Issued & Paid-up 21,60,000
 (2,16,000 share of ₹ 10 each)
- Cash and Cash Equivalents:**
 Cash at Bank (P Ltd.) 3,00,000
 (-) Bank OD. (Q Ltd.) (5,40,000)
(2,40,000)
 (+) Shares issued to Public 18,00,000
15,60,000

Space to write important points for revision

Q.6.6	2018 - May [3]	Practical
The financial position of X Ltd. and Y Ltd. as on 31 st March, 2018 was as under:		
	X Ltd. (₹)	Y Ltd. (₹)
Equity and Liabilities		
Equity Shares of ₹ 10 each	30,00,000	9,00,000
9% Preference Shares of ₹ 100 each	3,00,000	-
10% Preference Shares of ₹ 100 each	-	3,00,000
General Reserve	2,10,000	2,10,000
Retirement Gratuity Fund (long term)	1,50,000	60,000
Trade Payables	3,90,000	2,40,000
Total	40,50,000	17,10,000

Assets		
Goodwill	1,50,000	75,000
Land & Buildings	9,00,000	3,00,000
Plant & Machinery	15,00,000	4,50,000
Inventories	7,50,000	5,25,000
Trade Receivables	6,00,000	3,00,000
Cash and Bank	1,50,000	60,000
Total	40,50,000	17,10,000

X Ltd. absorbs Y Ltd. on the following terms :

- (i) 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of X Ltd.
- (ii) Goodwill of Y Ltd. on absorption is to be computed based upon two times of average profits of preceding three financial years (2016 - 17 : ₹ 90,000; 2015-16 : ₹ 78,000 and 2014 - 15 : ₹ 72,000). The profits of 2014-15 included credit of an insurance claim of ₹ 25,000 (fire occurred in 2013-14 and loss by fire ₹ 30,000 was booked in Profit and Loss Account of that year). In the year 2015-16, there was an embezzlement of cash by an employee amounting to ₹ 10,000.
- (iii) Land and Buildings are valued at ₹ 5,00,000 and the Plant and Machinery at ₹ 4,00,000.
- (iv) Inventories are to be taken over at 10% less value and Provision for Doubtful Debts is to be created @ 2.5%.
- (v) There was an unrecorded current asset in the books of Y Ltd. whose fair value amounted to ₹ 15,000 and such asset was also taken over by X Ltd.
- (vi) The trade payables of Y Ltd. included ₹ 20,000 payable to X Ltd.
- (vii) Equity Shareholders of Y Ltd. will be issued Equity Shares @ 5% premium.

You are required to :

- (i) Prepare Realisation A/c in the books of Y Ltd.
- (ii) Show journal entries in the books of X Ltd.
- (iii) Prepare the Balance Sheet of X Ltd. after absorption as at 31st March, 2018. (20 marks)

Answer:

(i) In the books of Y Ltd.

Realisation A/c			
Particulars	₹	Particulars	₹
To Sundry Assets	17,10,000	By Retirement Gratuity Fund	60,000
To Pref. Shareholders (Premium on redemption)	30,000	By Trade Payables	2,40,000
To Equity Shareholders (Profit on Realisation)	1,50,000	By X Ltd. (Purchase consideration)	15,90,000
	18,90,000		18,90,000

(ii) In the books of X Ltd.

Journal Entries			
Particulars		Dr. (₹)	Cr. (₹)
Business Purchase A/c	Dr.	15,90,000	
To Liquidators of Y Ltd. (Being purchase of business of Y Ltd.)			15,90,000
Goodwill A/c	Dr.	1,50,000	
Land and Building A/c	Dr.	5,00,000	
Plant and Machinery A/c	Dr.	4,00,000	
Inventories A/c	Dr.	4,72,500	
Trade Receivables A/c	Dr.	3,00,000	
Bank A/c	Dr.	60,000	
Current Asset A/c	Dr.	15,000	
To Retirement Gratuity Fund A/c			60,000
To Trade Payables A/c			2,40,000
To Provision for doubtful debt A/c			7,500
To Business Purchase A/c (Being Assets and Liabilities take over as per agreed valuation)			15,90,000

Liquidators of y Ltd. A/c	Dr.	15,90,000	
To 9% Pref. share capital A/c			3,30,000
To Equity share capital A/c			12,00,000
To Securities premium A/c			60,000
(Being Purchase consideration Satisfied as above)			
Trade Payables A/c	Dr.	20,000	
To Trade Receivables			20,000
(Being inter company debts cancelled)			

(iii) Balance sheet of X Ltd. (after absorption) as at 31st March, 2018

Particulars	Notes	₹
(i) Equity and Liabilities		
(1) Shareholder's funds		
(a) Share Capital	1	48,30,000
(b) Reserves and surplus	2	2,70,000
(2) Non-Current Liabilities		
(a) Long term provisions	3	2,10,000
(3) Current liabilities		
(a) Trade payables	5	6,10,000
(b) Short term provisions	4	7,500
Total		59,27,500
(ii) Assets		
(1) Non Current Assets		
(a) Property Plant and Equipment and Intangible Assets		
PPE	6	33,00,000
Intangible Assets	7	3,00,000

(2) Current Assets		
(a) Inventories		12,22,500
(b) Trade Receivables	8	8,80,000
(c) Cash and Cash Equivalents		2,10,000
(d) Other Current Assets	9	15,000
Total		59,27,500

Notes to Accounts

	₹
1. Share capital	
(i) Equity share capital	
4,20,000 Equity shares of ₹ 10 each fully paid (out of above 1,20,000 Equity shares were issued in consideration other than for cash)	42,00,000
(ii) Preference share capital	
6,300 9% Pref. shares of ₹ 100 each (out of above 3,300 Pref. shares were issued in consideration other than for cash)	6,30,000
Total	48,30,000
2. Reserves and Surplus	
Securities Premium	60,000
General Reserve	2,10,000
Total	2,70,000
3. Long Term Provisions	
Gratuity fund	2,10,000
Total	2,10,000
4. Short term Provisions	
Provisions for doubtful debts	7,500

5.	Trade Payables		
	X Ltd.	3,90,000	
	Y Ltd.	2,40,000	
	(-) Inter debt	(20,000)	6,10,000
	Total		6,10,000
6.	PPE		
	Land and Buildings		14,00,000
	Plant and Machinery		19,00,000
	Total		33,00,000
7.	Intangible Assets		
	Goodwill		3,00,000
	Total		3,00,000
8.	Trade Receivables		
	X Ltd.	6,00,000	
	Y Ltd.	3,00,000	
	(-) Inter Co.	(20,000)	8,80,000
	Total		8,80,000
9.	Other Current Assets		
	Current asset from Y Ltd.		15,000
	Total		15,000

Working Notes

1. Calculation of Goodwill

Particulars	2016-17	2015-16	2014-15
Profits	90,000	78,000	72,000
(-) Insurance claim	-	-	(25,000)
+ Embezzlement of cash	-	10,000	-

Profit	90,000	88,000	47,000
Avg. Profit =	$\frac{90,000 + 88,000 + 47,000}{3}$		
Avg. Profit =	₹ 75,000		
X 2 times =	₹ 1,50,000		
Goodwill =	₹ 1,50,000		

2. Calculation of Purchase Consideration :

Particulars	₹
Goodwill	1,50,000
Land and Building	5,00,000
Plant and Machinery	4,00,000
Inventories	4,72,500
Trade Receivables	3,00,000
Cash and Bank	60,000
Current Asset	15,000
	18,97,500
Less : Liabilities	
Retirement Gratuity	(60,000)
Trade Payables	(2,40,000)
Provision for doubtful debts	(7,500)
Net Assets / Purchase Consideration	15,90,000
To be satisfied as under :	
10% Pref. Shares of Y Ltd.	3,00,000
Add : 10% Premium	30,000
	3,30,000

9% Pref. Shares of X Ltd. Equity shareholders of Y Ltd. To be satisfied by issue of 1,20,000 shares Equity shares of X Ltd. at 5% Premium	12,60,000
Total	15,90,000

Space to write important points for revision

Q.6.7 2019 - May [3] (a) Practical

The following are the summarized Balance Sheet of VT Ltd. and MG Ltd. as on 31st March, 2018:

Particulars	VT Ltd. (₹)	MG Ltd. (₹)
Equity and Liabilities		
Equity Shares of ₹ 10 each	12,00,000	6,00,000
10% Pref. Shares of ₹ 100 each	4,00,000	2,00,000
Reserve and Surplus	6,00,000	4,00,000
12% Debentures	4,00,000	3,00,000
Trade Payables	5,00,000	3,00,000
Total	31,00,000	18,00,000
Assets		
PPE	14,00,000	5,00,000
Investment	1,60,000	1,60,000
Inventory	4,80,000	6,40,000
Trade Receivables	8,40,000	4,20,000
Cash at Bank	2,20,000	80,000
Total	31,00,000	18,00,000

Details of Trade receivables and trade payables are as under:

	VT Ltd. (₹)	MG Ltd. (₹)
Trade Receivable		
Debtors	7,20,000	3,80,000
Bills Receivable	1,20,000	40,000
	8,40,000	4,20,000
Trade Payables		
Sundry Creditors	4,40,000	2,50,000
Bill Payable	60,000	50,000
	5,00,000	3,00,000

- Fixed Assets /PPE of both the companies are to be revalued at 15% above book value.
- Inventory in Trade and Debtors are taken over 5% lesser than their book value.
- Both the companies are to pay 10% equity dividend, preference dividend having been already paid.

After the above transactions are given effect to, VT Ltd. will absorb MG Ltd. on the following terms:

- (i) VT Ltd. will issue 16 Equity Shares of ₹ 10 each at par against 12 Shares of MG Ltd.
- (ii) 10% Preference Shareholders of MG Ltd. will be paid at 10% discount by issue of 10% Preference Shares of ₹ 100 each at par in VT Ltd.
- (iii) 12% Debenture holders of MG Ltd. are to be paid at 8% premium by 12% Debentures in VT Ltd. issued at a discount of 10%.
- (iv) ₹ 60,000 is to be paid by VT Ltd. to MG Ltd. for Liquidation expenses.
- (v) Sundry Debtors of MG Ltd. includes ₹ 20,000 due from VT Ltd.

You are required to prepare:

- (1) Journal entries in the books of VT Ltd.
 (2) Statement of consideration payable by VT Ltd. (10 marks)

Answer:

(1) **Journal Entries in the books of VT Ltd.**

Particulars	Dr. (₹)	Cr. (₹)
Fixed Assets A/c Dr. To Revaluation Reserve A/c (Revaluation of fixed assets at 15% above book value)	2,10,000	2,10,000
Reserves & Surplus A/c Dr. To Equity dividend A/c (Declaration of equity dividend @10%)	1,20,000	1,20,000
Equity dividend A/c Dr. To Bank A/c (Payment of equity dividend)	1,20,000	1,20,000
Business Purchase A/c Dr. To Liquidator of MG Mtd. (Consideration payable for the business taken from MG Ltd.)	9,80,000	9,80,000
Fixed Assets A/c (115% of ₹ 5,00,000) Dr.	5,75,000	
Inventory (95% of ₹ 6,40,000) Dr.	6,08,000	
Debtors A/c Dr.	3,80,000	
Bills Receivable A/c Dr.	40,000	
Investment A/c Dr.	1,60,000	
Cash at Bank Dr. (₹ 80000 – ₹ 60,000)	20,000	
To Provision for Bad debts A/c (5% of ₹ 3,60,000)		18,000
To Sundry Creditors A/c		2,50,000
To Bills Payables A/c		50,000
To 12% debentures in MG Ltd.		3,24,000

To Business Purchase A/c		9,80,000
To Capital reserve (Bal. Fig.)		1,61,000
(Incorporation of various assets and liabilities taken over from MG Ltd. at agreed values and difference of net assets and purchase consideration being credited to capital reserve)		
Liquidator of MG Ltd. A/c Dr. To Equity share capital To 10% preference share capital (Discharge of consideration for MG Ltd.'s business)	9,80,000	8,00,000 1,80,000
12% Debentures in MG Ltd. (300000 × 8%)	3,24,000	
Discount on issue of debentures Dr. To 12% Debentures (Allotment of 12% Debentures to debenture holders of MG at 10% discount)	36,000	3,60,000
Sundry creditors of VT Ltd. Dr. To Sundry Debtors of MG Ltd. (Cancellation of mutual owing)	20,000	20,000
Goodwill A/c Dr. To Bank (Being liquidation expense reimbursed to MG Ltd.)	60,000	60,000
Capital Reserve A/c Dr. To Goodwill (Being goodwill set off)	60,000	60,000

(2) **Statement of Consideration payable by VT Ltd. for 60000 shares (payment method)**

$$\text{Shares to be allotted} = \frac{60,000}{12} \times 16 = 80,000 \text{ shares of VT Ltd.}$$

Issued 80000 shares of ₹ 10 each i.e.	₹ 8,00,000
For, 10% preference shares to be paid at	
10% discount = $\frac{₹ 2,00,000 \times 90}{100}$	₹ 1,80,000
Total Consideration Amount =	₹ 9,80,000

Space to write important points for revision _____

Q.6.8 2020 - Nov [3] (a) **Practical**

High Ltd. and Low Ltd. were amalgamated on and from 1st April, 2020. A new company Little Ltd. was formed to take over the business of the existing Companies. The Balance sheets of High Ltd. and Low Ltd. as on 31st March, 2020 are as under:

(₹ in Lakhs)

Liabilities	High Ltd.	Low Ltd.	Assets	High Ltd.	Low Ltd.
Share Capital			Plant, Property and Equipment:		
Equity Shares of ₹ 100 each	1000	850	Land & Building	670	385
14% Pref. Shares of ₹ 100 each	320	175	Plant & Machinery	475	355
Reserves & Surplus			Current Assets:		
Revaluation Reserve	225	110	Investments	95	80
General Reserve	360	240	Stock	415	389
Investment			Sundry Debtors	322	213
Allowance Reserve	80	40	Bills Receivables	35	—
P & L Account	85	82	Cash & Bank	303	166

Non-Current Liabilities

Secured Loans:

13% Debentures 100 56

(₹ 100 each)

Unsecured Loans

(Public Deposits) 50 —

Current Liabilities & Provisions

Sundry Creditors 65 35

Bills Payable 30 —

TOTAL	2315	1588	TOTAL	2315	1588
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Other Information :

- 13% Debenture holders of High Ltd. & Low Ltd. are discharged by Little Ltd. by issuing such number of its 15% Debentures of ₹ 100 each so as to maintain the same amount of interest.
- Preference Shareholders of the two companies are issued equivalent number of 15% Preference shares of Little Ltd. at a price of ₹ 125 per share (Face Value ₹ 100).
- Little Ltd. will issue 4 Equity Shares for each Equity Share of High Ltd. & 3 equity shares for each Equity Share of Low Ltd. The shares are to be issued at ₹ 35 each having a face value of ₹ 10 per share.
- Investment Allowance Reserve is to be maintained for two more years. Prepare the Balance sheet of Little Ltd. as on 1st April, 2020 after the amalgamation has been carried out in basis of in the nature of purchase.

(15 marks)

Answer:

Balance Sheet of Little Ltd. as at 1st April, 2020

Particulars	Note No.	(₹ in lakhs)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	1,150.0
(b) Reserves and Surplus	2	2,437.8
(2) Non-Current Liabilities		
Long-term borrowings	3	135.2
Other Borrowings- Unsecured Loans		50
(3) Current Liabilities		
Trade payables	4	130.0
Total		3,903
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment and Intangible Assets	5	1,885
(b) Non-current investment (95 + 80)		175
(2) Current assets		
(a) Inventory (415 + 389)		804
(b) Trade receivables	6	570
(c) Cash and bank balances (303 + 166)		459
Total		3,903

Notes to Accounts:

	(₹ in lakhs)	(₹ in lakhs)
1. Share Capital		
Equity share capital (W.N.1)		
65,50,000 ¹ Equity shares of 10 each	655	
4,95,000 ² Preference shares of ₹ 100 each	495	1,150
(all the above shares are allotted as fully paid-up pursuant to contracts without payment being received in cash)		
2. Reserves and surplus		
Securities Premium Account (W.N.3) (1080 + 681.25)	1,761.25	
Capital Reserve (W.N. 2) (283.33 + 393.22)	676.55	
Investment Allowance Reserve (80 + 40)	120	
Amalgamation Adjustment Reserve (80 + 40)	(120)	2,437.8
3. Long-term borrowings		
15% Debentures		135.2
4. Trade payables		
Sundry Creditors: High Ltd.	65	
Low Ltd.	35	
Bills Payable: High Ltd.	30	130

1 40,00,000 + 25,00,000

2 3,20,000 + 1,75,000

5. Property, Plant and Equipment and Intangible Assets				
Land and Building : High Ltd	670			
		1,055		
Plant and Machinery: High Ltd.	475			
Low Ltd.	<u>355</u>	830		1,885
Trade receivables				
Sundry Debtors: High Ltd.		322		
Low Ltd.		213		
Bills Receivables: High Ltd.		35		570

Working Notes:

	₹ in lakhs	
	High Ltd.	Low Ltd.
1. Computation of Purchase consideration		
(a) Preference shareholders:		
$\frac{3,20,00,000}{100}$ i.e. 3,20,000 shares) × ₹ 125 each	400	
$\frac{1,75,00,000}{100}$ i.e. 1,75,000 shares) × ₹ 125 each		218.75
(b) Equity shareholders:		
$\frac{10,00,00,000 \times 4}{100}$ i.e. 40,00,000 shares) × ₹ 35 each	1,400	
$\frac{8,50,00,000 \times 3}{100}$ i.e. 25,50,000 shares) × ₹ 35 each	—	892.50
Amount of Purchase Consideration	1,800	1,111.25

2. Computation of Capital Reserve		
Assets taken over:		
Land and Building	670	385
Plant and Machinery	475	355
Investments	95	80
Inventory	415	389
Trade Receivables	322	213
Bills Receivables	35	
Cash and bank	303	166
	2,315	1,588
Less: Liabilities taken over:		
Debentures	86.67	48.53
Unsecured Loan	50	
Creditors	65	35
Bills Payable	<u>30</u>	
	231.67	83.53
Net assets taken over	2,083.33	1,504.47
Purchase consideration	1,800	1,111.25
Capital reserve	283.33	393.22
3. Computation of securities premium		
On preference share capital		
High Ltd.- 3,20,000 × 25	80	
Low Ltd.- 1,75,000 × 25		43.75
On equity share capital		
High Ltd.- 40,00,000 × 25	1,000	
Low Ltd.- 25,50,000 × 25		637.5
Total	1,080	681.25

4.	Issue of Debentures (₹ In Lakhs) High Ltd.- 15% fresh issue of debenture for 13% old debentures = 100 × 13% /15% = 86.67(rounded off) Low Ltd.- 15% fresh issue of debenture for 13% old debentures = 56 × 13% /15% = 48.53 (rounded off) Total number of debentures issued = 86.67 + 48.53 = 135.20 Lakhs
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Space to write important points for revision

Q.6.9	2021 - Jan [2]	Practical
Galaxy Ltd. and Glory Ltd., are two companies engaged in the same business of chemicals. To mitigate competition, a new company Glorious Ltd., is to be formed to which the assets and liabilities of the existing companies, with certain exception, are to be transferred. The summarised Balance Sheet of Galaxy Ltd. and Glory Ltd. as at 31 st March, 2020 are as follows:		
	Galaxy Ltd. ₹	Glory Ltd. ₹
(I) Equity & Liabilities		
(1) Shareholders' fund		
Share Capital		
Equity shares of ₹ 10 each	8,40,000	4,55,000
Reserves & Surplus		
General Reserve	4,48,000	40,000
Profit & Loss A/c	1,12,000	72,000
(2) Non-current Liabilities		
Secured Loan		
6% Debentures	-	3,30,000
(3) Current Liabilities		
Trade Payables	4,20,000	1,83,000
Total	18,20,000	10,80,000

(II) Assets		
(1) Non-current assets		
Property, Plant & Equipment and Intangible Assets		
Freehold property, at cost	5,88,000	3,36,000
Plant & Machinery, at cost less depreciation	1,40,000	84,000
Motor vehicles, at cost less depreciation	56,000	-
(2) Current Assets		
Inventories	3,36,000	4,38,000
Trade Receivables	4,62,000	1,18,000
Cash at Bank	2,38,000	1,04,000
Total	18,20,000	10,80,000

Assets and Liabilities are to be taken at book value, with the following exceptions:

- (i) The Debentures of Glory Ltd. are to be discharged by the issue of 8% Debentures of Glorious Ltd. at a premium of 10%.
- (ii) Plant and Machinery of Galaxy Ltd. are to be valued at ₹ 2,52,000.
- (iii) Goodwill is to be valued at :
 Galaxy Ltd. ₹ 4,48,000
 Glory Ltd. ₹ 1,68,000
- (iv) Liquidator of Glory Ltd., is appointed for collection from trade debtors and payment to trade creditors. He retained the cash balance and collected ₹ 1,10,000 from debtors and paid ₹ 1,80,000 to trade creditors. Liquidator is entitled to receive 5% commission for collection and 2.5% for payments. The balance cash will be taken over by new company.

You are required to :

- (1) Compute the number of shares to be issued to the shareholders of Galaxy Ltd. and Glory Ltd, assuming the nominal value of each share in Glorious Ltd. is ₹ 10.

(2) Prepare Balance Sheet of Glorious Ltd., as on 1st April, 2020 and also prepare notes to the accounts as per Schedule III of the Companies Act, 2013. (20 marks)

Answer:
(i) Calculation of Purchase consideration (or basis for issue of shares of Glorious Ltd.):

	Galaxy Ltd.	Glory Ltd.
Purchase Consideration:	₹	₹
Goodwill	4,48,000	1,68,000
Freehold property	5,88,000	3,36,000
Plant and Machinery	2,52,000	84,000
Motor vehicles	56,000	—
Inventory	3,36,000	4,38,000
Trade receivables	4,62,000	—
Cash at Bank	2,38,000	24,000
	23,80,000	10,50,000
Less: Liabilities:		
6% Debentures (3,00,000 × 110%)	—	(3,30,000)
Trade payables	(4,20,000)	—
Net Assets taken over	19,60,000	7,20,000
To be satisfied by issue of shares of Glorious. Ltd. @ ₹ 10 each	1,96,000	72,000

(ii) Balance Sheet of Glorious Ltd. as at 1st April, 2020

	Particulars	Note No	Amount
			₹
	EQUITY AND LIABILITIES		
1.	Shareholders' Funds		
(a)	Share capital	1	26,80,000
(b)	Reserves and surplus	2	30,000
2.	Non-current liabilities		
(a)	Long-term borrowings	3	3,00,000
3.	Current liabilities		
(a)	Trade payables		4,20,000
	Total		34,30,000
	ASSETS		
1.	Non-current assets		
(a)	PPE and Intangible Assets		
(i)	Property, plant and equipment	4	13,16,000
(ii)	Intangible assets	5	6,16,000
2.	Current assets		
(a)	Inventories	6	7,74,000
(b)	Trade receivables		4,62,000
(c)	Cash and cash equivalents	7	2,62,000
	Total		34,30,000

Notes to accounts:

	₹	₹
1. Share Capital		
Equity share capital		
2,68,000 shares of ₹ 10 each		26,80,000
(All the above shares are issued for consideration other than cash)		
2. Reserves and surplus		
Securities Premium		
(10% premium on debentures of ₹ 3,00,000)		30,000
3. Long-term borrowings		
Secured		
8% 3,000 Debentures of ₹ 100 each		3,00,000
4. Property Plant and Equipment		
Freehold property		
Galaxy Ltd.	5,88,000	
Glory Ltd.	3,36,000	9,24,000
Plant and Machinery		
Galaxy Ltd.	2,52,000	
Glory Ltd.	84,000	3,36,000
Motor vehicles - Galaxy Ltd.		56,000
		13,16,000
5. Intangible assets		
Goodwill		
Galaxy Ltd.	4,48,000	
Glory Ltd.	1,68,000	6,16,000

6. Inventories		
Galaxy Ltd.	3,36,000	
Glory Ltd.	4,38,000	7,74,000
7. Cash and cash equivalents		
Galaxy Ltd.	2,38,000	
Glory Ltd. (As per working note)	24,000	2,62,000

Working note:

Calculation of cash balance of Glory Limited to be taken over by Glorious Limited:

	₹
Cash balance as at 31 st March, 2020	1,04,000
Add: Received from debtors	<u>1,10,000</u>
	2,14,000
Less: paid to creditors	<u>(1,80,000)</u>
	34,000
Less: Commission to liquidators	
On Debtors @ 5%	5,500
On Creditors @ 2.5%	<u>4,500</u>
	(10,000)
	<u>24,000</u>

Note:

- It is assumed that the nominal value of debentures of Glory Ltd. is ₹ 100 each.
- As per the information given in the question, debentures of Glory Ltd. are to be discharged by the issue of debentures of Glorious Ltd. at premium of 10%. It is assumed in the above solution that the debentures are issued at premium of ₹ 10 for discharge of debentures of ₹ 3,30,000. Alternative answer considering other reasonable assumption is also possible.

— Space to write important points for revision —

Q.6.10	2021 - July [5] (a)	Practical	
The summarized Balance Sheets of Black Limited and White Limited as on 31 st March, 2020 is as follows:			
Particulars	Notes	Black Limited (₹ in 000)	White Limited (₹ in 000)
Equity and Liabilities			
Shareholders' Funds			
(a) Share Capital	1	6,000	3,600
(b) Reserves and Surplus	2	1,080	660
Current Liabilities			
Trade payables		600	360
Total		7,680	4,620
Assets			
Non-current asset			
PPE and Intangible Assets			
(a) Property, Plant and Equipment		3,600	2,400
Current assets			
(a) Inventories		960	720
(b) Trade receivables		1,680	1,080
(c) Cash and Cash Equivalents		1,440	420
Total		7,680	4,620

Note No.	Particulars	Black Limited (₹ in 000)	White Limited (₹ in 000)
1.	Share Capital Equity Shares of ₹100 each	6,000	3,600
2.	Reserves and Surplus		
	General Reserve	360	180
	Profit and Loss Account	720	480
	Total	1,080	660

Black Limited takes over White Limited on 1st July, 2020

No Balance Sheet of White Limited is available as on that date. It is, however estimated that White Limited earned profit of ₹ 2,40,000 after charging proportionate depreciation @ 10% p.a. on Property Plant and Equipment during April-June, 2020.

- Estimated profit of Black Limited during these 3 months was ₹ 4,80,000 after charging proportionate depreciation @ 10% p.a. on Property Plant and Equipment.
- Both the companies have declared and paid 10% dividend within this 3 months' period.
- Goodwill of White Limited is valued at ₹ 2,40,000 and Property Plant and Equipment are valued at ₹ 1,20,000 above the depreciated book value on the date of takeover.
- Purchase consideration is to be satisfied by Black Limited by issuing shares at par.

Ignore tax.

You are required to:

- Compute No. of shares to be issued by Black Limited to White Limited against purchase consideration.
 - Calculate the balance of Net Current Assets of Black Limited and White Limited as on 1st July, 2020.
 - Give balance of Profit or Loss of Black Limited as on 1st July, 2020.
 - Give balance of Property Plant and Equipment as on 1st July, 2020 after takeover.
- (10 marks)

Answer:

- (i) Statement showing Number of shares issued by Black Ltd. to White Ltd. against Purchase Consideration:

	₹	₹
Properties, Plant & Equipment	24,00,000	
Less: Depreciation for 3 months @ 10% p.a.	(60,000)	
		23,40,000
Add: Addition		1,20,000
Revised value of value of PPE		24,60,000
Goodwill		2,40,000
Inventories (Assumed same as on 31.03.2020)		7,20,000
Trade Receivables (Assumed same as on 31.03.2020)		10,80,000
Cash and Cash Equivalents (W.N.1)		3,60,000
Total assets as on 1 st July, 2020		48,60,000
Less: Trade Payable (Assumed same as on 31.03.2020)		3,60,000
Purchase consideration		45,00,000
No. of Shares issued (45,00,000 @ 100 each)		45,000 shares

- (ii) Statement Showing Net Current Assets on 1st July, 2020:

	Black Ltd.	White Ltd.
Inventories (Assumed same as on 31.03.2020)	9,60,000	7,20,000
Trade Receivables (Assumed same as on 31.03.2020)	16,80,000	10,80,000
Cash & Cash Equivalent (W.N.1.)	14,10,000	3,60,000
Total Current Assets	40,50,000	21,60,000
Less: Trade Payables	(6,00,000)	3,60,000
Net Current Assets on 1 st July 2020	34,50,000	18,00,000

Working Note

1. Statement showing Cash & Cash Equivalent on 1st July, 2020:

	Black Ltd.	White Ltd.
Balance as on 31.03.2020	14,40,000	4,20,000
Add: Profit earned in 3 months	4,80,000	2,40,000
Add: Depreciation on PPE	90,000	60,000
Less: Dividend Paid	(6,00,000)	(3,60,000)
Cash & Cash Equivalents as on 1 st July 2020	14,10,000	3,60,000

- (iii) Statement showing Balance of Profit & Loss of Black Ltd. as on 1st July 2020:

	₹
Balance of Profit on 31.03.2020	7,20,000
Add: Profit Earned in 3 Months	4,80,000
Less: Dividend paid	6,00,000
Balance of Profit & Loss as on 1 st July 2020	6,00,000

- (iv) Statement showing Balance of Properties, Plant & Equipment of Black Ltd.

	₹
Balanced of PPE of Black Ltd. as on 1-7-2020 after depreciation (36,00,000 - 90,000)	35,10,000
PPE of White Ltd. (at takeover value)	24,60,000
Balance of PPE of Black Ltd. as on 1 st July, 2020 after takeover	59,70,000

Q.6.11 2021 - Dec [2] (b)		Practical	
Dark Ltd. and Fair Ltd. were amalgamated on and from 1 st April, 2021. A new company Bright Ltd. was formed to take over the business of the existing companies. The Balance Sheets of Dark Ltd. and Fair Ltd. as at 31 st March, 2021 are given below:			
(₹ In Lakhs)			
Particulars	Note No.	Dark Ltd.	Fair Ltd.
Equity and Liabilities			
(1) Shareholders's Funds		1,650	1,425
(a) Share Capital	1		
(b) Reserves and Surplus	2	630	495
(2) Non-Current Liabilities			
Long Term Borrowings			
10% Debentures of ₹ 100 each		90	45
(3) Current Liabilities			
Trade Payables		630	285
Total		3,000	2,250
Assets			
(1) Non Current Assets			
(a) Property, Plant and Equipment		1,350	975
(b) Non Current Investments		225	75
(2) Current Assets			
(a) Inventories		525	375
(b) Trade Receivables		450	525
(c) Cash and Cash Equivalents		450	300
Total		3,000	2,250

Notes to Accounts

		Dark Ltd. (₹ in lakhs)	Fair Ltd. (₹ in lakhs)
1	Share Capital Equity Shares of ₹ 100 each 14% Preference Shares of ₹ 100 each	1,200 450 1,650	1,125 300 1,425
2	Reserves and Surplus Revaluation Reserve General Reserve Investment Allowance Reserve Profit and Loss Account	225 255 75 75 630	150 225 75 45 495

Additional Information

- (i) Bright Limited will issue 5 equity shares for each equity share of Dark Limited and 4 equity shares for each equity share of Fair Limited. The shares are to be issued @ ₹ 35 each having a face value of ₹ 10 per share.
- (ii) Preference shareholders of the two companies are issued equivalent number of 16% preference shares of Bright Limited at a price of ₹ 160 per share (face value ₹ 100).
- (iii) 10% Debenture holders of Dark Limited and Fair Limited are discharged by Bright Limited, issuing such number of its 16% Debentures of ₹ 100 each so as to maintain the same amount of interest.
- (iv) Investment allowance reserve is to be maintained for 4 more years.
- (v) Liquidation expenses are for Dark Limited ₹ 6,00,000 and for Fair Limited ₹ 3,00,000. It is decided that these expenses would be borne by Bright Limited.
- (vi) All the assets and liabilities of Dark Limited and Fair Limited are taken over at book value.

(vii) Authorised equity share capital of Bright Limited is ₹ 15,00,00,000 divided into equity shares of ₹ 10 each . After issuing required number of shares to the liquidators of Dark Limited and Fair Limited, Bright Limited issued balance shares to public. The issue was fully subscribed.

You are required to prepare Balance Sheet of Bright Limited as at 1st April, 2021 after amalgamation has been carried out on the basis of Amalgamation in the nature of purchase. (15 marks)

Answer:

Balance sheet of Bright Ltd. As at 1st April, 2021

(in Lakhs)

Particulars	Notes	Am.unt
Equity and Liabilities:		
(1) Shareholder's Funds:		
Share Capital	1	2,250
Reserves and Surplus	2	4,200
(2) Non-current Liabilities:		
Long Term Borrowing	3	84.375
(3) Current Liabilities:		
Trade Payable	4	915
Total		7,449.375
Assets:		
(1) Non current assets:		
PPE	5	2,325
Tangible		
Intangible	6	633.375
Non-current Investment	7	300
(2) Current Assets:		
Inventories	8	900
Trade receivables	9	975
Cash and cash equivalent	10	2316
Total		7,449.375

Note - 1: Share capital

Particulars	Amount
Authorized Capital: (150 Lakhs equity shares of ₹ 10 each and 7.5 Lakhs Preference shares of ₹ 100)	2,250
Issued, subscribed, Call up and paid up capital	
Preferences share capital (7.5 Lakhs Preference shares of ₹ 100 each, all shares are issued for consideration other than cash in the scheme of amalgamation).	750
Equity shares capital: (150 Lakhs equity shares of ₹ 10 each out of which 105 lakhs shares are issued for consideration other than case in the scheme of amalgamation).	1,500
	2,250

Note - 2: Reserve and surplus

Particulars	Amount
Investments allowances reserves (225 + 150)	375
Securities premium (150 × 25) + (7.5 × 60)	4,200
Total	4,575
(-) Amalgamation adjustment reserve	375
Balance shown in Balance sheet	4,200

Note - 3 to Note 10 :

Long-term borrowings		
16% Debentures (56,25,000+28,12,500) (W.N. 1)		84.375
Trade payables		
Dark Ltd.	630	
Fair Ltd.	285	915

PPE			
Land and Building		1350	
Plant and Machinery		975	2,325
Intangible assets			
Goodwill [W.N. 2]	624.375		
Add: Liquidation exp. (6 + 3)	<u>9.00</u>		633.375
Non-current Investments			
Investments (225+75)			300
Inventories			
Dark Ltd.		525	
Fair Ltd.		375	900
Trade receivables			
Dark Ltd.		450	
Fair Ltd.		525	975
Cash & cash equivalents			
Dark Ltd.		450	
Fair Ltd.		300	
Liquidation Expenses (6+3)		(9)	
Share issued for cash (45 lakh shares × ₹35)		<u>1,575</u>	2,316

Working Notes:

		(₹ in lakhs)	
		Dark Ltd.	Fair Ltd.
(1)	Computation of Purchase consideration		
(a)	Preference shareholders:		
	$\left(\frac{4,50,00,000}{100} \right)$	720	

	i.e. 4,50,000 shares × ₹160 each		480
	$\left(\frac{3,00,00,000}{100} \right)$		
	i.e. 3,00,000 shares × ₹160 each		
(b)	Equity shareholders:		
	$\left(\frac{12,00,00,000 \times 5}{100} \right)$	2,100	
	i.e. 60,00,000 shares × ₹35 each		
	$\left(\frac{11,25,00,000 \times 4}{100} \right)$		<u>1,575</u>
	i.e. 45,00,000 shares × ₹35 each		
	Amount of Purchase Consideration	<u>2,820</u>	<u>2,055</u>
(2)	Net Assets Taken Over		
	Assets taken over:		
	Property Plant & Equity	1,350	975
	Non-Current Investments	225	75
	Inventory	525	375
	Trade receivables	450	525
	Cash and bank	<u>450</u>	<u>300</u>
		3,000	2,250
	Less: Liabilities taken over:		
	10% Debentures	56.25	28.125
	Trade payables	<u>630</u>	<u>(686.25)</u>
		285	(313.125)
	Net assets taken over	2,313.75	1936.875
	Purchase consideration	<u>2,820</u>	<u>2055.00</u>
	Goodwill	<u>506.25</u>	<u>118.125</u>
	Total goodwill		<u>624.375</u>

Working Note -1

Issue of Debentures

Debentures	₹ 90,00,000	₹ 45,00,000
Interest 10%	₹ 9,00,000	₹ 4,50,000
	$\left(\frac{9,00,000 \times 100}{16}\right) = 56,25,000$	$\left(\frac{4,45,000 \times 100}{16}\right) = 28,12,500$

Note: In the above solution ₹35 has been considered as the issue price of Equity shares for public issue also. Alternative considering this as ₹ 10 also possible. In that case, the balance of cash and cash equivalents will be ₹ 1,191 lakhs and securities premium will be ₹ 3,075 lakhs in place of the balances given in the balance sheet in the above solution.

— Space to write important points for revision —

Q.6.12 2022 - May [2]

Practical

The summarized Balance Sheet of A Ltd. and B Ltd. as at 31st March, 2022 are as under:

	A Ltd. (in ₹)	B Ltd. (in ₹)
Equity shares of ₹ 10 each, fully paid up	30,00,000	24,00,000
Share Premium Account	4,00,000	—
General Reserve	6,20,000	5,00,000
Profit and Loss Account	3,60,000	3,20,000
Retirement Gratuity Fund Account	1,00,000	—
10% Debentures	20,00,000	—
Unsecured Loan (including loan from A Ltd.)	6,00,000	8,20,000
Trade Payables	1,00,000	3,40,000
	71,80,000	43,80,000

Land and Buildings	28,00,000	21,00,000
Plant and Machinery	20,00,000	7,60,000
Long term advance to B Ltd.	2,20,000	—
Inventories	10,40,000	7,00,000
Trade Receivables	8,20,000	5,20,000
Cash and Bank	3,00,000	3,00,000
	71,80,000	43,80,000

B Ltd. is to declare and pay ₹ 1 per equity share as dividend, before the following amalgamation takes place with Z Ltd.

Z Ltd. was incorporated to take over the business of both A Ltd. and B Ltd.

- The authorized share capital of Z Ltd. is ₹ 60 lakhs divided into 6 lakhs equity shares of ₹ 10 each.
- As per Registered Valuer the value of equity shares of A Ltd. is ₹ 18 per share and of B Ltd. is ₹ 12 per share respectively and agreed by respective shareholders of the companies.
- 10% Debentures of A Ltd. to be issued 12% Debentures of Z Ltd. at par in consideration of their holdings.
- A contingent liability of A Ltd. of ₹ 2,00,000 is to be treated as actual liability
- Liquidation expenses including Registered Valuer fees of A Ltd. ₹ 50,000 and B Ltd. ₹ 30,000 respectively to be borne by Z Ltd.
- The shareholders of A Ltd. and B Ltd. is to be paid by issuing sufficient number of fully paid up equity shares of ₹ 10 each at a premium of ₹ 10 per share.

Assuming amalgamation in the nature of purchase, you are required to pass the necessary journal entries (narrations not required) in the books of Z Ltd. and Prepare Balance Sheet of Z Ltd. immediately after amalgamation of both the companies. (20 marks)

Answer:

Journal Entries in the books of Z Ltd.

Particulars	Dr. (₹)	Cr. (₹)
Business Purchase A/c Dr.	54,00,000	
To Liquidator of A Ltd. A/c		54,00,000
Land and Building A/c Dr.	28,00,000	
Plant and Machinery A/c Dr.	20,00,000	
Long term advance to B Ltd. A/c Dr.	2,20,000	
Inventories A/c Dr.	10,40,000	
Trade Receivables A/c Dr.	8,20,000	
Cash and Bank A/c Dr.	3,00,000	
Goodwill A/c Dr.	12,20,000	
To Retirement Gratuity Fund A/c		1,00,000
To 10% Debentures A/c		20,00,000
To Unsecured Loan A/c		6,00,000
To Trade Payables A/c		1,00,000
To Other Liabilities A/c		2,00,000
To Business Purchase A/c		54,00,000
10% Debenture A/c Dr.	20,00,000	
To 12% Debentures A/c		20,00,000
Liquidator of A Ltd. A/c Dr.	54,00,000	
To Equity Share Capital A/c		27,00,000
To Securities Premium A/c		27,00,000
Business Purchase A/c Dr.	28,80,000	
To Liquidator of B Ltd. A/c		28,80,000
Land and Building A/c Dr.	21,00,000	
Plant and Machinery A/c Dr.	7,60,000	
Inventories A/c Dr.	7,00,000	

Trade Receivables A/c	Dr.	5,20,000	
Cash and Bank (less dividend) A/c	Dr.	60,000	
To Unsecured Loan A/c			8,20,000
To Trade Payables A/c			3,40,000
To Business Purchase A/c			28,80,000
To Capital Reserve A/c			1,00,000
Liquidators of B Ltd. A/c	Dr.	28,80,000	
To Equity Share Capital A/c			14,40,000
To Securities Premium A/c			14,40,000
Unsecured Loans A/c	Dr.	2,20,000	
To Long term Advance to B Ltd. A/c			2,20,000
Capital Reserve A/c	Dr.	1,00,000	
To Cash and Bank A/c (Liquidation expenses)			80,000
To Goodwill A/c			20,000

Note:

- The journal entries for A Ltd. and B Ltd. have been given separately in the above solution. Alternatively, the entries may be given as combined for both companies.
- Alternatively, following set of entries may be given in place of the last given in the above solution:

Goodwill A/c	Dr.	50,000	
To Cash and Bank A/c (Liquidation expenses of A Ltd.)			50,000
Capital Reserve A/c	Dr.	30,000	
To Cash and Bank A/c (Liquidation expenses of B Ltd.)			30,000
Capital Reserve A/c	Dr.	70,000	
To Goodwill A/c			70,000

Balance Sheet of Z Ltd. as at 31st March, 2022

Particulars	Notes	Amounts (₹)
I. Equity and liabilities		
1. Shareholder's funds		
(a) Share Capital	1	41,40,000
(b) Reserves and Surplus	2	41,40,000
2. Non-Current liabilities		
(a) Long-term borrowings	3	20,00,000
(b) Long-term provisions	4	1,00,000
3. Current liabilities		
(a) Short-term borrowings ¹	5	12,00,000
(b) Trade Payables	6	4,40,000
(a) Other liability		2,00,000
Total		1,22,20,000
II. Assets		
1. Non Current assets		
(a) (i) Property, Plant and Equipment	7	76,60,000
(ii) Intangible (Goodwill) (12,20,000 - 20,000)		12,00,000
2. Current Assets		
Inventories	8	17,40,000
Trade receivables	9	13,40,000
Cash and Cash Equivalents	10	2,80,000
		1,22,20,000

¹ Unsecured loans have been considered as short-term borrowings. Alternatively, it may be considered as long term borrowings and presented accordingly.

Notes to Accounts

1.	Share Capital Authorized Share Capital 6,00,000 Equity shares of ₹ 10 each Issued: 4,14,000 Equity Shares of ₹ 10 each (all these shares were issued for consideration other than cash)		60,00,000	
			41,40,000	
2.	Reserves and Surplus Securities Premium Account (4,14,000 shares × ₹ 10)		41,40,000	
3.	Long-term borrowings 12% Debentures		20,00,000	
4.	Long Term Provisions Retirement gratuity fund		1,00,000	
5.	Short term borrowings Unsecured loans			
	A Ltd.	6,00,000		
	B Ltd.	<u>8,20,000</u>	14,20,000	
	Less: Mutual		(2,20,000)	12,00,000
6.	Trade payables			
	A Ltd.		1,00,000	
	B Ltd.		<u>3,40,000</u>	4,40,000
7.	Property, Plant and Equipment Land and Building			
	A Ltd.		28,00,000	
	B Ltd.		21,00,000	49,00,000
	Plant and Machinery			
	A Ltd.		20,00,000	
	B Ltd.		<u>7,60,000</u>	27,60,000
				76,60,000

8.	Inventories		
	A Ltd.	10,40,000	
	B Ltd.	7,00,000	17,40,000
9.	Trade receivables		
	A Ltd.	8,20,000	
	B Ltd.	5,20,000	13,40,000
10.	Cash and cash equivalents		
	A Ltd.	3,00,000	
	B Ltd. [3,00,000-2,40,000 (dividend)]	60,000	
		3,60,000	
	Less: Liquidation Expenses	(80,000)	2,80,000

Working Note:

Calculation of amount of Purchase Consideration

	A Ltd.	B Ltd.
Existing shares	3,00,000	2,40,000
Agreed value per share	₹ 18	₹ 12
Purchase consideration	54,00,000	28,80,000
No. of shares to be issued of ₹ 20 each (including ₹ 10 premium)	2,70,000	1,44,000
Face value of shares at ₹ 10	27,00,000	14,40,000
Premium of shares at ₹ 10	27,00,000	14,40,000

Space to write important points for revision

Q.6.13 2023 - May [2]

Practical

X Ltd. and Y Ltd. had been carrying on business independently. They agreed to amalgamate and form a new company XY Ltd. with an authorized share capital of ₹ 40,00,000 divided into 8,00,000 equity shares of ₹ 5 each. On 31st March, 2023 the respective information of X Ltd. and Y Ltd. were as follows:

	X Ltd. (₹)	Y Ltd. (₹)
Share Capital	34,25,000	36,10,000
Trade Payable	59,70,000	18,02,500
Property, Plant and Equipment	58,25,000	37,40,000
Current Assets	31,45,000	15,99,500

Additional Information :

The following revalued figures of non-current and current assets are:

	X Ltd. (₹)	Y Ltd. (₹)
Property, Plant and Equipment	71,00,000	39,00,000
Current Assets	29,95,000	15,77,500

The debtors and creditors include ₹ 1,37,250 owed by X Ltd. to Y Ltd.

The purchase consideration is satisfied by issue of the following shares and debentures.

6,20,000 equity shares of XY Ltd. to X Ltd. and Y Ltd. in the proportion to the profitability of their respective business based on the average net profit during the last four years which were as follows:

	X Ltd. (₹)	Y Ltd. (₹)
2020 Profit	42,50,000	26,50,000
2021 Profit	44,45,760	27,60,000
2022 (Loss)/Profit	(75,000)	34,00,000
2023 Profit	37,79,240	35,90,000

7.5% debenture in XY Ltd. at par to provide an income equivalent to 4% return business as on capital employed in their respective business as on 31st March, 2023 after revaluation of assets.

You are required to:

- (1) Compute the amount of debenture and shares to be issued to 'X' Ltd. and 'Y' Ltd.
- (2) A Balance Sheet of XY Ltd. showing the position immediately after amalgamation. (20 marks)

Q.6.14	RTP	Practical
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The financial position of two companies Alex Ltd. and Beta Ltd. as on 31st March, 2017 was as under:

Liabilities	ALEX Ltd. (₹)	Beta Ltd. (₹)
Share Capital:		
Equity Shares of ₹ 10 each	28,00,000	8,40,000
8% Preference Shares of ₹ 100 each	2,80,000	-
10% Preference Shares of ₹ 100 each	-	2,80,000
General Reserve	1,96,000	1,96,000
Retirement Gratuity fund	1,40,000	56,000
Trade payables	3,64,000	2,24,000
	37,80,000	15,96,000
Assets	ALEX Ltd. (₹)	Beta Ltd. (₹)
Goodwill	1,40,000	70,000
Building	8,40,000	2,80,000
Machinery	14,00,000	4,20,000
Inventory	7,00,000	4,90,000
Trade receivables	5,60,000	2,80,000
Cash at Bank	1,40,000	56,000
	37,80,000	15,96,000

Beta Ltd. is absorbed by Alex Ltd. on the following terms:

- (a) 10% Preference Shareholders are to be paid at 10% premium by issue of 8% Preference Shares of Alex Ltd.

- (b) Goodwill of Beta Ltd. is valued at ₹ 1,40,000, Buildings are valued at ₹ 4,20,000 and the Machinery at ₹ 4,48,000.
- (c) Inventory to be taken over at 10% less value and Provision for Doubtful Debts to be created @ 7.5%.
- (d) Equity Shareholders of Beta Ltd. will be issued Equity Shares of Alex Ltd. @ 5% premium.

You are required to:

- (a) Prepare necessary Ledger Accounts to close the books of Beta Ltd.
- (b) Prepare the acquisition entries in the books of Alex Ltd.
- (c) Also prepare the Balance Sheet after absorption as at 31st March, 2017.

Answer:

(a)

**In the Books of Beta Ltd.
Realisation Account**

	₹		₹
To Sundry Assets	15,96,000	By Retirement Gratuity Fund	56,000
To Preference Shareholders (Premium on Redemption)	28,000	By Trade payables (Purchase Consideration)	2,24,000
To Equity Shareholders (Profit on Realisation)	1,40,000	By Alex Ltd.	14,84,000
	17,64,000		17,64,000

Equity Shareholders Account

	₹		₹
To Equity Shares of Alex Ltd.	11,76,000	By Share Capital	8,40,000
		By General Reserve	1,96,000
		By Realisation Account (Profit on Realisation)	1,40,000
	11,76,000		11,76,000

Preference Shareholders Account

	₹		₹
To 8% Preference Shares of Alex Ltd.	3,08,000	By Preference Share Capital	2,80,000
		By Realisation Account (Premium on Redemption of Preference Shares)	28,000
	3,08,000		3,08,000

Alex Ltd. Account

	₹		₹
To Realisation Account	14,84,000	By 8% Preference Shares	3,08,000
		By Equity Shares	11,76,000
	14,84,000		14,84,000

**(b) In the Books of Alex Ltd.
Journal Entries**

	Dr.	Cr.
	₹	₹
Business Purchase A/c Dr. To Liquidators of Beta Ltd. Account (Being business of Beta Ltd. taken over)	14,84,000	14,84,000
Goodwill Account Dr.	1,40,000	
Building Account Dr.	4,20,000	
Machinery Account Dr.	4,48,000	
Inventory Account Dr.	4,41,000	
Trade receivables Account Dr.	2,80,000	
Bank Account Dr.	56,000	
		56,000
		2,24,000
		21,000
		14,84,000
To Retirement Gratuity Fund Account		56,000
To Trade payables Account		2,24,000
To Provision for Doubtful Debts Account		21,000
To Business Purchase A/c		14,84,000
(Being Assets and Liabilities taken over as per agreed valuation).		

	Dr.	
Liquidators of Beta Ltd. A/c	14,84,000	
To 8% Preference Share Capital A/c		3,08,000
To Equity Share Capital A/c		11,20,000
To Securities Premium A/c		56,000
(Being Purchase Consideration satisfied as above).		

**(c) Balance Sheet of Alex Ltd.
(after absorption) as at 31st March, 2017**

Particulars	Notes	₹
Equity and Liabilities		
1. Shareholders' funds		
A Share capital	1	45,08,000
B Reserves and Surplus	2	2,52,000
2. Non-current liabilities		
A Long-term provisions		1,96,000
3. Current liabilities		
A Trade Payables		5,88,000
B Short term provision		21,000
Total		55,65,000
Assets		
1 Non-current assets		
A Property Plant and Equipment and Intangible Assets		
PPE	3	31,08,000
Intangible Assets		2,80,000
2 Current assets		
A Inventories		
B Trade receivables		11,41,000
C Cash and cash equivalents		8,40,000
Total		55,65,000

Notes to accounts:

Purchase Consideration:		₹
1 Share Capital		
Equity share capital 3,92,000 Equity Shares of ₹ 10 each fully paid (Out of above 1,12,000 Equity Shares were issued in consideration other than for cash)	39,20,000	
Preference share capital 5,880 8% Preference Shares of ₹ 100 each (Out of above 3,080 Preference Shares were issued in consideration other than for cash)	5,88,000	
Total	45,08,000	
2 Reserves and Surplus		
Securities Premium	56,000	
General Reserve	1,96,000	
Total	2,52,000	
3 PPE		
Buildings	12,60,000	
Machinery	18,48,000	
Total	31,08,000	

Working Notes:

Purchase Consideration:		₹
Goodwill	1,40,000	
Building	4,20,000	
Machinery	4,48,000	
Inventory	4,41,000	
Trade receivables	2,59,000	
Cash at Bank	56,000	

<i>Less: Liabilities:</i>	
Retirement Gratuity	(56,000)
Trade payables	(2,24,000)
Net Assets/ Purchase Consideration	14,84,000
To be satisfied as under:	
Preference Shareholders of Beta Ltd.	2,80,000
<i>Add: 10% Premium</i>	<u>28,000</u>
Satisfied by issue of 3,080 no. of 8% Preference Shares of Alex Ltd.	3,08,000
Equity Shareholders of Beta Ltd. to be satisfied by issue of 1,12,000 Equity Shares of Alex Ltd. at 5% Premium	11,76,000
Total	14,84,000

— Space to write important points for revision —

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