



Chapter – 5

Amalgamation of Companies

Weightage as per ICAI – BOS

33% to 38% for ESOP, Buy Back & Shares with differential rights, Amalgamation, Internal Reconstruction & Liquidation together.

Past exam trend – Min. 15 marks
Max. 20 marks

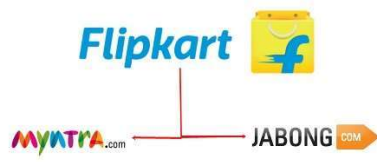
Questions on Amalgamation in past CA Examination

May 2018	Nov 2018	May 2019	Nov 2019	Nov 2020	Jan 2021
Q3 20 marks		Q3(a) 10 marks + Q6 5 marks		Q3(a) 15 marks	Q2 20 marks

What to expect from this chapter in exam?

Questions on

- ✓ Theory question of Amalgamation, Absorption & Reconstruction*
- ✓ Determination on type of Amalgamation and differences
- ✓ Computation of Purchase Consideration under various methods***
- ✓ Accounting entries or ledgers in the books of transferor company***
- ✓ Accounting entries or ledgers in the books of transferee company***
- ✓ Balance Sheet of transferee company after amalgamation***



TO





What is Amalgamation?

Two or more companies are combined into one by merger or by one taking over the other.

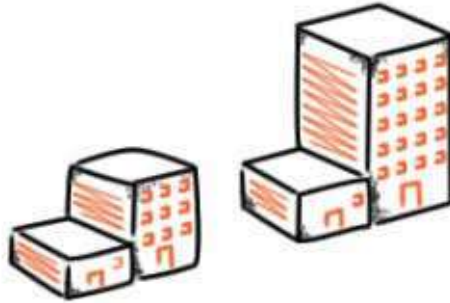
As per para 3(a) of AS 14, Amalgamation means Amalgamation as per provisions of Co.'s Act 2013 or other statute & includes merger

Difference between Amalgamation, Absorption & External Reconstruction

	Amalgamation	Absorption	External Reconstruction
Meaning	Two or more companies are wound up and a new company is formed to take over their business.	An existing company takes over the business of one or more existing companies	A newly formed company takes over the business of an existing company
Liquidation	Involves liquidation of two or more companies	Results in liquidation of one or more companies	Liquidation of only one company
Incorporation	New company is incorporated	No new company is incorporated	New company is incorporated



Parties to Amalgamation, Absorption & External Reconstruction





Accounting Standard 14 – Accounting for Amalgamations

AS 14 deals with Amalgamations, Absorptions & External Reconstructions.

Further it prescribes accounting in the books of _____ Company.

For this purpose, AS 14 classifies Amalgamations (includes Absp. & EI) into two categories:

Amalgamation in the nature of MERGER	Amalgamation in the nature of PURCHASE
 All 5 conditions are satisfied	 Even if 1 out of 5 is
According to AS 14, TransfeREE should follow Pooling of Interest Method to account for Amalgamation	According to AS 14, TransfeREE should follow Purchase Method to account for Amalgamation
TransfeROR to follow –  AS 14 is silent about it So what, by GAAP we follow Dissolution or Liquidation or Realisation Approach	





What are the five conditions specified by para 3(e) of AS 14?

👉 All the assets and liabilities of TransfeROR Co. should be taken over by TransfeREE Co. **including Reserves & Surplus**

👉 Minimum 90% of the shareholders of TrasfeROR Co. continue as shareholders of TransfeREE Co. **Shares of TransfeROR Co. held by TransfeREE Co. or its subsidiaries are not incl. in 90%**

👉 Consideration to shareholders of TransfeROR Co. who agree to be shareholders in TransfeREE Co. should be only in the form of Equity Shares in TransfeREE Co., except for fractional shares settled in cash.

👉 Business of the TransfeROR Co. in intended to be carried on TransfeREE Co.

👉 Assets & Liabilities of TransfeROR Co. are to be incorporated in the books of TransfeREE Co. at their book value. **Except to bring in uniformity of accounting policies.**



What is Purchase Consideration?





Computation of Purchase Consideration

1. Lumpsum Method



Under this method, the transferee company agrees to pay a lumpsum/ fixed amount to shareholders of the transferor company.

2. Payment Method



Under this method, the transferee company makes individual Payments to the equity shareholders and preference shareholders either by the way of cash, issue of shares and debentures.

3. Net Asset Method



Under this method, the purchase consideration is arrived based on the value of assets less the outside liabilities taken over by the transferee company.

4. Intrinsic Value Method



Under this method, the purchase consideration is calculated at the intrinsic value of shares of the transferor or transferee company.



Goodwill or Capital Reserve

The difference between the Purchase consideration and the Net Assets (at agreed values) of the transferor company shall be recorded as goodwill or capital reserve in the books of the transferee company.



Accounting in the books of TransfeROR Company

<u>Transfer of Assets to Realisation A/C</u> • All the assets should be transferred to Realisation A/C whether taken over or not at book value. • Exception, • Cash & Bank when not taken over. In the absence of info, it can be assumed to be taken over. • Fictitious Assets & Accumulated losses are not transferred to Realisation A/C. Instead, they are t/f to Sh. Holders A/C Agreed Value is NEVER considered in Revaluation A/C. It is only considered in _____	Realisation A/C Dr. To Assets A/C
<u>Transfer of Liabilities to Realisation A/C</u> • All outsider liabilities (external) should be transferred to Realisation A/C at book value. • Items not to be transferred to Realisation A/C are • Share Capital, • Reserves & Surplus Instead, they are t/f to Sh. Holders A/C	Liabilities A/C Dr. To Realisation A/C
<u>Recording Purchase Consideration due</u>	TransfeREE Co. A/C Dr. To Realisation A/C



<u>Receipt of Purchase Consideration</u>	Cash A/C Dr. Bank A/C Dr. Equity Shares in TransfeREE Co. A/C Dr. Preference Sh. In TransfeRee Co. A/C Dr. Debentures in TransfeRee Co. A/C Dr. To TransfeREE Co. A/C
<u>Selling Assets not takeover</u> • Entry to be passed at Selling Price • Ignore Cost Price or Book value • Don't try to account profit or loss on sale • In the absence of specific mention about SP. Assume SP as 	Bank A/C Dr. To Realisation A/C
<u>Settling liabilities not takeover</u> • Entry to be made for settlement value • Ignore book value of liability • Don't try to separately account profit or loss on settlement of liability • In the absence of specific mention about payment, assume it to be settled at book value.	Realisation A/C Dr. To Bank A/C
<u>Realisation or Liquidation Expenses</u> • Paid by TransfeROR Co. • Borne by TransfeROR Co. • Re-imbursed by TransfeREE Co.	Realisation A/C Dr. To Bank A/C  Bank A/C Dr. To Realisation A/C



Expense will be booked in TransfeREE Co.'s books • Paid by TransfeREE Co. ○ Borne by TransfeREE Co. ○ Re-imbursed by TransfeROR Co. Expense is to be booked in TransfeROR Co.'s books	 Realisation A/C To Bank A/C Dr.
<u>Purchase Consideration payable to Preference Share holders</u>	Preference Share Capital A/C Realisation A/C To Realisation A/C To Preference Shareholders A/C Dr. Dr.
<u>Payment to Preference Share holders</u>	Preference Shareholders A/C To x% Pref Sh in TransfeREE Co. A/C To Equity Sh in TransfeREE Co. A/C To x% Debentures in TransfeREE Co. A/C To Cash/Bank A/C Dr.
<u>Realisation Profit or Loss t/f to Equity Share holders</u> • Realisation Profit • Realisation Loss	Realisation A/C To Equity Share holders A/C Dr. Equity Share holders A/C To Realisation A/C Dr.



<u>Transfer of Equity Share Capital & Reserves (incl. Accumulated losses) to Equity Share holders A/C</u>	Equity Share Capital A/C Reserves & Surplus A/C To Accumulated Losses A/C To Equity Share holders A/C	Dr. Dr.
<u>Payment to Equity Share holders</u>	Equity Share holders A/C To x% Pref Sh in TransfeREE Co. A/C To Equity Sh in TransfeREE Co. A/C To x% Debentures in TransfeREE Co. A/C To Cash/Bank A/C	Dr.

Further question can ask you to prepare ledger A/C's in the book of TransfeROR's Co.

- ✓ Prepare Ledger's so asked in the question
- ✓ If question says prepare necessary ledgers, then prepare
 - Realisation A/C
 - TransfeREE Co's A/C
 - Preference Share Holders A/C
 - Equity Share Holders A/C



Accounting in the books of TransfeREE Co.

Accounting in the books of TransfeREE Co. includes:

- ❖ Journal Entries for amalgamation
- ❖ Ledger A/C's
- ❖ Balance Sheet after amalgamation

	Purchase Method	Pooling of Interest Method
<u>For business acquired</u>	Business Purchased A/C Dr. To Liq's of TransfeREE Co. A/C <i>807</i>	
<u>Incorporating Assets & Liabilities</u>	Assets A/C Dr. <i>Goodwill A/C Dr.</i> <i>To Capital Reserve A/C</i> To Liabilities A/C To Business Purchase A/C	Assets A/C Dr. <i>Reserves & Surplus A/C Dr.</i> <i>To Reserves & Surplus A/C</i> To Liabilities A/C To Business Purchase A/C
<u>Debenture holders adjustment</u>	<i>107</i> Deb's of TransfeREE Co A/C Dr. Disc. on issue of Deb A/C Dr. To x% Debentures A/C To x% Pref. Sh Capital A/C To Equity Share Capital A/C To Security Premium A/C To Cash A/C / Bank A/C	
<u>Discharge of Purchase Consideration</u>	Liq's of TransfeREE Co A/C Dr. <i>Disc. on issue of Deb. A/C Dr.</i> To Equity Share Capital A/C To x% Pref Share Capital A/C To x% Debentures A/C <i>To Security Premium A/C</i> To Cash A/C or Bank A/C	



<u>Realisation Exp paid & borne</u>	Goodwill A/C To Cash A/C or Bank A/C	Dr.	P&L /Gen. Reserve A/C To Cash A/C or Bank A/C	Dr.
<u>Mutual Indebtedness</u>	Creditor's A/C To Debtor's A/C Bills Payable A/C To Bills Receivable A/C	Dr. Dr.		
<u>Unrealised Profit</u>	Goodwill A/C To Stock A/C	Dr.	P&L /Gen. Reserve A/C To Stock A/C	Dr.
<u>Statutory Reserve</u>	Amalgamation Adj. A/C To Statutory Reserve A/C	Dr.		

Mutual Indebtedness

It is when transferOR company owes money to transferEE company or vice versa



Unrealised Profit

An unrealised profit is a theoretical profit or deficit that exists on balance, resulting from an investment that has not yet been sold for cash.

Statutory Reserve

It is amount of money, securities, or assets that need to be set aside as a legal requirement by insurance companies and financial institutions to cover its claims or obligations which are due in the near future.

Disclosure Requirements as per AS 14

These disclosures are to be made in the first financial statements of TransfeREE Co. following amalgamation.

- Name & Nature of business of amalgamating companies
- Effective date for amalgamation purpose
- Method of accounting followed to account amalgamation
- Particulars of amalgamation scheme agreed upon
 - Purchase Consideration form and type
 - Settlement of debenture holders
 - Valuation of goodwill etc



Steps to solve the problem



Question Time

45. The financial position of X Ltd. and Y Ltd. as on 31st March, 2018 was as under:

	X Ltd. (₹)	Y Ltd. (₹)
<u>Equity and Liabilities</u>		
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	<u>3,90,000</u>	<u>2,40,000</u>
Total	<u>40,50,000</u>	<u>17,10,000</u>
<u>Assets</u>		
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	<u>1,50,000</u>	<u>60,000</u>
Total	<u>40,50,000</u>	<u>17,10,000</u>

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

- 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of X Ltd.
- Goodwill of Y Ltd. on absorption is to be computed based on two times of average profits of preceding three financial years
2016-17 : Rs. 90,000;
2015-16 : Rs. 78,000 and
2014-15 : Rs. 72,000.
Profits of 2014 -15 included credit of an insurance claim of Rs. 25,000.
Fire occurred in 2013-14 and loss by fire Rs. 30,000 was booked in P&L A/C.
During 2015 -16, there was an embezzlement of cash by an employee amounting to Rs. 10,000.
- Land & Buildings are valued at Rs. 5,00,000 and the Plant & Machinery at Rs. 4,00,000.
- Inventories are to be taken over at 10% less value and Provision for Doubtful Debts is to be created @ 2.5%.
- There was an unrecorded current asset in the books of Y Ltd. whose fair value amounted to Rs. 15,000 and such asset was also taken over by X Ltd.



- (vi) The trade payables of Y Ltd. included Rs. 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.

Q3(e) May 2018 – 20 Marks

46. Distinguish between Amalgamation, Absorption and External Reconstruction of Company.

Q6 May 2019 – 5 Marks

47. 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	<u>5,00,000</u>	<u>3,00,000</u>
Total	<u>31,00,000</u>	<u>18,00,000</u>
Assets		
Fixed Assets	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	<u>2,20,000</u>	<u>80,000</u>
Total	<u>31,00,000</u>	<u>18,00,000</u>

Details of Trade receivables and trade payables are as under:



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

Fixed Assets of both the companies are to be revalued at 15% above book value. Inventory in Trade and Debtors are taken over at 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 Rs. 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 Rs. 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) Rs. 60,000 is to be paid by VT Ltd. to MG Ltd. for Liquidation expenses.
- (v) Sundry Debtors of MG Ltd. includes Rs. 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.

Q3(a) May 2019 – 10

Marks



48. High Ltd and Low Ltd were amalgamate on and from, 1st April, 2020. A new company Little Ltd was formed to takeover the business of the existing Companies. The summarised 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:			Property, Plant 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:			Investments	95	80
Revaluation Reserve	225	110	Current Assets:		
General Reserve	360	240	Stock	415	389
Investment Allowance Reserve	80	40	Sundry Debtors	322	213
P & L Account	85	82	Bills Receivables	35	-
Non-Current Liabilities:			Cash & Bank	303	166
Secured Loans:					
13% Debentures (₹ 100 each)	100	56			
Unsecured Loans (Public Deposits)	50	-			
Current Liabilities & Provisions:					
Sundry Creditors	65	35			
Bills Payable	30	-			
TOTAL	2315	1588	TOTAL	2315	1588

Other information:

- 13% Debenture holders of High Ltd & Low Ltd are discharged by Little Ltd by issuing such number of its 15% debentures of Rs.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 Rs.125 per share (Face Value Rs.100)



iii) 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 Rs.35 each having a face value of Rs.10 per share.

iv) 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.

Q3(a) Nov 2020 – 15 marks

49. 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 31st 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			
	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 debenture of Glory Ltd are to be discharged, by the issue of 8% debentures of Glorious Ltd at a premium of 10%
- ii) Plant & Machinery of Galaxy Ltd are to be valued at Rs.2,52,000
- iii) Goodwill is to be valued at:
 - Galaxy Ltd Rs.4,48,000
 - Glory Ltd Rs.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 Rs.1,10,000 from debtors and paid Rs.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

- i) 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 Rs.10
- ii) Prepare Balance Sheet of Glorious Ltd as on 1st April 2020 and also prepare notes to the accounts as per Schedule III of Companies Act, 2013.

Q2 Jan 2021 – 20 marks



50. 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 Summarized Balance Sheets of P Ltd. and Q Ltd. as on 31st March, 2017 (the date of amalgamation) are given below:

Liabilities	P Ltd. Rs.	Q Ltd. Rs.	Assets	P Ltd. Rs.	Q Ltd. Rs.
Equity & liabilities:			Assets:		
Shareholders Fund			Non-current Assets:		
a. Share Capital	6,00,000	8,40,000	Fixed Assets (excluding Goodwill)	7,20,000	10,80,000
b. Reserves	10,20,000	6,00,000	Current Assets		
Current Liabilities			a. Inventories	3,60,000	6,60,000
Bank Overdraft	-	5,40,000	b. Trade receivables	4,80,000	7,80,000
Trade payables	2,40,000	5,40,000	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 Rs. 3,00,000; 2015-16 Rs. 5,25,000 and 2016-17 Rs. 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. proceeded to issue 72,000 shares of Rs. 10 each at the same rate of premium as issued for discharging purchase consideration to P Ltd. and Q Ltd. You are required to:

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

May 2018, RTP



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

Assets	Alex Ltd. (Rs.)	Beta Ltd. (Rs.)
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
Liabilities	Alex Ltd. (Rs.)	Beta Ltd. (Rs.)
Share Capital:		
Equity Shares of Rs. 10 each	28,00,000	8,40,000
8% Preference Shares of Rs. 100 each	2,80,000	—
10% Preference Shares of Rs. 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

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

- 10% Preference Shareholders are to be paid at 10% premium by issue of 8% Preference Shares of Alex Ltd.
- Goodwill of Beta Ltd. is valued at Rs. 1,40,000, Buildings are valued at Rs. 4,20,000 and the Machinery at Rs. 4,48,000.
- Inventory to be taken over at 10% less value and Provision for Doubtful Debts to be created @ 7.5%.
- Equity Shareholders of Beta Ltd. will be issued Equity Shares of Alex Ltd. @ 5% premium.

You are required to:

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

Nov 2018, RTP



52. P Ltd. and Q Ltd. decided to amalgamate as on 01.04.2018. Their summarized Balance Sheets as on 31.03.2018 were as follows:

(Rs. in '000)

Particulars	P Ltd.	Q Ltd.
Source of Funds:		
Equity share capital (Rs.10 each)	300	280
9% preference share Capital (Rs.100 each)	60	40
Investment Allowance	10	4
Profit & Loss A/C	68	68
10% Debentures	100	60
Trade Payables	50	30
Tax Provisions	14	8
Total	602	490
Application of Funds:		
Building	120	100
Plant & Machinery	160	140
Investments	80	50
Trade Receivables	90	70
Inventories	72	80
Cash & Bank	80	50
Total	602	490

From the following information, you are required to prepare the Balance Sheet as on 01.04.2018 of a new company, R Ltd., which was formed to take over the business of both the companies and took over all the assets and liabilities:

- 50 % Debenture are to be converted into Equity Shares of the New Company.
- Investments are non-current in nature.
- Fixed Assets of P Ltd. were valued at 10% above cost and that of Q Ltd. at 5% above cost.
- 10 % of trade receivables were doubtful for both the companies. Inventories to be carried at cost.
- Preference shareholders were discharged by issuing equal number of 9% preference shares at par.



- (vi) Equity shareholders of both the transferor companies are to be discharged by issuing Equity shares of Rs.10 each of the new company at a premium of Rs. 5 per share.

Give your answer on the basis that amalgamation is in the nature of purchase.

May 2019, RTP

53. The following is the summarized

Balance Sheet of A Ltd.
as at 31st March, 2019

Liabilities	Rs.	Assets	Rs.
8,000 Equity shares of Rs. 100 each	8,00,000	Building	3,40,000
10% Debentures	4,00,000	Machinery	6,40,000
Loans	1,60,000	Inventory	2,20,000
Trade payables	3,20,000	Trade receivables	2,60,000
General Reserve	80,000	Bank	1,36,000
		Patent	1,30,000
		Share issue Expenses	34,000
	17,60,000		17,60,000

B Ltd. agreed to absorb A Ltd. on the following terms and conditions:

- B Ltd. would take over all assets, except bank balance and Patent at their book values less 10%. Goodwill is to be valued at 4 year's purchase of super profits, assuming that the normal rate of return be 8% on the combined amount of share capital and general reserve.
- B Ltd. is to take over trade payables at book value.
- The purchase consideration is to be paid in cash to the extent of Rs. 6,00,000 and the balance in fully paid equity shares of Rs. 100 each at Rs. 125 per share. The average profit is Rs. 1,24,400. The liquidation expenses amounted to Rs. 16,000. B Ltd. sold prior to 31st March, 2018 goods costing Rs. 1,20,000 to A Ltd. for Rs.



1,60,000. Rs. 1,00,000 worth of goods are still in Inventory of A Ltd. on 31st March, 2018. Trade payables of A Ltd. include Rs. 40,000 still due to B Ltd.

Show the necessary Ledger Accounts to close the books of A Ltd. and prepare the Balance Sheet of B Ltd. as at 1st April, 2019 after the takeover.