

AMALGAMATION OF COMPANIES

Illustration 1

S. Ltd. is absorbed by P. Ltd. S Ltd. gives the following information on the date of absorption:

	₹
Sundry Assets	13,00,000
Share capital:	
2,000 7% Preference shares of ₹ 100 each (fully paid-up)	2,00,000
5,000 Equity shares of ₹ 100 each (fully paid-up)	5,00,000
Reserves	3,00,000
6% Debentures	2,00,000
Trade payables	1,00,000

Additional information:

P. Ltd. has agreed:

- (i) to issue 9% Preference shares of ₹ 100 each, in the ratio of 3 shares of P. Ltd. for 4 preference shares in S. Ltd.
- (ii) to issue to the debenture-holders in S Ltd. 8% Mortgage Debentures at ₹ 96 in lieu of 6% Debentures in S. Ltd. which are to be redeemed at a premium of 20%;
- (iii) to pay ₹ 20 per share in cash and to issue six equity shares of ₹ 100 each issued at the market value ₹ 125 in lieu of every five shares held in S. Ltd.; and
- (iv) to assume the liability to trade payables.

You are required to calculate the purchase consideration.

Solution

The purchase consideration will be Form

	₹	
Preference shareholders: $2,000 \times \frac{3}{4} \times 100$	1,50,000	9% Pref. shares
Equity shareholders: $5,000 \times 20$	1,00,000	Cash
$5,000 \times \frac{6}{5} \times 125$	7,50,000	Equity shares
	10,00,000	

Note:

- According to AS 14, 'consideration' excludes the any amount payable to debenture-holders. The liability in respect of debentures of S Ltd. will be taken by P Ltd., which will then be settled by issuing new 8% debentures.
- The issue of the equity shares is done at ₹ 125 (market value) as it has been mentioned in the question. The face value shall not be considered for this purpose.

Illustration 2

Following is the balance sheet of A Ltd. as on 31st March, 20X1

	Particulars	Notes	₹ (000)
	Equity and Liabilities		
1	Shareholders' funds		
A	Share capital	1	22,50
B	Reserves and Surplus	2	9,00
2	Non-current liabilities		
A	Long-term borrowings	3	7,00
3	Current liabilities		

	A	Trade Payables		5,00
			Total	43,50
		Assets		
1		Non-current assets		
	A	Property, Plant and Equipment	4	32,50
	B	Non-current investments	5	6,00
2		Current assets		
	a	Inventories		2,00
	b	Trade receivables		2,00
	c	Cash and Cash equivalents		1,00
			Total	43,50

Notes to accounts

1	Share Capital	₹ in ('000)
	Equity share capital	
	1,50,000 Equity Shares of ₹ 10 each 15,00	
	7,500 14% Preference Shares of ₹ 100 each 7,50	
		22,50
2	Reserves and Surplus	
	General reserve	9,00
3	Long-term borrowings	
	Secured	
	15% Debentures	7,00
4	Property, plant and Equipment	
	Land and Building	32,50
5	Non-current investments	
	Investments at cost	6,00

B Ltd agreed to take over the assets and liabilities on the following terms and conditions:

- Discharge 15% debentures at a premium of 10% by issuing 15% debentures of X Ltd.
- PPE at 10% above the book value and investments at par value.
- Current assets at a discount of 10% and Current liabilities at book value.
- Preference shareholders are discharged at a premium of 10% by issuing 15% preference shares of
- Issue 3 equity shares of ₹ 10 each for every 2 equity shares in B Ltd. and pay the balance in cash.

Calculate Purchase consideration.

Solution

Calculation of Purchase Consideration (Net Asset value Method)

PARTICULARS	(₹ in '000's)
Value of assets taken over:	
Property, Plant and Equipment	35,75
Non-Current Investments	6,00
Current Assets	4,50
Total Assets (A)	46,25
Less: Liabilities taken over:	
15% Debentures	7,70
Current Liabilities	5,00
Total Liabilities (B)	12,70
Purchase consideration (A -B)	33,55
Mode of Purchase Consideration	
In the form of 15% Preference shares	8,25
In the form of Equity shares	22,50

In the form of Cash (Balance)	<u>2,80</u>
Total	33,55

Illustration 3

Let us consider the Balance Sheet of X Ltd. as at 31st March, 20X1:

	Particulars	Notes	₹ (000)
	Equity and Liabilities		
1	Shareholders' funds		
A	Share capital	1	100,00
B	Reserves and Surplus	2	12,50
2	Non-current liabilities		
A	Long-term borrowings	3	40,00
3	Current liabilities		
A	Trade Payables		20,00
	Total		172,50
	Assets		
1	Non-current assets		
A	Property, Plant and Equipment	4	105,50
B	Non-current investments	5	5,00
2	Current assets		
a	Inventories		23,00
b	Trade receivables		24,00
c	Cash and Cash equivalents		15,00
	Total		172,50

Notes to accounts

	₹ in ('000)
1 Share Capital	
Equity share capital	
7,50,000 Equity Shares of ₹ 10 each	75,00
25,000 14% Preference Shares of ₹ 100 each	<u>25,00</u>
	<u>100,00</u>
2 Reserves and Surplus	
General reserve	<u>12,50</u>
	<u>12,50</u>
3 Long-term borrowings	
Secured	
14% Debentures	<u>40,00</u>
	<u>40,00</u>
4 Property, plant and Equipment	
Land and Building	50,00
Plant and machinery	45,00
Furniture	<u>10,50</u>
	<u>105,50</u>
5 Non-current investments	
Investments at cost	<u>5,00</u>
	<u>5,00</u>

Other Information:

- (i) Y Ltd. takes over X Ltd. on 10th April, 20X1.
- (ii) Debenture holders of X Ltd. are discharged by Y Ltd. at 10% premium by issuing 15% own debentures of Y Ltd.
- (iii) 14% Preference Shareholders of X Ltd. are discharged at a premium of 20% by issuing necessary number of 15% Preference Shares of Y Ltd. (Face value ₹ 100 each).

(iv) Intrinsic value per share of X Ltd. is ₹ 20 and that of Y Ltd. ₹ 30. Y Ltd. Will issue equity shares to satisfy the equity shareholders of X Ltd. on the basis of intrinsic value. However, the entry should be made at par value only. The nominal value of each equity share of Y Ltd. is ₹ 10.

Compute the purchase consideration.

Solution

Computation of Purchase consideration	(₹ in '000)	Form
For Preference Shareholders of X Ltd.	3,000	30,000
		15% Preference
		shares in Y Ltd.
For equity shareholders of X Ltd.	5,000	5,00,000 Equity
$(20/30 \times 7,50,000) \times ₹ 10$		shares of Y Ltd.
of ₹ 10 each		
Total Purchase consideration	8,000	

Note: According to AS 14, amount paid to the debenture holders should not be included in the purchase consideration calculation. Such debentures will be taken over by Y Ltd. and then discharged by them later.

Illustration 4

Neel Ltd. and Gagan Ltd. amalgamated to form a new company on 1.04.20X1. Following is the Balance Sheet of Neel Ltd. and Gagan Ltd. as at 31.3.20X1:

	Particulars	Notes	Neel	Gagan
	Equity and Liabilities			
1	Shareholders' funds			
A	Share capital		7,75,000	8,55,000
2	Current liabilities		<u>6,23,500</u>	<u>5,57,600</u>
	Total		<u>13,98,500</u>	<u>14,12,600</u>
	Assets			
1	Non-current assets			
A	Property, Plant and Equipment	1	12,35,000	12,54,000
2	Current assets		<u>1,63,500</u>	<u>1,58,600</u>
	Total		<u>13,98,500</u>	<u>14,12,600</u>

Notes to accounts:

1	Property, plant and Equipment			
	Land and Building		7,50,000	6,40,000
	Plant and machinery		<u>4,85,000</u>	<u>6,14,000</u>
			<u>12,35,000</u>	<u>12,54,000</u>

Following is the additional information:

(i) The assets of Neel Ltd. and Gagan Ltd. are to be revalued as under:

	Neel	Gagan
	₹	₹
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000

(ii) The purchase consideration is to be discharged as under:

(a) Issue 24,000 equity shares of ₹ 25 each fully paid up in the proportion of their profitability in the preceding 2 years.

(b) Profits for the preceding 2 years are given below:

	Neel	Gagan
	₹	₹
I st year	2,62,800	2,75,125
II nd year	<u>2,12,200</u>	<u>2,49,875</u>

Total	<u>4,75,000</u>	<u>5,25,000</u>
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(c) Issue 12% preference shares of ₹ 10 each fully paid up at par to provide income equivalent to 8% return on net assets in the business as on 31.3.20X1 after revaluation of assets of Neel Ltd. and Gagan Ltd. respectively.

You are required to compute the

- Equity and preference shares issued to Neel Ltd. and Gagan Ltd.,
- Purchase consideration.

Solution

(i) Calculation of equity shares to be issued to Neel Ltd. and Gagan Ltd.

Profits of	Neel	Gagan
	₹	₹
I year	2,62,800	2,75,125
II year	2,12,200	2,49,875
Total	<u>4,75,000</u>	<u>5,25,000</u>

The total profits- ₹ 4,75,000+ ₹ 5,25,000= ₹ 10,00,000

No. of shares to be issued = 24,000 equity shares in the proportion of the preceding 2 years' profits.

	Neel	Gagan
24,000 x 475/1000	11,400 equity shares	
24,000 x 525/1000		12,600 equity shares

Calculation of 12% Preference shares to be issued to Neel Ltd. And Gagan Ltd.

	Neel	Gagan
	₹	₹
Net assets (Refer working note)	8,40,000	9,24,000
8% return on Net assets	67,200	73,920
12% Preference shares to be issued	56,000 shares	
$\left[67,200 \times \frac{100}{12} \right] = 5,60,000 @ 10 \text{ each}$		
$\left[73,920 \times \frac{100}{12} \right] = 6,16,000 @ 10 \text{ each}$		61,600 shares

(ii) Total Purchase Consideration

	Neel	Gagan
	₹	₹
Equity shares @ of ₹ 25 each	2,85,000	3,15,000
12% Preference shares @ of ₹ 10 each	<u>5,60,000</u>	<u>6,16,000</u>
Total	<u>8,45,000</u>	<u>9,31,000</u>

Working Note:

Calculation of Net assets as on 31.3.20X1

	Neel	Gagan
	₹	₹
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000
Current assets	1,63,500	1,58,600
Less: Current liabilities	<u>(6,23,500)</u>	<u>(5,57,600)</u>
	<u>8,40,000</u>	<u>9,24,000</u>

Note: Since the income from the preference shares shall be equal to the 8% return on assets, the shares are computed in such way that 12% dividend on them shall be equal to 8% of the return on Net assets.

Illustration 5

Wye Ltd. acquires the business of Zed Ltd. whose balance sheet as at 31st March, 20X1 is as under:

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
A	Share capital	1	12,00,000
B	Reserves and Surplus	2	1,58,000
2	Non-current liabilities		
A	Long-term borrowings	3	2,00,000
3	Current liabilities		
A	Trade Payables		1,20,000
B	Other current liabilities		<u>12,000</u>
	(Interest payable on debentures)		
	Total		<u>16,90,000</u>
	Assets		
1	Non-current assets		
A	Property, Plant and Equipment	4	10,00,000
B	Intangible assets	5	2,90,000
2	Current assets		
A	Inventories		1,50,000
B	Trade receivables		1,80,000
C	Cash and Cash equivalents		<u>70,000</u>
	Total		<u>16,90,000</u>

Notes to accounts:

		₹
1	Share Capital	
	Equity Share capital (₹ 100 each)	8,00,000
	6% Preference Share capital (₹ 100 each)	4,00,000
		12,00,000
2	Reserves and Surplus	
	Capital reserve	1,00,000
	Profit and loss A/c	50,000
	Workmen compensation reserve	
	(Expected liability ₹ 5,000)	8,000
		1,58,000
3	Long-term borrowings	
	6% Debentures	2,00,000
		2,00,000
4	Property, Plant and Equipment	
	Land and Building	4,00,000
	Plant and machinery	6,00,000
		10,00,000
5	Intangible assets	
	Goodwill	2,40,000
	Patents	50,000
		2,90,000

Wye Ltd. was to take over all assets (except cash) and liabilities (except for interest due on debentures) and to pay following amounts:

- (i) ₹ 2,00,000 7% Debentures (₹ 100 each) in Wye Ltd. for the existing debentures in Zed Ltd.; for the purpose, each debenture of Wye Ltd. is to be treated as worth ₹ 105.

- (ii) For each preference share in Zed Ltd. ₹ 10 in cash and one 9% preference
- (iii) For each equity share in Zed Ltd. ₹ 20 in cash and one equity share in Wye Ltd. of ₹ 100 each having the market value of ₹ 140.
- (iv) Expense of liquidation of Zed Ltd. are to be reimbursed by Wye Ltd. to the extent of ₹ 10,000. Actual expenses amounted to ₹ 12,500.

Wye Ltd. valued Land and building at ₹ 5,50,000 Plant and Machinery at ₹ 6,50,000 and patents at ₹ 20,000 of Zed Ltd for the purpose of amalgamation.

Solution

Purchase Consideration

		₹	Form
(i) Preference Shares: ₹ 10 per share	40,000		Cash
Preference shares	<u>4,00,000</u>	4,40,000	Preference shares
(ii) Equity shares: ₹ 20 per share	1,60,000		Cash
8,000 equity shares in			
Wye Ltd. @ ₹ 140	<u>11,20,000</u>	<u>12,80,000</u>	Equity shares
	<u>17,20,000</u>		

Steps to close the Books of the Vendor Company

1. Open Realization Account and transfer all assets at book value.

Exception: If cash is not taken over by the purchasing company, it should

Note: Profit and Loss Account (Dr.) and expenses not written off are not assets and should not be transferred to the Realization Account.

The journal entry in the above case is:

	₹	₹
Realization A/c Dr.	16,20,000	
To Sundries —		
Goodwill		2,40,000
Land & Building		4,00,000
Plant & Machinery		6,00,000
Patents		50,000
Inventory		1,50,000
Trade receivables		1,80,000

(Transfer of assets to Realization Account on sale of business to Wye Ltd.)

2. Transfer to the Realization Account the liabilities which the purchasing company is to take over. In case of the provisions, the portion which represents liability expected to arise in future should be so transferred and the portion which is not required (i.e., the reserve portion) should be treated as profit.

Accordingly, the following entry will be recorded:

	₹	₹
6% Debentures in Wye Ltd. Dr.	2,00,000	
Workmen's Compensation Reserve Dr.	5,000	
Trade payables Dr.	1,20,000	
To Realization A/c		3,25,000
(Transfer of liabilities taken over by Wye Ltd. to Realization A/c)		

For liabilities not take over by the purchasing company, the profit or loss on discharge of such liabilities shall be transferred to Realization Account.

3. Debit purchasing company and credit Realization Account with the purchase consideration.

Wye Ltd.- Dr.	17,20,000	
To Realization A/c		17,20,000

(Amount receivable from Wye Ltd. for sale of business)		
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4. On receipt of the purchase consideration debit what is received (cash, debentures, shares etc.) and credit the purchasing company. Thus —

Cash	Dr.	2,00,000	
9% Preference shares in Wye Ltd.	Dr.	4,00,000	
Equity shares in Wye Ltd.	Dr.	11,20,000	
To Wye Ltd.			17,20,000
(Receipt of purchase consideration from the purchase company)			

5. Expenses of liquidation have to be dealt with according to the circumstances of each case.

a) If the vendor company has to bear and pay them:

Realization Account should be debited and Cash Account credited.

b) If the expenses are to be borne by the purchasing company, the question may be dealt within one of the two ways mentioned below:

(i) It may be ignored in the books of the vendor company.

(ii) If the expenses are to be paid first by the vendor company and afterwards reimbursed by the purchasing company, the following two entries will be passed:

a) Debit Purchasing company and credit Cash Account when expenses are paid by the vendor company and

b) Debit Cash Account and credit purchasing company (on the expenses being reimbursed).

In the above mentioned case Wye Ltd. has to pay maximum of ₹ 10,000 only whereas, the amount spent is ₹ 12,500. Hence ₹ 2,500 is to be borne by Zed Ltd.; the entries required will be :

		₹	₹
Wye Ltd.	Dr.	10,000	
Realization A/c	Dr.	2,500	
To Cash A/c			12,500
(Liquidation expenses out of which ₹ 10,000 is payable by Wye Ltd.)			
Cash A/c	Dr.	10,000	
To Wye Ltd.			10,000
(Account reimbursed by Wye Ltd. for expense)			

6. Liabilities not assumed by the purchasing company, have to be paid off. On payment, debit the liability concerned and credit cash. Any difference between the amount actually paid and the book figure must be transferred to the Realization Account. Zed Ltd. shall pass the following entries in this respect:

		₹	₹
Interest Outstanding	Dr.	12,000	
To Debenture holders A/c			12,000
(Amount due to debenture holders for debentures interest)			
Debenture holders	Dr.	12,000	
To Cash A/c			12,000
(Debenture holders paid cash ₹ 12,000 for outstanding interest)			

7. Credit the preference shareholders with the amount payable to them, debiting Preference Share Capital with the amount shown in the books, transferring the difference between the two, if any, to the Realization Account. Thus —

6% Pref. Share Capital A/c	Dr.	4,00,000	
Realization A/c	Dr.	40,000	
To Preference Shareholders A/c			4,40,000

(The amount due to preference shareholders for capital and the extra amount payable under the scheme of absorption)

Note: In the absence of any indication to the contrary, preference shareholders will be entitled only to the capital contributed by them. But if funds available after paying off creditors are not sufficient to satisfy the claim of preference shareholders fully, they will have to suffer a loss to the extent of the deficit.

8. Pay off preference shareholders by debiting them and crediting whatever is given to them. The entry in the above case is :

	₹	₹
Preference shareholders A/c Dr.	4,40,000	
To Cash A/c		40,000
To 9% Preference shares in Wye Ltd.		4,00,000

(Cash and preference shares in Wye Ltd. given to preference shareholders)

9. Transfer equity share capital and account representing profit or loss (including the balance in Realization Account) to Equity Shareholders Account. This will determine the amount receivable by the equity shareholders. Zed Ltd. Shall pass the following entries in this regard :

		₹	₹
Equity Share Capital A/c	Dr.	8,00,000	
Capital Reserve A/c	Dr.	1,00,000	
Profit and Loss A/c	Dr.	50,000	
Workmen's Compensation Reserve A/c	Dr.	3,000	
Realization A/c	Dr.	3,82,500	
To Equity Shareholders A/c			13,35,500
(Various accounts representing capital and profit transferred to Equity Shareholders Account)			

10. On satisfaction of the claims of the equity shareholders, debit their account and credit whatever is given to them. Hence:

Equity Shareholders A/c	Dr.	13,35,500	
To Equity Shares in Wye Ltd.			11,20,000
To Cash A/c (W.N.2)			2,15,500

Working Notes

1. Realization Account

	₹		₹
To Sundry Assets	16,20,000	By Sundry Liabilities	3,25,000
To Cash (excess expenses of liquidation)	2,500	By Wye Ltd.	17,20,000
To Preference Shareholders	40,000		
To Equity Shareholders A/c - profit transferred	<u>3,82,500</u>		
	<u>20,45,000</u>		<u>20,45,000</u>

2. Cash Account

	₹		₹
To Balance b/d	70,000	By Realization	2,500
To Wye Ltd. (consideration for amalgamation)	2,00,000	By Wye Ltd.	10,000
To Wye Ltd. (liquidation expenses reimbursed)	10,000	By Debenture-holders	12000
		By Preference shareholder	40000

		By Equity Shareholder (B/F)	215500
	280000		280000

Continuing with the information given in Illustration 5:

- Debit Business Purchase Account and Credit Liquidator of the vendor company with the account of the purchase consideration. Thus -

Business Purchase A/c Dr. 17,20,000

To Liquidator of Zed Ltd. 17,20,000

(Amount payable to Zed Ltd. as per agreement dated)

- Debit assets acquired (except goodwill) at the value placed on them by the purchasing company;
 - Credit liabilities taken over at agreed values and credit Business Purchase Account with the amount of purchase consideration; and
 - If the credits as per (ii) above exceed debits as per (i) above, the difference should be debited to Goodwill Account, in the reverse case, the difference should be credited to Capital Reserve.

Note: The amount of Goodwill or Capital Reserve that shall be included will be the amount as has been arrived at only in foregoing manner.

In the above case the entry to be passed shall be:

		₹	₹
Land and Building A/c	Dr.	5,50,000	
Plant and Machinery A/c	Dr.	6,50,000	
Patents A/c	Dr.	20,000	
Inventory A/c	Dr.	1,50,000	
Trade receivables	Dr.	1,80,000	
Goodwill	Dr.	5,05,000	
To			
			Provision for Workmen's Compensation A/c 5,000
			Trade payables 1,20,000
			Debentures in Z Ltd. 2,10,000
			Business Purchases Account 17,20,000

(Various assets and liabilities taken over from Zed Ltd. Goodwill ascertained as a balancing figure)

- On the payment to the vendor company the balance at its credit, the entry to be made by Wye Ltd. shall be:

Liquidator of Zed Ltd. Dr. 17,20,000

To Cash 2,00,000

To 9% Preference Share Capital A/c 4,00,000

To Equity Share Capital A/c 8,00,000

To Securities Premium A/c 3,20,000

(Payment of cash and issue of shares in satisfaction of purchase consideration)

- Debentures in Z Ltd. A/c Dr. 2,10,000

To 7% Debentures A/c 2,00,000

To Premium on Debentures A/c 10,000

(Debentures issued)

5. If the purchasing company is required to pay the expenses of liquidation of the vendor company, the amount should be debited to the Goodwill or Capital Reserve Account, as the case may be. In the instant case, the entry shall be:

Goodwill Account Dr. 10,000
 To Cash Account 10,000

(Amount paid towards liquidation expenses on Zed Ltd.)

Illustration 6

The following Balance Sheets are given as at 31st March, 20X1:

		Particulars	₹ Best Ltd. (in lakhs)	₹ Better Ltd. (in lakhs)
		Equity and Liabilities		
1		Shareholders' funds		
	A	Share capital (shares of ₹ 100 each, fully paid)	20	10
	B	Reserves and Surplus	10	8
2		Current liabilities	<u>20</u>	<u>2</u>
		Total	<u>50</u>	<u>20</u>
		Assets		
1		Non-current assets		
	A	Property, Plant and Equipment	25	15
	B	Non-current investments	5	-
2		Current assets	<u>20</u>	<u>5</u>
		Total	<u>50</u>	<u>20</u>

The following further information is given:

- Better Limited issued bonus shares on 1st April, 20X1, in the ratio of one share for every two held, out of Reserves and Surplus.
- It was agreed that Best Ltd. will take over the business of Better Ltd., on the basis of the latter's Balance Sheet, the consideration taking the form of allotment of shares in Best Ltd.
- The value of shares in Best Ltd. was considered to be ₹ 150 and the shares in Better Ltd. were valued at ₹ 100 after the issue of the bonus shares. The allotment of shares is to be made on the basis of these values.
- Liabilities of Better Ltd., included ₹ 1 lakh due to Best Ltd., for purchases from it, on which Best Ltd., made profit of 25% of the cost. The goods of ₹ 50,000 out of the said purchases, remained in stock on the date of the above Balance Sheet.

Make the closing ledger in the Books of Better Ltd. and the opening journal entries in the Books of Best Ltd., and prepare the Balance Sheet as at 1st April, 20X1 after the takeover.

Solution

LEDGER OF BETTER LIMITED

Property, Plant and Equipment (PPE) Account

	₹		₹
To Balance b/d	15,00,000	By Realization A/c (transfer)	15,00,000

Current Assets Account

	₹		₹
To Balance b/d	5,00,000	By Realization A/c (transfer)	5,00,000

Liabilities Account			
₹		₹	
To Realization A/c	2,00,000	By Balance b/d	2,00,000
Realization Account			
₹		₹	
To PPE A/c	15,00,000	By Liabilities A/c	2,00,000
" Current Assets A/c	5,00,000	" Best Limited	15,00,000
(Purchase Consideration)			
" Shareholders' A/c 3,00,000			
(Loss on Realization)			
20,00,000		20,00,000	
Share Capital Account			
₹		₹	
To Sundry shareholders		By Balance b/d	10,00,000
A/c - (transfer)	15,00,000	" Reserves & Surplus A/c	
(Bonus issue)			
5,00,000			
15,00,000		15,00,000	
Reserves & Surplus Account			
₹		₹	
To Share Capital (Bonus issue)	5,00,000	By Balance b/d	8,00,000
" Sundry Shareholders	3,00,000		
8,00,000		8,00,000	
Best Ltd.			
₹		₹	
To Realization A/c - Purchase		By Shares in Best Ltd	15,00,000
Consideration	15,00,000		
15,00,000		15,00,000	
Shares in Best Ltd.			
₹		₹	
To Best Ltd.	15,00,000	By Sundry Shareholders A/c	15,00,000
Sundry Shareholders Account			
₹		₹	
To Realization A/c	3,00,000	By Share Capital A/c	15,00,000
(Loss)		" Reserves & Surplus A/c	3,00,000
" Share in Best Ltd.	15,00,000		
18,00,000		18,00,000	
Journal of Best Ltd.			

		Dr.	Cr.
20X1		₹	₹
Apr. 1	Property, Plant and Equipment A/c Dr. Current Assets A/c Dr. To Liabilities A/c To Liquidator of Better Ltd. To Capital Reserve A/c (Assets & Liabilities of Better Ltd. taken over for an agreed purchase consideration of ₹ 15,00,000 as per agreement dated....)	15,00,000 5,00,000	2,00,000 15,00,000 3,00,000
	Liquidator of Better Ltd. Dr. To Share Capital A/c To Securities Premium A/c (Discharge of Purchase consideration by the issue of equity shares of ₹ 10,00,000 at a premium of ₹ 50 per share as per agreement)	15,00,000 5,00,000	10,00,000
	Trade payables A/c Dr. To Trade receivables A/c (Amount due from Better Ltd., and included in its creditors taken over, cancelled against own Trade receivables)	1,00,000	1,00,000
	Capital Reserve A/c Dr. To Current Asset (Stock) A/c (Unrealized profit on stock included in current assets of Better Ltd. written off to Reserve Account. 20% on sale value of ₹50,000 shall be eliminated as unrealized profit)	10,000	10,000

Working Note :

Calculation of Purchase consideration:

Issued Capital of Better Ltd. (after bonus issue) at ₹ 100 per share ₹ 15,00,000

Purchase consideration has been discharged by Best Ltd. by the issue of shares for ₹ 10,00,000 at a premium of ₹ 5,00,000. This gives the value of ₹ 150 per share.

Balance Sheet of Best Ltd. (After absorption)

		Particulars	Notes	₹
		Equity and Liabilities		
1		Shareholders' funds		
	a	Share capital	1	30,00,000
	b	Reserves and Surplus	2	17,90,000
2		Current liabilities		21,00,000
		Total		68,90,000
		Assets		
1		Non-current assets		
	a	Property, Plant and Equipment	3	40,00,000
	b	Non-current investments		5,00,000
2		Current assets		23,90,000
		Total		68,90,000

Notes to accounts

		₹
1 Share Capital		
Equity share capital		
Issued & Subscribed		
30,000 shares of ₹ 100 (of the above 10,000 shares have been issued)		30,00,000

for consideration other than cash)		
Total		30,00,000
2 Reserves and Surplus		
Capital Reserve (3,00,000 – 10,000)		2,90,000
Securities Premium		5,00,000
Other reserves and surplus		10,00,000
Total		17,90,000
3 Property, Plant and Equipment		
PPE	25,00,000	
Acquired during the year	15,00,000	40,00,000
Total		40,00,000

Illustration 7

K Ltd. and L Ltd. amalgamate to form a new company LK Ltd. The financial position of these two companies as at the date of amalgamation was as under:

		Particulars	Notes	₹ K Ltd.	₹ L Ltd.
		Equity and Liabilities			
1		Shareholders' funds			
	A	Share capital	1	12,00,000	6,00,000
	B	Reserves and Surplus	2	3,71,375	1,97,175
2		Non-current liabilities			
	A	Long-term borrowings	3	2,00,000	2,00,000
3		Current liabilities			
	A	Trade Payables		<u>1,00,000</u>	<u>2,10,000</u>
		Total		<u>18,71,375</u>	<u>12,07,175</u>
		Assets			
1		Non-current assets			
	A	Property, Plant and Equipment	4	11,30,000	8,20,000
	B	Intangible assets	5	80,000	-
2		Current assets			
	A	Inventories		2,25,000	1,40,000
	B	Trade receivables		2,75,000	1,75,000
	C	Cash and Cash equivalents	6	<u>1,61,375</u>	<u>72,175</u>
		Total		<u>18,71,375</u>	<u>12,07,175</u>

Notes to accounts

		K Ltd.	L Ltd.
1	Share Capital		
	Equity shares of ₹ 100 each	8,00,000	3,00,000
	7% Preference Shares of ₹ 100 each	<u>4,00,000</u>	<u>3,00,000</u>
		<u>12,00,000</u>	<u>6,00,000</u>
2	Reserves and Surplus		
	General reserve	-	1,00,000
	Profit and loss account	<u>3,71,375</u>	<u>97,175</u>
		<u>3,71,375</u>	<u>1,97,175</u>
3	Long-term borrowings		
	5% Debentures	2,00,000	-
	Secured loan	-	<u>2,00,000</u>
		<u>2,00,000</u>	<u>2,00,000</u>
4	Property, plant and Equipment		
	Land and Building	4,50,000	3,00,000
	Plant and machinery	6,20,000	5,00,000

			₹ in'000
1	Share Capital		
	Equity share capital		
	8,50,000 Equity Shares of ₹ 10 each		8,500
	Preference share capital		
	18,700, 15% Preference Shares of ₹ 100 each		1,870
	22,000, 14% Preference Shares of ₹ 100 each		2,200
	Total		12,570
2	Reserves and Surplus		
	Capital Reserve		380
	General Reserve		500
	Amalgamation adjustment reserve		(300)
	Export Profit Reserve		500
	Investment Allowance Reserve		100
	Surplus (Profit & Loss A/c)		750
	Total		1,930
3	Long-term borrowings		
	Secured		
	8,500 13% Debentures of ₹ 100 each		850
	Total		850
4	Property, Plant and Equipment		
	Land & Buildings		4,050
	Plant & Machinery		4,950
	Furniture & Fittings		925
	Total		9,925

Workings Notes:

Capital Reserve arising on Amalgamation:

(A)	Net Assets taken over:	₹ ('000) ₹	('000)
	Sundry Assets		66,00
	Less: 13% Debentures	3,50	
	Trade payables	3,50	
	Other current liabilities	1,50	(8,50)
			<u>57,50</u>
(B)	Purchase consideration:		
	To Equity Shareholders of Y Ltd.		35,00
	To Preference Shareholders of Y Ltd.		18,70
			<u>53,70</u>
(C)	Capital Reserve (A – B)		<u>3,80</u>

Illustration 9 (RTP May'23) (Past Exam May'19)

The following are the Balance Sheets of P Ltd. and Q Ltd. as at 31st March, 20X1:

		Particulars	Notes	₹ P Ltd	₹ Q Ltd
1		Equity and Liabilities			
		Shareholders' funds			
	A	Share capital	1	8,00,000	4,00,000
	B	Reserves and Surplus		3,00,000	2,00,000
2		Non-current liabilities			
	A	Long-term borrowings	2	2,00,000	1,50,000
3		Current liabilities			
	A	Trade Payables		<u>2,50,000</u>	<u>1,50,000</u>
		Total		15,50,000	9,00,000

1	Assets			
	Non-current assets			
A	Property, Plant and Equipment		7,00,000	2,50,000
B	Non-current investments		80,000	80,000
2	Current assets			
A	Inventories		2,40,000	3,20,000
B	Trade receivables		4,20,000	2,10,000
C	Cash and Cash equivalents		<u>1,10,000</u>	<u>40,000</u>
	Total		<u>15,50,000</u>	<u>9,00,000</u>

Notes to accounts

		P Ltd.	Q Ltd.
1	Share Capital		
	Equity shares of ₹ 10 each	6,00,000	3,00,000
	10% Preference Shares of ₹ 100 each	<u>2,00,000</u>	<u>1,00,000</u>
		<u>8,00,000</u>	<u>4,00,000</u>
2	Long term borrowings		
	12% Debentures	<u>2,00,000</u>	<u>1,50,000</u>
		<u>2,00,000</u>	<u>1,50,000</u>

Details of Trade receivables and trade payables are as under:

	P Ltd. (₹)	Q Ltd. (₹)
Trade receivables		
Debtors	3,60,000	1,90,000
Bills Receivable	<u>60,000</u>	<u>20,000</u>
	<u>4,20,000</u>	<u>2,10,000</u>
Trade payables		
Sundry Creditors	2,20,000	1,25,000
Bills Payable	<u>30,000</u>	<u>25,000</u>
	<u>2,50,000</u>	<u>1,50,000</u>

Property, plant and equipment of both the companies are to be revalued at 15% above book value. Both the companies are to pay 10% Equity dividend, but Preference dividend having been already paid.

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

- 8 Equity Shares of ₹ 10 each will be issued by P Ltd. at par against 6 shares of Q Ltd.
- 10% Preference Shareholders of Q Ltd. will be paid at 10% discount by issue of 10% Preference Shares of ₹ 100 each at par in P Ltd.
- 12% Debenture holders of Q Ltd. are to be paid at 8% premium by 12% Debentures in P Ltd. issued at a discount of 10%.
- ₹ 30,000 is to be paid by P Ltd. to Q Ltd. for Liquidation expenses. Sundry Creditors of Q Ltd. include ₹ 10,000 due to P Ltd.
- Inventory in Trade and Debtors are taken over at 5% lesser than their book value by P Ltd.

Prepare:

- Journal entries in the books of P Ltd.
- Statement of consideration payable by P Ltd.

(10 Marks)

Solution**(a) Journal Entries in the Books of P Ltd.**

	Dr.	Cr.
	₹	₹
Property, Plant and Equipment Dr. To Revaluation Reserve (Revaluation of PPE at 15% above book value)	1,05,000	1,05,000

Reserve and Surplus To Equity Dividend (Declaration of equity dividend @ 10%)	Dr.	60,000	60,000
Equity Dividend To Bank Account (Payment of equity dividend)	Dr.	60,000	60,000
Business Purchase Account To Liquidator of Q Ltd. (Consideration payable for the business taken over from Q Ltd.)	Dr.	4,90,000	4,90,000
Property, Plant and Equipment (115% of ₹ 2,50,000)	Dr.	2,87,500	
Inventory (95% of ₹ 3,20,000)	Dr.	3,04,000	
Debtors	Dr.	1,90,000	
Bills Receivable	Dr.	20,000	
Investment	Dr.	80,000	
Cash at Bank (₹ 40,000 – ₹ 30,000 dividend paid)	Dr.	10,000	
To Provision for Bad Debts (5% of ₹ 1,90,000)			9,500
To Sundry Creditors			1,25,000
To 12% Debentures in Q Ltd.			1,62,000
To Bills Payable			25,000
To Business Purchase Account			4,90,000
To Capital Reserve (Balancing figure)			80,000
(Incorporation of various assets and liabilities taken over from Q Ltd. at agreed values and difference of net assets and purchase consideration being credited to capital reserve)			
Liquidator of Q Ltd. To Equity Share Capital To 10% Preference Share Capital (Discharge of consideration for Q Ltd.'s business)	Dr.	4,90,000	4,00,000 90,000
12% Debentures in Q Ltd. (₹ 1,50,000 × 108%)	Dr.	1,62,000	
Discount on Issue of Debentures To 12% Debentures (Allotment of 12% Debentures to debenture holders of Q Ltd. at a discount of 10%)	Dr.	18,000	1,80,000
Sundry Creditors of Q Ltd. To Sundry Debtors of P Ltd. (Cancellation of mutual owing)	Dr.	10,000	10,000
Goodwill Dr. To Bank (Being liquidation expenses reimbursed to Q Ltd.)		30,000	30,000
Capital Reserve To Goodwill (Being goodwill set off)	Dr.	30,000	30,000

(b) Statement of Consideration payable by P Ltd. for 30,000 shares (payment method)

Shares to be allotted $\frac{30,000}{6} \times 8 = 40,000$ shares of P Ltd.

Issued 40,000 shares of ₹ 10 each i.e. ₹ 4,00,000 (i)

For 10% preference shares, to be paid at 10% discount

₹ $\frac{1,00,000 \times 90}{100}$ ₹ 90,000 (ii)

		Total		35,60,000
Notes to Accounts				
				₹
1	Share Capital			
	Equity share capital			
	Issued, subscribed and paid up			
	30,000 Equity shares of ₹ 100 each			30,00,000
	Total			30,00,000
2	Reserves and Surplus			
	Reserve account			1,00,000
	Surplus			1,00,000
	Insurance reserve			1,00,000
	Employees profit sharing account			60,000
	Total			3,60,000
3	Long-term provisions			
	Provident fund			1,00,000
	Total			1,00,000
4	Property, Plant and Equipment			
	Buildings			16,00,000
	Machinery			9,00,000
	Total			25,00,000
5	Intangible assets			
	Goodwill			1,00,000
	Total			1,00,000
6	Cash and cash equivalents			
	Balances with banks			2,30,000
	Cash on hand			1,10,000
	Total			3,40,000

Illustration 17 (MTP Aug'18, Apr'19, May'20, Mar'21, Apr'22)

The following were the Balance Sheets of P Ltd. and V Ltd. as at 31st March, 20X1:

		Particulars	Notes	₹ P Ltd (₹ in Lakhs)	₹ V Ltd (₹ in Lakhs)
1		Equity and Liabilities			
		Shareholders' funds			
	A	Share capital	1	15,000	6,000
	B	Reserves and Surplus	2	15,370	4,335
2		Non-current liabilities			
		Long term borrowings	3	--	1,000
3		Current liabilities			
	A	Trade Payables		1,200	463
	B	Short term provisions		<u>1,830</u>	<u>702</u>

			Total		<u>33,400</u>	<u>12,500</u>
1		Assets				
		Non-current assets				
		A Property, Plant and Equipment	4		22,304	6,750
2		Current assets				
	A	Inventories			7,862	4,041
	B	Trade receivables			2,120	1,100
	C	Cash and Cash equivalents			<u>1,114</u>	<u>609</u>
			Total		<u>33,400</u>	<u>12,500</u>

Notes to accounts

		₹ P Ltd (₹ in Lakhs)	₹ V Ltd (₹ in Lakhs)
1	Share Capital	<u>15,000</u>	<u>6,000</u>
2	Reserves and Surplus		
	Securities premium	3,000	--
	Foreign project reserve	--	310
	General reserve	9,500	3,200
	Profit and loss account	<u>2,870</u>	<u>825</u>
		<u>15,370</u>	<u>4,335</u>
3	Long term borrowings		
	12% debentures	--	<u>1,000</u>
		--	<u>1,000</u>
4	Property, Plant and Equipment		
	Land and Building	6,000	--
	Plant and machinery	14,000	5,000
	Furniture and fixtures	<u>2,304</u>	<u>1,750</u>
		<u>22,304</u>	<u>6,750</u>

All the bills receivable held by V Ltd. were P Ltd.'s acceptances.

On 1st April 20X1, P Ltd. took over V Ltd in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business P Ltd. would allot three fully paid equity shares of ₹ 10 each at par for every two shares held in V Ltd. It was also agreed that 12% debentures in V Ltd. would be converted into 13% debentures in P Ltd. of the same amount and denomination.

Details of trade receivables and trade payables as under:

	P Ltd. (₹ in lakhs)	V Ltd. (₹ in lakhs)
Trade payables		
Bills Payable	120	-
Trade Creditors	<u>1,080</u>	<u>463</u>
	<u>1,200</u>	<u>463</u>
Trade receivables		
Trade debtors	2,120	1,020
Bills Receivable	<u>—</u>	<u>80</u>
	<u>2,120</u>	<u>1,100</u>

Expenses of amalgamation amounting to ₹ 1 lakh were borne by P Ltd.

You are required to: (i) pass journal entries in the books of P Ltd. and (ii) prepare P Ltd.'s Balance Sheet immediately after the merger. **(15 Marks)**

Solution:

Books of P Ltd.

Journal Entries

		Dr. (₹ in Lacs)	Cr. (₹ in Lacs)
Business Purchase A/c	Dr.	9,000	
To Liquidator of V Ltd.			9,000
(Being business of V Ltd. taken over for Consideration settled as per agreement)			
Plant and Machinery	Dr.	5,000	
Furniture & Fittings	Dr.	1750	
Inventory	Dr.	4,041	
Debtors	Dr.	1,020	
Cash at Bank	Dr.	609	
Bills Receivable	Dr.	80	
To Foreign Project Reserve			310
To General Reserve (3,200 - 3,000)			200
To Profit and Loss A/c (825)			825
To Liability for 12% Debentures			1,000
To Creditors			463
To Provisions			702
To Business Purchase			9,000
(Being assets & liabilities taken over from V Ltd.)			
Liquidator of V Ltd. A/c	Dr.	9,000	
To Equity Share Capital A/c			9,000
(Purchase consideration discharged in the form of equity shares)			
Goodwill A/c	Dr.	1	
To Bank A/c			1
(Liquidation expenses paid by P Ltd debited to Goodwill A/c)			
Profit and loss A/c	Dr.	1	
To Goodwill A/c			1
(being the Goodwill charged to Profit and loss account)			
Liability for 12% Debentures A/c	Dr.	1,000	
To 13% Debentures A/c			1,000
(12% debentures discharged by issue of 13% debentures)			
Bills Payable A/c	Dr.	80	
To Bills Receivable A/c			80
(Cancellation of mutual owing on account of bills)			

Balance Sheet of P Ltd. as at 1st April, 20X1 (after merger)

	Particulars	Notes	₹ (in lakhs)
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1		Equity and Liabilities		
		Shareholders' funds		
	A	Share capital	1	24,000
	B	Reserves and Surplus	2	16,704
2		Non-current liabilities		
	A	Long-term borrowings	3	1,000
3		Current liabilities		
	A	Trade Payables (1,543 + 40)		1,583
	B	Short-term provisions		2,532
		Total		45,819
		Assets		
1		Non-current assets		
	A	Property, Plant and Equipment	4	29,054
2		Current assets		
	A	Inventories		11,903
	B	Trade receivables		3,140
	C	Cash and cash equivalents		1,722
		Total		45,819

Notes to accounts

		₹
1.	Share Capital	
	Equity share capital	
	Authorized, issued, subscribed and paid up	
	24 crores equity shares of ₹ 10 each	<u>24,000</u>
	(Of the above shares, 9 crores shares have been issued for consideration other than cash)	
	Total	<u>24,000</u>
2.	Reserves and Surplus	
	General Reserve	9,700
	Securities Premium	3,000
	Foreign Project Reserve	310
	Profit and Loss Account	<u>3,694</u>
	Total	<u>16,704</u>
3.	Long-term borrowings	
	Secured	
	13% Debentures	<u>1,000</u>
4.	Property, Plant and Equipment	
	Land & Buildings	6,000
	Plant & Machinery	19,000
	Furniture & Fittings	<u>4,054</u>

Total	29,054
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Working Note:

Computation of purchase consideration

The purchase consideration was discharged in the form of three equity shares of P Ltd. for every two equity shares held in V Ltd.

$$\text{Purchase consideration} = ₹ 6,000 \text{ lacs} \times \frac{3}{2} = ₹ 9,000 \text{ lacs.}$$

Illustration 18 (MTP Oct'21, Apr'23) (Past Exam May'23)

Sun and Neptune had been carrying on business independently. They agreed to amalgamate and form a new company Jupiter Ltd. with an authorized share capital of ₹ 4,00,000 divided into 80,000 equity shares of ₹ 5 each. On 31st March, 20X3 the respective information of Sun and Neptune were as follows:

	Sun (₹)	Neptune (₹)
Share capital	3,65,000	3,52,500
Current liabilities	5,97,000	1,80,250
Property, Plant and Equipment	6,35,000	3,65,000
Current assets	3,27,000	1,67,750

Additional Information:

(a) Revalued figures of non-current and Current assets were as follows:

	Sun (₹)	Neptune (₹)
Property, Plant and Equipment	7,10,000	3,90,000
Current Assets	2,99,500	1,57,750

(b) The debtors and creditors include ₹ 43,350 owed by Sun to Neptune.

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

(i) 60,000 equity shares of Jupiter Ltd. to Sun and Neptune in the proportion to the profitability of their respective business based on the average net profit during the last three years which were as follows:

	Sun (₹)	Neptune (₹)
20X1 Profit	4,49,576	2,73,900
20X2 (Loss)/Profit	(2,500)	3,42,100
20X3 Profit	3,77,924	3,59,000

(ii) 15% debenture in Jupiter Ltd. at par to provide an income equivalent to 8% return business as on capital employed in their respective business as on 31st March, 20X3 after revaluation of assets.

You are required to:

(1) Compute the amount of debentures and shares to be issued to Sun and Neptune.

(2) A Balance sheet of Jupiter Ltd. showing the position immediately after amalgamation.

(16 Marks)

Solution:**(1) Computation of Amount of Debentures and Shares to be issued:**

		Sun	Neptune
(i)	Average Net Profit		
	₹ (4,49,576-2,500+3,77,924)/3	= 2,75,000	
	₹ (2,73,900+3,42,100+3,59,000)/3		= 3,25,000
(ii)	Equity Shares Issued		

MTP / RTP / Past Exam**Question 1 (MTP Oct'19)**

The following is the summarized Balance Sheet of 'A' Ltd. as on 31.3.2019:

Liabilities	Rs.	Assets	Rs.
14,000 Equity shares of Rs. 100 each, fully paid-up	14,00,000	Sundry assets	18,00,000
General reserve	10,000		
10% Debentures	2,00,000		
Trade payables	1,40,000		
Bank overdraft	50,000		
	18,00,000		18,00,000

B Ltd. agreed to take over the business of 'A' Ltd. Calculate purchase consideration under Net Assets method on the basis: 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 Rs. 25,000. **(5 Marks)**

Solution:**Calculation of Purchase Consideration under Net Assets Method**

	Rs.	Rs.
Sundry assets		
$18,00,000 \times \frac{75}{100} \times \frac{112}{100} =$	15,12,000	
$18,00,000 \times \frac{75}{100} \times \frac{112}{100} =$	4,14,000	19,26,000
Less: Liabilities:		
10% Debentures	2,00,000	
Trade payables	1,40,000	
Bank overdraft	50,000	
Unrecorded liability	25,000	(4,15,000)
Purchase consideration		15,11,000

Question 2 (MTP Oct'18, RTP May'19)

P Ltd. and Q Ltd. decided to amalgamate as on 01.04.2016 Their summarized Balance Sheets as on 31.03.2016 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 Reserve	70	60
Profit and Loss Account	8	12
10 % Debentures	100	60
Trade Payables	50	30
Tax provision	14	8
Total	602	490
Application of Funds:		
Building	120	100
Plant and Machinery	160	140
Investments	80	50
Trade receivables	90	70

Inventories	72	80
Cash and Bank	80	50
Total	602	490

From the following information, you are required to prepare the Balance Sheet as on 01.04.2016 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:

- (i) 50 % Debenture are to be converted into Equity Shares of the New Company.
- (ii) Investments are non - current in nature.
- (iii) Fixed Assets of P Ltd. were valued at 10% above cost and that of Q Ltd. at 5% above cost.
- (iv) 10 % of trade receivables were doubtful for both the companies. Inventories to be carried at cost.
- (v) 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.

(15 Marks)

Solution:

M/s R Ltd. Balance Sheet as at 1.4.2016

Particulars	Notes	Rs. in'000
Equity and Liabilities		
1 Shareholders' funds		
a Share capital	1	6,55,980
b Reserves and Surplus	2	2,77,990
2 Non-current liabilities		
a Long-term borrowings	3	80,000
3 Current liabilities		
a Trade Payables	4	80,000
b Short term provision	5	22,000
Total		11,15,970
Assets		
1 Non-current assets		
a Fixed assets		
Tangible assets	6	5,60,000
b Non-current investments	7	1,30,000
2 Current assets		
a Inventory	8	1,52,000
b Trade receivables	9	1,44,000
c Cash and cash equivalents	10	1,29,970
Total		11,15,970

Note to accounts

	Rs. in'000
1. Share Capital	
Equity share capital	
55,598 Equity shares of Rs.10 each, fully paid up (W.N.2)	5,55,980
Preference share capital	
9% Preference share capital (Share of Rs.100 each) (W.N.2)	1,00,000
	6,55,980
2. Reserves and Surplus	

Securities premium (W.N.2)	2,77,990
Investment allowance reserve	1,30,000
(Rs.70,000+ Rs.60,000)	
Amalgamation adjustment reserve	(1,30,000)
	2,77,990
3. Long-term borrowings	
Secured	
10% Debentures (50% of Rs.1,60,000)	80,000
4. Trade Payables (Rs.50,000+ Rs.30,000)	80,000
5. Short term provisions	
Provision for tax (Rs.14,000+ Rs.8,000)	22,000
6. Tangible assets	
Building (Rs.1,32,000+Rs.1,05,000)	2,37,000
Plant and machinery (Rs.1,76,000+Rs.1,47,000)	3,23,000
	5,60,000
7. Non – current Investments (Rs.80,000+ Rs.50,000)	1,30,000
8. Inventory	
Stock (Rs. 72,000+ Rs. 80,000)	1,52,000
9. Trade receivables	
Trade receivables (90% of (Rs.90,000+ Rs.70,000)	1,44,000
10. Cash and cash equivalents	
Cash and Bank (Rs. 80,000+ Rs. 50,000 – Rs. 30)	1,29,970

Working Notes:**1. Calculation of value of equity shares issued to transferor companies**

	P Ltd. (Rs.)	Q Ltd. (Rs.)
Assets taken over:		
Building	1,32,000	1,05,000
Plant and machinery	1,76,000	1,47,000
Investments	80,000	50,000
Inventories	72,000	80,000
Trade receivables	81,000	63,000
Cash & Bank	80,000	50,000
	6,21,000	4,95,000

Less: Liabilities:

10% Debentures	1,00,000		60,000	
Trade payables	50,000		30,000	
Tax Provision	14,000	1,64,000	8,000	98,000
		4,57,000		3,97,000
Less: Preference Share Capital		60,000		40,000
		3,97,000		3,57,000

2. Number of shares issued to equity shareholders, debenture holders and preference shareholders

	P Ltd.	Q Ltd.	Total
Equity shares issued @ Rs.15 per share (including Rs.5 premium)			
Rs.3,97,000/15	26,466 shares		
Rs.3,57,000/15		23,800 shares	50,266 shares
Equity share capital @ Rs.10	Rs.2,64,660	Rs.2,38,000	Rs.5,02,660
Securities premium @ Rs.5	Rs.1,32,330	Rs.1,19,000	Rs.2,51,330

	Rs.3,96,990	Rs.3,57,000	Rs.7,53,990
50% of Debentures are converted into equity shares @ Rs. 15 per share			
1,00,000/2 = 50,000/15	3,332 shares		
60,000/2 = 30,000/15		2,000 shares	5,332 shares
Equity share capital @ Rs.10	Rs.33,320	Rs.20,000	Rs.53,320
Security premium@ Rs.5	Rs.16,660	Rs.49,980	Rs.10,000
	Rs.30,000	Rs.26,660	Rs. 79,980
9% Preference share capital issued	Rs.60,000	Rs.40,000	Rs.1,00,000

Question 3 (MTP Sep'22)

Black Limited and White Limited have been carrying their business independently from 01/04/2022.

Because of synergy in business, they amalgamated on and from 1 st April, 2022 and formed a new company Grey Limited to take over the business of Black Limited and White Limited. The information of Black Limited and White Limited as on 31st March, 2022 are as follows:

	Black Ltd.(₹)	White Ltd.(₹)
Share Capital:		
Equity share of ₹ 10 each	15,00,000	14,50,000
10% Preference shares of ₹ 100 each	2,00,000	1,40,000
Revaluation Reserve	1,00,000	2,00,000
General Reserve	1,65,000	85,000
Profit & Loss Account:		
Opening balance (Credit balance)	1,50,000	1,20,000
Profit for the Year	2,00,000	1,30,000
15% Debentures of ₹ 100 each (Secured)	4,00,000	5,00,000
Trade payables	3,10,000	1,20,000
Land and Buildings	3,20,000	7,40,000
Plant and Machinery	18,00,000	14,00,000
Investments	1,00,000	60,000
Inventory	2,20,000	1,50,000
Trade Receivables	4,25,000	2,65,000
Cash at Bank	1,60,000	1,30,000

Additional Information:

(i) The authorized capital of the new company will be ₹ 54,00,000 divided into 2,00,000 equity shares of ₹ 25 each, and 4,000 preference shares of ₹ 100 each.

(ii) Trade payables of Black Limited includes ₹ 15,000 due to White Limited and trade receivables of White Limited shows ₹ 15,000 receivable from Black Limited.

(iii) Land & Buildings and inventory of Black Limited and White Limited are to be revalued as under:

	Black Ltd.(₹)	White Ltd.(₹)
Land and Buildings	5,20,000	10,40,000
Inventory	1,80,000	1,25,000

(iv) The purchase consideration is to be discharged as under:

(a) Issue 1,80,000 equity shares of ₹ 25 each fully paid up in proportion of their profitability in the preceding two financial years.

(b) Preference shareholders of two companies are issued equivalent number of 12% preference shares of Grey Limited at a price of ₹ 120 per share (face value ₹ 100).

(c) 15% Debenture holders of Black Limited and White Limited are discharged by Grey Limited issuing such number of its 18% Debentures of ₹ 100 each so as to maintain the same amount of interest.

You are required to prepare the Balance Sheet of Grey Limited after amalgamation. The amalgamation took place in the nature of purchase. (15 Marks)

Solution:

Balance Sheet of Grey Ltd. as at 1st April, 2022

Particulars	Note No.	(₹)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	48,40,000
(b) Reserves and Surplus	2	1,85,000
(2) Non-Current Liabilities		
Long-term borrowings	3	7,50,000
(3) Current Liabilities		
Trade payables		4,15,000
Total		61,90,000
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment	4	47,60,000
(b) Non-current investments		1,60,000
(2) Current assets		
(a) Inventory		3,05,000
(b) Trade receivables		6,75,000
(c) Cash and bank balances		2,90,000
Total		61,90,000

Notes to Accounts:

	(₹)	(₹)
1. Share Capital		
Authorized:		
2,00,000 equity shares of ₹ 25 each		50,00,000
4,000 preference share of ₹ 100 each		4,00,000
Issued, subscribed, and paid up share capital:		
1,80,000 Equity shares of ₹ 25 each	45,00,000	
3,400 Preference shares of ₹ 100 each	3,40,000	
(all the above shares are allotted as fully paid-up pursuant to contracts without payment being received in cash)		48,40,000
2. Reserves and surplus		
Securities Premium (3,400 x ₹ 20)	68,000	
Capital Reserve	1,17,000	1,85,000
3. Long-term borrowings		
18% Debentures		7,50,000
4. Property, plant and equipment		
Land and Building	15,60,000	
Plant and Machinery	32,00,000	47,60,000

Working Notes:

	(₹)	
	Black Ltd.	Grey Ltd.
1. Computation of Purchase consideration		

(a) Preference shares:			
Shares at ₹ 120 each	2,40,000		1,68,000
(b) Equity shares:			
Preceding 2 years profitability			
Year 1	1,50,000		1,20,000
Year 2	2,00,000		1,30,000
	3,50,000		2,50,000
Shares (in ratio 35: 25)			
1,05,000 shares at ₹ 25	26,25,000		
75,000 shares at ₹ 25			18,75,000
Amount of purchase consideration (a + b)	28,65,000		20,43,000
2. Net Assets Taken Over			
Assets taken over:			
Land and Building	5,20,000		10,40,000
Plant and Machinery	18,00,000		14,00,000
Investments	1,00,000		60,000
Inventory	1,80,000		1,25,000
Trade receivables	4,25,000		2,50,000
Cash and bank	1,60,000		1,30,000
	31,85,000		30,05,000
Less: Liabilities taken over:			
Debentures 3,33,333		4,16,667	
Trade payables 2,95,000		1,20,000	
	6,28,333		5,36,667
Net assets taken over	25,56,667		24,68,333
Purchase consideration	28,65,000		20,43,000
Goodwill	3,08,333		
Capital reserve			4,25,333
Net amount of capital reserve			₹ 1,17,000
3.	Black Limited	White Limited	
Existing Debentures	₹ 4,00,000 x 15%	₹ 5,00,000 x 15%	
	= ₹ 60,000	= ₹ 75,000	
Debentures to be issued in Grey Limited @	₹ 60,000 x 100/18	₹ 75,000 x 100/18	
18% to maintain the same amount of interest	= ₹ 3,33,333	= ₹ 4,16,667	

Question 4 (MTP Oct'22)

A Limited and B Limited are carrying on business of same nature. On 31 st March, 2021 the information given by both these companies is as follows:

	A Ltd.(₹)	B Ltd. (₹)
Share Capital		
- Equity Shares 10 each (Fully Paid)	12,00,000	7,20,000
- 10% Preference Shares of ₹ 100 each	6,00,000	-
- 8% Preference Shares of ₹ 100 each	-	5,00,000
General Reserve	3,00,000	2,50,000
Investment Allowance Reserve	-	60,000
Security Premium	2,40,000	-
Export Profit Reserve	1,80,000	1,20,000
Profit & Loss Account	2,16,000	1,92,000
9% Debentures (₹ 10 each)	3,00,000	2,00,000

	Add: Adjustment under scheme of amalgamation	3,20,000	8,10,000
	Bills Payables: Opening balance	60,000	
	Add: Adjustment under scheme of amalgamation	70,000	
	Less: Cancellation of mutual owing upon amalgamation	(60,000)	70,000
	Total		8,80,000
10	Cash and cash equivalents		
	Opening balance	1,72,000	
	Add: Adjustment under scheme of amalgamation	61,000	
	Less: Amalgamation expense paid	(12,000)	2,21,000

Working Notes:**1. Calculation of purchase consideration**

	₹
Equity shareholders of B Ltd. (80,000 x ₹ 10)	8,00,000
Preference shareholders of B Ltd. (5,00,000 x 115%)	5,75,000
Purchase consideration would be	13,75,000

2. Amount to be adjusted from general reserve

The difference between the amount recorded as share capital issued and the amount of share capital of transferor company should be adjusted in General Reserve.

Thus, General reserve will be adjusted as follows:

	₹
Purchase consideration	13,75,000
Less: Share capital issued (₹ 7,20,000 + ₹ 5,00,000)	(12,20,000)
Amount to be adjusted from general reserve	1,55,000

3. Calculation of balances of Profit & Loss and Sundry Creditors of B Limited to be taken over by A Limited

	P&L (₹)	Creditors (₹)
Balance as per Balance Sheet of B Limited	1,92,000	2,04,000
Less / Add: Contingent Trade Payable treated as Actual Liability	(72,000)	72,000
Taken by A Limited	1,20,000	2,76,000

Question 5 (RTP May 21)

Mohan Ltd. gives you the following information as on 31st March, 2020:

	Rs.
Share capital:	
Equity shares of Rs. 10 each	3,00,000
6,000, 9% cumulative preference shares of Rs. 10 each	60,000
Profit and Loss Account (Dr. balance)	1,70,000
10% Debentures of Rs. 100 each	2,00,000
Interest payable on Debentures	20,000
Trade Payables	1,50,000
Property, Plant and Equipment	3,40,000
Goodwill	10,000
Inventory	80,000
Trade Receivables	1,10,000
Bank Balance	20,000

A new company Ravi Ltd. is formed with authorised share capital of Rs. 4,00,000 divided into 40,000 Equity Shares of Rs. 10 each. The new company will acquire the assets and liabilities of Mohan Ltd. on the following terms:

- (i) (a) Mohan Ltd.'s debentures are paid by similar debentures in new company and for outstanding accrued interest on debentures, equity shares of equal amount are issued at par.
- (b) The trade payables are paid by issue of 12,000 equity shares at par in full and final settlement of their claims.
- (c) Preference shareholders are to get equal number of equity shares issued at par. Dividend on preference shares is in arrears for three years. Preference shareholders to forgo dividend for two years. For balance dividend, equity shares of equal amount are issued at par.
- (d) Equity shareholders are issued one share at par for every three shares held in Mohan Ltd.
- (ii) Current Assets are to be taken at book value (except inventory, which is to be reduced by 10%). Goodwill is to be eliminated. The Property, plant and equipment is taken over at Rs. 3,08,400.
- (iii) Remaining equity shares of the new company are issued to public at par fully paid up.
- (iv) Expenses of Rs. 5,000 to be met from bank balance of Mohan Ltd. This is to be adjusted from the bank balance of Mohan Ltd. before acquisition by Ravi Ltd.

You are required to prepare:

- (a) Realization account and Equity Shareholders' account in the books of Mohan Ltd.
- (b) Bank Account and Balance Sheet with notes to accounts in the books of Ravi Ltd.

Solution:

In the books of Mohan Ltd.

(i) Realisation Account

	Rs.		Rs.
To Goodwill	10,000	By 10% Debentures	2,00,000
To Property, plant and equipment	3,40,000	By Interest accrued on debentures	20,000
To Inventory	80,000	By Trade payables	1,50,000
To Trade receivables	1,10,000	By Ravi Ltd. (Purchase consideration) (W.N. 1)	1,65,400
To Bank (20,000 - 5,000)	15,000	By Equity shareholders A/c (loss on realization) (Bal. fig.)	25,000
To Preference shareholders A/c (W.N.2)	5,400		
	5,60,400		5,60,400

(ii) Equity shareholders' Account

	Rs.		Rs.
To Profit & loss A/c	1,70,000	By Equity Share capital	3,00,000
To Expenses*	5,000		
To Equity shares in Ravi Ltd.	1,00,000		
To Realization A/c	25,000		
	3,00,000		3,00,000

*Alternatively, expenses may be routed through Realization account.

In the books of Ravi Ltd.

(iii) Bank Account

	Rs.		Rs.
--	-----	--	-----

To Business Purchase	15,000	By Balance c/d (Bal. fig.)	1,09,600
To Equity shares application & allotment A/c (W.N. 3)	94,600		
	1,09,600		1,09,600

(iv) Balance Sheet as at 31st March, 2020

Particulars	Note No.	Rs.
I. Equity and Liabilities		
(1) Shareholder's Funds		
Share Capital	1	4,00,000
(2) Non-Current Liabilities		
Long-term borrowings	2	2,00,000
Total		6,00,000
II. Assets		
(1) Non-current assets		
(a) Property, plant and equipment		3,08,400
(2) Current assets		
(a) Inventories		72,000
(b) Trade receivables		1,10,000
(c) Cash and cash equivalents		1,09,600
Total		6,00,000

Notes to Accounts

	Rs.
1. Share Capital	
Authorised share capital	
40,000 equity shares of Rs. 10 each	4,00,000
Issued and Subscribed	
40,000 shares of Rs. 10 each fully paid up	4,00,000
(out of the above, 30,540 (W.N.3) shares have been allotted as fully paid-up pursuant to contract without payment being received in cash)	
2. Long Term Borrowings	
10% Debentures	2,00,000

Working Notes:**1. Calculation of Purchase consideration**

	Rs.
Payment to preference shareholders	
6,000 equity shares @ Rs. 10	60,000
For arrears of dividend: (6,000 x Rs. 10) x 9%	5,400
Payment to equity shareholders	
(30,000 shares x 1/3) @ Rs. 10	1,00,000
Total purchase consideration	1,65,400

2. Preference shareholders' Account in books of Mohan Ltd.

	Rs.		Rs.
To Equity Shares in Ravi Ltd.	65,400	By Preference Share capital	60,000
		By Realization A/c (Bal. fig.)	5,400
	65,400		65,400

3. Calculation of number of Equity shares issued to public

	Number of shares
Authorized equity shares	40,000

Less: Equity shares issued for		
Interest accrued on debentures	2,000	
Trade payables of Mohan Ltd.	12,000	
Preference shareholders of Mohan Ltd.	6,000	
Arrears of preference dividend	540	
Equity shareholders of Mohan Ltd.	10,000	(30,540)
Number of equity shares issued to public at par for cash		9,460

Question 6 (RTP Nov'20) (Past Exam May'18)

X Ltd. and Y Ltd. give the following information of assets, equity and liabilities as on 31st March, 2018:

	X Ltd. (Rs.)	Y Ltd. (Rs.)
<u>Equity and Liabilities</u>		
Equity Shares of Rs. 10 each	30,00,000	9,00,000
9% Preference Shares of Rs. 100 each	3,00,000	-
10% Preference Shares of Rs. 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
<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	1,50,000	60,000

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 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). The 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 Profit and Loss Account of that year). In the year 2015 -16, there was an embezzlement of cash by an employee amounting to Rs. 10,000.
- (iii) Land & Buildings are valued at Rs. 5,00,000 and the Plant & Machinery at Rs. 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 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 Realizations 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.

Solution:

In the Books of Y Ltd.

Realization Account

		Rs.		Rs.
To Sundry Assets:			By Retirement Gratuity Fund	60,000
Goodwill	75,000			
Land & Building	3,00,000		By Trade payables	2,40,000
Plant & Machinery	4,50,000		By X Ltd. (Purchase Consideration)	15,90,000
Inventory	5,25,000			
Trade receivables	3,00,000			
Bank	60,000	17,10,000		
To Preference Shareholders (Premium on Redemption)		30,000		
To Equity Shareholders (Profit on Realization)		1,50,000		
		18,90,000		18,90,000

In the Books of X Ltd.

Journal Entries

	Dr.	Cr.
	Rs.	Rs.
Business Purchase A/c Dr. To Liquidators of Y Ltd. Account (Being business of Y Ltd. taken over)	15,90,000	15,90,000
Goodwill Account Dr.	1,50,000	
Land & Building Account Dr.	5,00,000	
Plant & Machinery Account Dr.	4,00,000	
Inventory Account Dr.	4,72,500	
Trade receivables Account Dr.	3,00,000	
Bank Account Dr.	60,000	
Unrecorded assets Account Dr.	15,000	
To Retirement Gratuity Fund Account		60,000
To Trade payables Account		2,40,000
To Provision for Doubtful Debts Account		7,500
To Business Purchase A/c (Being Assets and Liabilities taken over as per agreed valuation).		15,90,000
Liquidators of Y Ltd. A/c Dr. To 9% Preference Share Capital A/c To Equity Share Capital A/c To Securities Premium A/c (Being Purchase Consideration satisfied as above)	15,90,000	3,30,000 12,00,000 60,000

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

Particulars	Notes	Rs.
Equity and Liabilities		
1 Shareholders' 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	4	6,10,000
B Short term provision	5	7,500
Total		59,27,500
Assets		
1 Non-current assets		
Property, Plant and Equipment	6	33,00,000
Intangible assets	7	3,00,000
2 Current assets		
A Inventories	8	12,22,500
B Trade receivables	9	8,80,000
C Other current Assets	10	15,000
D Cash and cash equivalents	11	2,10,000
Total		59,27,500

Notes to accounts

		Rs.
1	Share Capital	
	Equity share capital	
	4,20,000 Equity Shares of Rs. 10 each fully paid (Out of above 1,20,000 Equity Shares were issued at 5% premium in consideration other than for cash)	42,00,000
	Preference share capital	
	6,300 9% Preference Shares of Rs. 100 each (Out of above 3,300 Preference 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	
	Retirement Gratuity fund	2,10,000
4	Trade payables (3,90,000 + 2,40,000 - 20,000*) * Mutual Owings eliminated.	6,10,000
5	Short term Provisions	
	Provision for Doubtful Debts	7,500
	Property, Plant and Equipment	
	Land & Buildings	14,00,000
	Plant & Machinery	19,00,000
	Total	33,00,000
7	Intangible assets	
	Goodwill (1,50,000 + 1,50,000)	3,00,000
8	Inventories (7,50,000 + 4,72,500)	12,22,500
9	Trade receivables (6,00,000 + 3,00,000 - 20,000)	8,80,000
10	Other current Assets	15,000
11	Cash and cash equivalents (1,50,000 + 60,000)	2,10,000

Working Notes:

1. Computation of goodwill	Rs.
Profit of 2016-17	90,000
Profit of 2015-16 adjusted (Rs. 78,000 + 10,000)	88,000
Profit of 2014-15 adjusted (Rs. 72,000 – 25,000)	47,000

	2,25,000
Average profit	75,000

2. Goodwill to be valued at 2 times of average profits = Rs. 75,000 x 2 = Rs. 1,50,000

Purchase Consideration:		Rs.
Goodwill		1,50,000
Land & Building		5,00,000
Plant & Machinery		4,00,000
Inventory		4,72,500
Trade receivables		3,00,000
Unrecorded assets		15,000
Cash at Bank		60,000
Less: Liabilities:		
		18,97,500
Retirement Gratuity	60,000	
Trade payables	2,40,000	
Provision for doubtful debts	7,500	(3,07,500)
Net Assets/ Purchase Consideration		15,90,000
To be satisfied as under:		
10% Preference Shareholders of Y Ltd.		3,00,000
Add: 10% Premium		30,000
9% Preference Shares of X Ltd.		3,30,000
Equity Shareholders of Y Ltd. to be satisfied by issue of 1,20,000 equity Shares of X Ltd. at 5% Premium		12,60,000
Total		15,90,000

Question 7 (RTP May'20)

P Ltd. and Q Ltd. agreed to amalgamate and form a new company called PQ Ltd. The summarized balance sheets of both the companies on the date of amalgamation stood as below:

Liabilities	P Ltd. Rs.	Q Ltd. Rs.	Assets	P Ltd. Rs.	Q Ltd. Rs.
Equity Shares	8,20,000	3,20,000	Land & Building	4,50,000	3,40,000
(Rs. 100 each)					
9% Pref. Shares	3,80,000	2,80,000	Furniture & Fittings	1,00,000	50,000
(Rs. 100 each)					
8% Debentures	2,00,000	1,00,000	Plant & Machinery	6,20,000	4,50,000
General Reserve	1,50,000	50,000	Trade receivables	3,25,000	1,50,000
Profit & Loss A/c	3,52,000	2,05,000	Inventory	2,33,000	1,05,000
Unsecured Loan	-	1,75,000	Cash at bank	2,08,000	1,75,000
Trade payables	88,000	1,60,000	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 inventory and trade receivables respectively and depreciating Furniture & Fittings by @ 10%, Plant and Machinery by @ 10%. The trade receivables of P Ltd. include Rs. 25,000 due from Q Ltd. PQ Ltd. will issue:

- (i) 5 Preference shares of Rs. 20 each @ Rs. 18 paid up at a premium of Rs. 4 per share for each pref. share held in both the companies.
- (ii) 6 Equity shares of Rs. 20 each @ Rs. 18 paid up a premium of Rs. 4 per share for each equity share held in both the companies.
- (iii) 6% Debentures to discharge the 8% debentures of both the companies.
- (iv) 20,000 new equity shares of Rs. 20 each for cash @ Rs.18 paid up at a premium of Rs.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.

You are required to prepare ledger accounts in the books of P Ltd. and Q Ltd. to close their books.

Solution:

In the Books of P Ltd. Realization Account

	Rs.		Rs.
To Land & Building	4,50,000	By 8% Debentures	2,00,000
To Plant & Machinery	6,20,000	By Trade Payables	88,000
To Furniture & Fitting	1,00,000	By PQ Ltd.	16,02,100
To Trade receivables	3,25,000	(Purchase consideration)	
To Inventory/Stock	2,33,000	By Equity Shareholders A/c	1,37,900
To Cash at Bank	2,08,000	(loss)	
To Cash in Hand	54,000		
To Preference shareholders	38,000		
(excess payment)			
	20,28,000		20,28,000

Equity Shareholders Account

	Rs.		Rs.
To Realization A/c (loss)	1,37,900	By Share capital	8,20,000
To Equity Shares in PQ Ltd.	10,82,400	By Profit & Loss A/c	3,52,000
To Cash	1,01,700	By General Reserve	1,50,000
	13,22,000		13,22,000

9% Preference Shareholders Account

To Preference Shares in	4,18,000	By Pref. Share capital	3,80,000
PQ Ltd.		By Realization A/c	38,000
	4,18,000		4,18,000

PQ Ltd. Account

To Realization A/c	16,02,100	By Shares in PQ Ltd.		
		For Equity	10,82,400	15,00,400
		For Pref.	4,18,000	
		By Cash		
				1,01,700
	16,02,100			16,02,100

8% Debentures holders Account

	Rs.		Rs.
To 6% Debentures	2,00,000	By 8% Debentures	2,00,000

Books of Q Ltd.

Realization Account

	Rs.		Rs.
To Land & Building	3,40,000	By 8% Debentures	1,00,000
To Plant & Machinery	4,50,000	By Trade payables	1,60,000
To Furniture & Fittings	50,000	By Unsecured loan	1,75,000
To Trade receivables	1,50,000	By PQ Ltd. (Purchase consideration)	7,92,250
To Inventory	1,05,000	By Equity Shareholders A/c	90,750
To Cash at bank	1,75,000	Loss	
To Cash in hand	20,000		
To Pref. shareholders	28,000		
	13,18,000		13,18,000

Equity Shareholders Account

	Rs.		Rs.
To Equity shares in PQ Ltd.	4,22,400	By Share Capital	3,20,000
To Realization	90,750	By Profit & Loss A/c	2,05,000
To Cash	61,850	By General Reserve	50,000
	5,75,000		5,75,000

9% Preference Shareholders Account

	Rs.		Rs.
To Preference Shares in PQ Ltd.	3,08,000	By Share capital	2,80,000
		By Realization A/c	28,000
	3,08,000		3,08,000

Q Ltd. Account

	Rs.		Rs.
To Realization A/c	7,92,250	By Equity shares in PQ Ltd.	
		For Equity 4,22,400	
		Preference 3,08,000	7,30,400
		By Cash	61,850
	7,92,250		7,92,250

8% Debentures holders Account

	Rs.		Rs.
To 6% Debentures	1,00,000	By 8% Debentures	1,00,000

Working Notes:

(i) Purchase consideration

	P Ltd. Rs.	Q Ltd. Rs.
Payable to preference shareholders:		
Preference shares at Rs. 22 per share	4,18,000	3,08,000
Equity Shares at Rs. 22 per share	10,82,400	4,22,400
Cash [See W.N. (ii)]	1,01,700	61,850
	16,02,100	7,92,250

(ii) Value of Net Assets

	P Ltd. Rs.	Q Ltd. Rs.
--	------------	------------

Land & Building	4,50,000	3,40,000
Plant & Machinery less 10% Depreciation	5,58,000	4,05,000
Furniture & Fittings less 10% Depreciation	90,000	45,000
Trade receivables less 5%	3,08,750	1,42,500
Inventory less 5%	2,21,350	99,750
Cash at Bank	2,08,000	1,75,000
Cash in hand	54,000	20,000
	18,90,100	12,27,250
Less: Debentures	2,00,000	1,00,000
Trade payables	88,000	1,60,000
Secured Loans – (2,88,000)	1,75,000	(4,35,000)
	16,02,100	7,92,250
Payable in shares	15,00,400	7,30,400
Payable in cash*	1,01,700	(61,850)

(iii)

	P	Q
Plant & Machinery	6,20,000	4,50,000
Less: Depreciation 10%	62,000	45,000
	5,58,000	4,05,000
Furniture & Fixtures	1,00,000	50,000
Less: Depreciation 10%	10,000	5,000
	90,000	45,000

*This cash is paid to equity shareholders of both the companies for adjustment of their rights as per intrinsic value of both companies.

Question 8 (RTP May'18, Nov'21)

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:

Summarized balance sheets as at 31-03-2017

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	Property, Plant & Equipment		
b. Reserves	10,20,000	6,00,000	(excluding Goodwill)	7,20,000	10,80,000
Current Liabilities			Current Assets		
Bank Overdraft	-	5,40,000	a. Inventories	3,60,000	6,60,000
Trade payables	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 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 :

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

Solution:

(i) Calculation of number of shares issued to P Ltd. and Q Ltd.:

Amount of Share Capital as per balance sheet	Rs.
P Ltd.	6,00,000
Q Ltd.	8,40,000
	14,40,000

Share of P Ltd. = Rs. 14,40,000 x [21,60,000/ (21,60,000 + 14,40,000)]

= Rs. 8,64,000 or 86,400 shares

Securities premium = Rs. 21,60,000 – Rs. 8,64,000 = Rs. 12,96,000 Premium

per share = Rs. 12,96,000 / Rs. 86,400 = Rs. 15

Issued 86,400 shares @ Rs. 10 each at a premium of Rs.15 per share Share of Q Ltd.

= Rs. 14,40,000 x [14,40,000/ (21,60,000 + 14,40,000)]

= Rs. 5,76,000 or 57,600 shares

Securities premium = Rs. 14,40,000 – Rs. 5,76,000 = Rs. 8,64,000 Premium

per share = Rs. 8,64,000 / Rs. 57,600 = Rs. 15

Issued 57,600 shares @ Rs. 10 each at a premium of Rs. 15 per share

(ii) Journal Entries in the books of PQ Ltd.

Particulars	Dr. Amount (Rs.)	Cr. Amount (Rs.)
Business purchase account Dr.	36,00,000	
To Liquidator of P Ltd. account		21,60,000
To Liquidator of Q Ltd. account		14,40,000
(Being the amount of purchase consideration payable to liquidator of P Ltd. and Q Ltd. for assets taken over)		
Goodwill Dr.	5,40,000	
Property, Plant & Equipment account Dr.	7,20,000	
Inventory account Dr.	3,60,000	
Trade receivables account Dr.	4,80,000	

Cash at bank	Dr.	3,00,000	
To Trade payables account			2,40,000
To Business purchase account			21,60,000
(Being assets and liabilities of P Ltd. taken over)			
Property, Plant & Equipment account	Dr.	10,80,000	
Inventory account	Dr.	6,60,000	
Trade receivables account	Dr.	7,80,000	
To bank overdraft account			5,40,000
To Trade payables account			5,40,000
To Business purchase account			14,40,000
(Being assets and liabilities of Q Ltd. taken over)			
Liquidator of P Ltd. Account	Dr.	21,60,000	
To Equity share capital account (86,400 x Rs. 10)			8,64,000
To Securities premium (86,400 x Rs. 15)			12,96,000
(Being the allotment of shares as per agreement for discharge of purchase consideration)			
Liquidator of Q Ltd. account	Dr.	14,40,000	
To Equity share capital account (57,600 x Rs. 10)			5,76,000
To Securities premium (57,600 x Rs. 15)			8,64,000
(Being the allotment of shares as per agreement for discharge of purchase consideration)			
Bank A/c		18,00,000	
To Equity share capital account			7,20,000
To Securities premium			10,80,000
(Equity share capital issued to raise working capital)			

(iii) Balance Sheet of PQ Ltd. on 31st March, 2017 after amalgamation

Particulars	Notes	₹
Equity and Liabilities		
1 Shareholders' funds		
a Share capital	1	21,60,000
b Reserves and Surplus	2	32,40,000
2 Current liabilities		
a Trade payables (2,40,000 + 5,40,000)		7,80,000
Total		61,80,000
Assets		
1 Non-current assets		
a Fixed assets		
2 Tangible assets (7,20,000 + 10,80,000)		18,00,000
Intangible assets (goodwill)	4	5,40,000
Current assets		
a Inventories (3,60,000 + 6,60,000)		10,20,000
b Trade receivables (4,80,000 + 7,80,000)		12,60,000
c Cash and cash equivalents	3	15,60,000
Total		61,80,000

Notes to accounts

		Rs.
1	Share Capital	
	Issued, subscribed and paid up share capital	
	2,16,000 Equity shares of Rs. 10 each	21,60,000
	(Out of the above 1,44,000 shares issued for non-cash consideration under scheme of	

	amalgamation)	
2	Reserves and Surplus	
	Securities premium	32,40,000
	(@ Rs. 15 for 2,16,000 shares)	
3	Cash and cash equivalents	
	Cash at Bank	15,60,000
4	Intangible Assets	
	Goodwill	5,40,000

Working Notes:**1. Calculation of goodwill of P Ltd.**

Particulars	Amount Rs.	Weight	Weighted amount Rs.
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 (a+b+c)	14,55,000	6	32,40,000
weighted Average = [Total weighted amount/			
Total of weight][Rs. 32,40,000/6]Goodwill			5,40,000

2. Calculation of Net assets

	P Ltd. Rs.	Q Ltd. Rs.
Assets		
Goodwill	5,40,000	
Property, Plant & Equipment	7,20,000	10,80,000
Inventory	3,60,000	6,60,000
Trade receivable	4,80,000	7,80,000
Cash at bank	3,00,000	
Less: Liabilities		
Bank overdraft	5,40,000	
Trade payables	2,40,000	5,40,000
Net assets or Purchase consideration	21,60,000	14,40,000
New authorized capital		
= Rs. 14,40,000 + Rs. 12,00 000 = Rs. 26,40,000		
Cash and Cash equivalents Rs.		
P Ltd. Balance 3,00,000		
Cash received from Fresh issue (72,000 X Rs.25)	18,00,000	
21,00,000		
Less: Bank Overdraft	5,40,000	
15,60,000*		

*The balance of cash and equivalents has been shown after setting off overdraft amount.

Question 9 (RTP May'22)

The following are the Balance Sheets of Aakash Limited and Ganga Limited as at March 31, 2021:

Particulars	Note No.	Aakash Limited (Rs.)	Ganga Limited (Rs.)
I. Equity and Liabilities:			
(1) Shareholder's Funds:			
(a) Share Capital	1	80,00,000	20,00,000

(b) Reserves and Surplus	2	(3,24,00,000)	56,00,000
(2) Non-Current Liabilities:			
(a) Secured Loans	3	3,20,00,000	1,60,00,000
(b) Unsecured Loans	4	1,72,00,000	-
(3) Current Liabilities:			
(a) Trade Payables		56,00,000	36,00,000
(b) Other Current Liabilities	5	2,04,00,000	56,00,000
Total		5,08,00,000	3,28,00,000
II. Assets:			
(1) Non-Current Assets:			
Property, Plant & Equipment		68,00,000	1,36,00,000
(2) Current Assets:			
(a) Inventories		3,68,00,000	-
(b) Other Current Assets		72,00,000	1,92,00,000
Total		5,08,00,000	3,28,00,000

Notes to Accounts:

	Aakash Limited (Rs.)	Ganga Limited (Rs.)
1. Share Capital		
Authorized, Issued, Subscribed & Paid up :		
6,00,000 Equity Shares of Rs.10 each	60,00,000	-
20,000 Preference Shares of Rs. 100 each	20,00,000	-
2,00,000 Equity Shares of Rs. 10 each	-	20,00,000
	80,00,000	20,00,000
2. Reserves and Surplus		
General Reserve	8,00,000	56,00,000
Surplus	(3,32,00,000)	-
	(3,24,00,000)	56,00,000
3. Secured Loans		
(Secured Loans of Aakash Limited are secured against pledge of Inventories)	3,20,00,000	1,60,00,000
4. Unsecured Loans	1,72,00,000	-
5. Other Current Liabilities		
Statutory Liabilities	1,44,00,000	20,00,000
Liability to Employees	60,00,000	36,00,000
	2,04,00,000	56,00,000

Both the companies go into liquidation and a new company 'AakashGanga Limited' is formed to take over their business. The following information is given:

- (i) All Current Assets of two companies, except pledged inventory are taken over by Aakash Ganga Limited. The realizable value of all the Current Assets (including pledged inventory) is 80% of book value in case of Aakash Limited and 70% for Ganga Limited.
- (ii) Property, Plant and Equipment of both the companies are taken over at book value by AakashGanga Limited.
- (iii) Secured Loans include Rs. 32,00,000 accrued interest in case of Ganga Limited.
- (iv) 4,00,000 Equity Shares of Rs. 10 each are allotted by AakashGanga Limited at par against cash payment of entire face value to the shareholders of Aakash Limited and Ganga Limited in the ratio of shares held by them in Aakash Limited and Ganga Limited.

- (v) Preference Shareholders in Aakash Limited are issued Equity Shares in AakashGanga Ltd. worth Rs. 4,00,000 in lieu of their present holdings.
- (vi) Secured Loan agree to continue the balance amount of their loans to AakashGanga Limited after adjusting realizable value of pledged asset in case of Aakash Limited and after waiving 50% of interest due in the case of Ganga Limited.
- (vii) Unsecured Loans are taken over by AakashGanga Limited at 25% of loan amounts.
- (viii) Employees are issued fully paid Equity Shares in AakashGanga Limited in full settlement of their dues.
- (ix) Statutory Liabilities are taken over by AakashGanga Limited at full value and Trade Payables are taken over at 80% of the book value.

You are required to prepare the opening Balance Sheet of AakashGanga Limited as at 1.4.2021.

Solution:

Balance sheet of Aakash Ganga Ltd. as at 1st April, 2021

Particulars	Note No.	(Rs.)
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	1,40,00,000
(2) Non-Current Liabilities		
(a) Long term borrowings	2	2,12,60,000
(3) Current Liabilities		
(a) Trade Payables	3	73,60,000
(b) Other current liabilities	4	1,64,00,000
Total		5,90,20,000
II. Assets		
(1) Non-current assets		
(a) Property, Plant & Equipment	5	2,04,00,000
(b) Intangible assets	6	1,54,20,000
(2) Current assets		
(a) Cash and cash equivalents		40,00,000
(b) Other current assets	7	1,92,00,000
Total		5,90,20,000

Notes to Accounts

			(Rs.)
1.	Share Capital		
	Issued, subscribed & Paid up:		
	14,00,000 equity shares of Rs. 10 each, fully paid up (W.N.4) (of the above 10,00,000 shares have been issued for consideration other than cash)		1,40,00,000
2	. Long Term borrowings		
	Secured Loans		
	Aakash Limited 25,60,000		
	Ganga Limited 1,44,00,000	1,69,60,000	
	Unsecured Loans	43,00,000	
			2,12,60,000
3	. Trade Payables (W.N.1)		
	Aakash Limited	44,80,000	
	Ganga Limited	28,80,000	73,60,000
4.	Other current liabilities		

	Statutory Liabilities		
	Aakash Limited	1,44,00,000	
	Ganga Limited	20,00,000	1,64,00,000
5.	Property, Plant & Equipment		
	Aakash Limited	68,00,000	
	Ganga Limited	1,36,00,000	2,04,00,000
6	. Intangible assets		
	Goodwill (W.N.3)		1,54,20,000
7	. Other Current Assets		
	Aakash Limited	57,60,000	
	Ganga Limited	1,34,40,000	1,92,00,000

Working Notes:**1. Value of total liabilities taken over by Aakash Ganga Ltd. (Rs.)**

	Aakash Limited		Ganga Limited	
Current liabilities				
Statutory liabilities	1,44,00,000		20,00,000	
Liability to employees	60,00,000		36,00,000	
Trade payables @ 80%	44,80,000	2,48,80,000	28,80,000	84,80,000
Secured loans				
Given in Balance Sheet	3,20,00,000		1,60,00,000	
Interest waived	-		16,00,000	1,44,00,000
Value of Inventory (80% of Rs. 3,68,00,000)	2,94,40,000	25,60,000		
Unsecured Loans (25% of Rs.1,72,00,000)		43,00,000		-
		3,17,40,000		2,28,80,000

2. Assets taken over by AakashGanga Ltd. (Rs.)

	Aakash Limited	Ganga Limited
	Rs.	Rs.
Property, Plant & Equipment	68,00,000	1,36,00,000
Current Assets (80% and 70% respectively of book value)	57,60,000	1,34,40,000
	1,25,60,000	2,70,40,000

3. Goodwill / Capital Reserve on amalgamation (Rs.)

Liabilities taken over (W.N. 1)	3,17,40,000	2,28,80,000
Equity shares to be issued to Preference Shareholders	4,00,000	-
A	3,21,40,000	2,28,80,000
Less: Total assets taken over (W.N. 2)	B (1,25,60,000)	(2,70,40,000)
A-B	1,95,80,000	(41,60,000)
Goodwill Capital Reserve		
Net Goodwill (1,95,80,000- 41,60,000)	1,54,20,000	

4. Equity shares issued by AakashGanga Ltd.

(i)	For Cash		40,00,000
	For consideration other than cash		
(ii)	In Discharge of Liabilities to Employees	96,00,000	
(iii)	To Preference shareholders	4,00,000	1,00,00,000

			1,40,00,000
	No. of shares @ Rs. 10		14,00,000

5. Journal Entries in the Books of Z Ltd.

		Rs.	Rs.
(i)	Equity Share Capital (Rs. 10 each) A/c Dr.	50,00,000	
	To Equity Share Capital (Rs. 5 each) A/c		25,00,000
	To Reconstruction A/c		25,00,000
	(Being conversion of 5,00,000 equity shares of Rs. 10 each fully paid into same number of fully paid equity shares of Rs. 5 each as per scheme of reconstruction.)		
(ii)	9% Preference Share Capital (Rs. 100 each) A/c Dr.	20,00,000	
	To 10% Preference Share Capital (Rs. 50 each) A/c		10,00,000
	To Reconstruction A/c		10,00,000
	(Being conversion of 9% preference share of Rs. 100 each into same number of 10% preference share of Rs. 50 each and claims of preference dividends settled as per scheme of reconstruction.)		
(iii)	10% Secured Debentures A/c Dr.	9,60,000	
	Trade payables A/c Dr.	1,00,000	
	Interest on Debentures payable A/c Dr.	96,000	
	Bank A/c Dr.	1,00,000	
	To 12% Debentures A/c		6,78,000
	To Reconstruction A/c		5,78,000
	(Being Rs. 11,56,000 due to Y (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)		
(iv)	10% Secured Debentures A/c Dr.	6,40,000	
	Trade Payables	60,000	
	Interest on debentures payable A/c	64,000	
	Bank A/c	60,000	
	To 12% debentures A/c		4,42,000
	To Reconstruction A/c		3,82,000
	(Being Rs. 7,64,000 due to Z (including trade payables) cancelled and 12% debentures allotted for the amount after waving 50% as per scheme of reconstruction.)		
(v)	Trade payables A/c Dr.	1,70,000	
	To Reconstruction A/c		1,70,000
	(Being remaining trade payables sacrificed 50% of their claim.)		
(vi)	Directors' Loan A/c Dr.	1,00,000	
	To Equity Share Capital (Rs. 5) A/c	40,000	
	To Reconstruction A/c	60,000	
	(Being Directors' loan claim settled by issuing 8,000 equity shares of Rs. 5 each as per scheme of reconstruction.)		
(vii)	Reconstruction A/c Dr.	15,000	
	To Bank A/c		15,000
	(Being payment made towards penalty of 5% for cancellation of capital commitments of Rs. 3 Lakhs.)		
(viii)	Bank A/c Dr.	1,00,000	
	To Reconstruction A/c		1,00,000
	(Being refund of fees by directors credited to reconstruction A/c.)		
(ix)	Reconstruction A/c Dr.	15,000	

	To Bank A/c		15,000
	(Being payment of reconstruction expenses.)		
(x)	Provision for Tax A/c Dr.	1,00,000	
	To Bank A/c		75,000
	To Reconstruction A/c		25,000
	(Being payment of tax liability in full settlement against provision for tax)		
(xi)	Land and Building A/c Dr.	2,00,000	
	To Reconstruction A/c		2,00,000
	(Being appreciation in value of Land & Building recorded)		
(xii)	Reconstruction A/c Dr.	49,85,000	
	To Goodwill A/c		11,00,000
	To Patent A/c		5,00,000
	To Profit and Loss A/c		14,60,000
	To Plant and Machinery A/c		6,50,000
	To Furniture & Fixture A/c		1,00,000
	To Trade Investment A/c		50,000
	To Inventory A/c		2,50,000
	To Trade Receivables A/c		1,00,000
	To Capital Reserve (bal. fig.)		7,75,000
	(Being writing off of losses and reduction in the value of assets as per scheme of reconstruction, balance of reconstruction A/c transfer to Capital Reserve.)		

Bank Account

	Rs.		Rs.
To Reconstruction (Y)	1,00,000	By Balance b/d (overdraft)	1,00,000
To Reconstruction(Z)	60,000	By Reconstruction A/c(capital commitment penalty paid)	15,000
To Reconstruction A/c (refund of earlier fees by directors)	1,00,000		
		By Reconstruction A/c (reconstruction expenses paid)	15,000
		By Provision for tax A/c (tax paid)	75,000
		By Balance c/d	55,000
	2,60,000		2,60,000

Reconstruction Account

	Rs.		Rs.
To Bank (penalty)	15,000	By Equity Share Capital A/c	
To Bank (reconstruction expenses)	15,000		25,00,000
To Goodwill	11,00,000	By 9% Pref. Share Capital A/c	10,00,000
To Patent	5,00,000	By Mr. Y (Settlement)	5,78,000
To P & L A/c	14,60,000	By Mr. Z (Settlement)	3,82,000
To P & M	6,50,000	By Trade Payables A/c	1,70,000
To Furniture and Fixtures	1,00,000	By Director's loan	60,000
To Trade investment	50,000	By Bank	1,00,000
To Inventory	2,50,000	By Provision for tax	25,000
To Trade Receivables	1,00,000	By Land and Building	2,00,000
To Capital Reserve (bal. fig.)	7,75,000		
	50,15,000		50,15,000

Question 10 (RTP Nov'22)

The balance sheets of Truth Limited and Myth Limited as at 31.03.2021 is given below. Myth Limited is to be amalgamated with Truth Limited from 1.04.2021. The amalgamation is to be carried out in the nature of purchase

Particulars	Note No.	Truth Ltd. (₹)	Myth Ltd. (₹)
(1) Equity and Liabilities			
1. Shareholders' Funds			
(a) Share Capital	1	10,00,000	4,00,000
(b) Reserves and Surplus	2	11,35,000	4,13,000
2. Non -Current Liabilities	3	-	1,50,000
3. Current Liabilities	4	1,40,000	1,82,000
Total		22,75,000	11,45,000
(2) Assets			
1. Non -Current Assets			
(a) Property, Plant & Equipment		15,75,000	6,80,000
(b) Investments		1,87,500	1,00,000
2. Current Assets	5	5,12,500	3,65,000
Total		22,75,000	11,45,000

Particulars	Truth Limited (₹)	Myth Limited (₹)
1 Share Capital	10,00,000	4,00,000
Equity shares of ₹ 10 each		
2 Reserves & Surplus		
General Reserve	5,05,000	2,30,000
Profit & Loss A/c	4,45,000	1,58,000
Export Profit Reserve	1,85,000	25,000
3 Non- Current Liabilities	11,35,000	4,13,000
14% Debentures	---	1,50,000
4 Current Liabilities		
Trade Payables	90,000	1,42,000
Other Current Liabilities	50,000	40,000
5 Current Assets	1,40,000	1,82,000
Inventory	2,15,000	85,000
Trade Receivables	2,02,500	1,75,000
Cash and Cash equivalents	95,000	1,05,000
	5,12,500	3,65,000

Truth Limited would issue 12% debentures to discharge the claim of the debenture holders of Myth Limited so as to maintain their present annual interest income. Non-trade investment, which constitute 80% of their respective total investments yielded income of 20% to Truth Limited and 15% to Myth Limited. This income is to be deducted from profits while computing average profit for the purpose of calculating goodwill. Profit before tax of both the companies during the last 3 years were as follows:

	Truth Limited (₹)	Myth Limited (₹)
2018-2019	8,20,000	2,55,000
2019-2020	7,45,000	2,15,000
2020-2021	6,04,000	2,14,000

Goodwill is to be calculated on the basis of simple average of three years profit by using Capitalization method taking 18% as normal rate of return. Ignore taxation. Purchase consideration is to be discharged by

Truth Limited on the basis of intrinsic value per share. Prepare Balance Sheet of Truth Limited after the amalgamation.

Solution:

Balance Sheet of Truth Ltd. (after amalgamated with Myth Ltd.) as at 1.4.2021

Particulars	Note No.	(₹)
I. Equity and liabilities		
(1) Shareholder's funds		
(a) Share capital	1	13,13,750
(b) Reserves and surplus	2	20,76,250
(2) Non-current liabilities		
12% Debentures	3	1,75,000
(3) Current liabilities		
(a) Trade payables	4	2,32,000
(b) Other current liabilities	5	90,000
Total		38,87,000
II. Assets		
(1) Non-current assets		
(a) Property, plant and equipment	6	22,55,000
(b) Intangible assets (Goodwill) [WN 1]		4,67,000
(c) Non-current investments	7	2,87,500
(2) Current assets		
(a) Inventories (2,15,000 + 85,000)		3,00,000
(b) Trade receivables (2,02,500 + 1,75,000)		3,77,500
(c) Cash & cash equivalents (95,000 + 1,05,000)		2,00,000
Total		38,87,000

Notes to Accounts

		(₹)	(₹)
1.	Share Capital		
	1,31,375 Equity Shares of ₹ 10 each [1,00,000 + 31,375]		13,13,750
	(of the above shares, 31,375 shares were issued to the vendors otherwise than for cash)		
2.	. Reserves and surplus		
	General Reserve	5,05,000	
	Profit and Loss A/c	4,45,000	
	Securities Premium [31,375 x 30]	9,41,250	
	Export profit reserve 1,85,000		
	Add: Balance of Myth Ltd. 25,000	2,10,000	
	Amalgamation Adjustment Reserve	(25,000)	20,76,250
3.	Long Term Borrowings		
	12% Debentures issued to Myth Ltd.		1,75,000
4.	Trade payables		
	Trade payables	90,000	
	Add: Taken over	1,42,000	2,32,000
5.	Other Current Liabilities		
	Truth Ltd.	50,000	
	Myth Ltd.	40,000	90,000
6.	. Property, Plant & Equipment		
	Truth Ltd.	15,75,000	
	Myth Ltd.	6,80,000	22,55,000

7.	Investment		2,87,500
	Truth Ltd.	1,87,500.	
	Myth Ltd	1,00,000	

Working Notes:**(1) Valuation of Goodwill****(i) Capital Employed**

	Truth Ltd.		Myth Ltd.	
	₹`	₹	₹`	₹
Assets as per Balance Sheet		22,75,000		11,45,000
Less: Non-trade Investment		(1,50,000)		(80,000)
		21,25,000		10,65,000
Less: Liabilities:				
14% Debentures	-		1,50,000	
Trade payables	90,000		1,42,000	
Other current liabilities	50,000	(1,40,000)	40,000	(3,32,000)
Capital Employed		19,85,000		7,33,000

(ii) Average Profit before Tax

		Truth Ltd.		Myth Ltd.
2018-2019		8,20,000		2,55,000
2019-2020		7,45,000		2,15,000
2020- 2021		6,04,000		2,14,000
Total profit of 3 years (a)		21,69,000		6,84,000
Simple Average [(a)/3]		7,23,000		2,28,000
Less: Non-trading income*		(30,000)		(12,000)
(iii) Goodwill		6,93,000		2,16,000
Capitalized value of average profit	[(6,93,000 / 18) x 100]	38,50,000	[(2,16,000 / 18) x 100]	12,00,000
Less: Capital Employed [From (i) above]		(19,85,000)		(7,33,000)
Goodwill		18,65,000		4,67,000

* For Truth Ltd. = 1,87,500 x 80% x 20% = 30,000; and

Myth Ltd. = 1,00,000 x 80% x 15% = 12,000

(2) Intrinsic Value per Share

		Truth Ltd.		Myth Ltd.
		₹		₹
Goodwill [W.N. 1]	18,65,000		4,67,000	
Other Assets	22,75,000	41,40,000	11,45,000	16,12,000
Less: Liabilities				
12% Debentures	-		1,75,000**	
Trade payables	90,000		1,42,000	
Provision for Tax	50,000	(1,40,000)	40,000	(3,57,000)
Net Assets		40,00,000		12,55,000
Intrinsic value per share [Net Assets / No. of Shares]		40,00,000 / 1,00,000		12,55,000 / 40,000
		= ₹ 40		= ₹ 31.375

** $1,50,000 \times \frac{14\%}{12\%} = 1,75,000$

(3) Purchase Consideration & manner of its discharge

Intrinsic Value of Myth Ltd. [a]	₹ 31.375 per share
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No. of shares [b]	40,000 shares
Purchase Consideration c= [a x b]	₹ 12,55,000
Intrinsic Value of Truth Ltd. [d]	₹ 40 per share
No. of shares to be issued [c / d]	31,375 shares

Question 11 (Past Exam July'21)

The summarized Balance Sheets of Black Limited and White Limited as on 31st 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 assets			
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
	Reserves and Surplus		
2.	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 income tax.

You are required to:

- (i) Compute No. of shares to be issued by Black Limited to White Limited against purchase consideration.

(ii) Calculate the balance of Net Current Assets of Black Limited and White Limited as on 1st July, 2020.

(iii) Give balance of Profit or Loss of Black Limited as on 1st July, 2020

(iv) Give balance of Property Plant and Equipment as on 1st July, 2020 after takeover.

(10 Marks)

Solution:

(i) No. of shares issued by Black Ltd. to White Ltd. against purchase consideration

White Ltd.	₹	₹
Goodwill		2,40,000
Property, plant and equipment	24,00,000	
Less: Depreciation [24,00,000 10 % 3/12]	(60,000)	
	23,40,000	
Add: Appreciation	1,20,000	24,60,000
Inventory		7,20,000
Trade receivables		10,80,000
Cash and Bank balances	4,20,000	
Add: Profit after depreciation 2,40,000		
Add: Depreciation (non-cash) 60,000	3,00,000	
Less: Dividend [36,00,000 10%]	(3,60,000)	3,60,000
		48,60,000
Less: Trade payables		(3,60,000)
Purchase Consideration		45,00,000
Number of shares to be issued by Black Ltd. @ ₹ 100 each		45,000 shares

(ii) Calculation of Net Current Assets as on 01.07.2020

	₹	Black Ltd.	.	White Ltd
		₹		₹
Current assets:				
Inventory		9,60,000		7,20,000
Trade receivables		16,80,000		10,80,000
Cash and Bank	14,40,000		4,20,000	
Less: Dividend	(6,00,000)		(3,60,000)	
Add: Profit after depreciation	4,80,000		2,40,000	
Add: Depreciation being non cash	90,000	14,10,000	60,000	3,60,000
		40,50,000		21,60,000
Less: Trade payables		(6,00,000)		(3,60,000)
		34,50,000		18,00,000

(iii) Profit and Loss Account balance of Black Ltd. as on 1.07.2020

	₹
P & L A/c balance as on 31.03.2020	7,20,000
Less: Dividend paid	(6,00,000)
	1,20,000
Add: Estimated profit for 3 months after charging depreciation	4,80,000
	6,00,000

(iv) Property, plant and equipment as on 01.07.2020

Property, plant and equipment of Black Ltd. as on 31.03.2020		36,00,000
Less: Depreciation for 3 months [36,00,000 x 10% x 3/12]		(90,000)
Property, plant and equipment of White Ltd. Taken over as on 31.03.2020	24,00,000	35,10,000

Less: Proportionate depreciation for 3 months on fixed assets	(60,000)	
	23,40,000	
Add: Appreciation above the estimated book value	1,20,000	24,60,000
Total Property, plant and equipment as on 1.7.2020		59,70,000

Question 12 (Past Exam, Jan'21)

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 summarized 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
(1) Non-current Liabilities Secured Loan		
6% Debentures	-	3,30,000
(1) 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:

- The Debentures of Glory Ltd. are to be discharged, by the issue of 8% Debentures of Glorious Ltd. at a premium of 10%.
- Plant and Machinery of Galaxy Ltd. are to be valued at ₹ 2,52,000.
- Goodwill is to be valued at : Galaxy Ltd. ₹ 4,48,000 Glory Ltd. ₹ 1,68,000
- 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 :

- 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.

(1)	Computation of Purchase consideration			
	(a) Preference shareholders: $\left(\frac{4,50,00,000}{100}\right)$			
	i.e. 4,50,000 shares × ₹ 160 each $\left(\frac{3,00,00,000}{100}\right)$	720		
	i.e. 3,00,000 shares × ₹ 160 each			480
	(b) Equity shareholders: $\left(\frac{12,00,00,000 \times 5}{100}\right)$	2,100		
	i.e. 60,00,000 shares × ₹ 35 each $\left(\frac{11,25,00,000 \times 4}{100}\right)$			
	i.e. 45,00,000 shares × ₹ 35 each			
	Amount of Purchase Consideration Net	2,820		1,575
	Assets Taken Over			2,055
(2)	Assets taken over:			
	Property Plant & Equity	1,350		975
	Non-Current Investments	225		75
	Inventory	525		375
	Trade receivables	450		525
	Cash and bank	450		300
	Less: Liabilities taken over:	3,000		2,250
	10% Debentures	56.25		28.125
	Trade payables	630	(686.25)	285 (313.125)
	Net assets taken over	2,313.75		1936.875
	Purchase consideration		2,820	2055.00
	Goodwill		506.25	118.125
	Total goodwill			624.375

(3) Issue of Debentures

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

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.

Question 14 (Past Exam May'22)

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
Securities 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	7,00,000

Inventories	10,40,000	5,20,000
Trade Receivables	8,20,000	3,00,000
Cash and Bank	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)**

Solution:

Journal Entries in the books of Z Ltd.

		₹	₹
Business Purchase A/c	Dr.	54,00,000	
To Liquidator of A Ltd. A/c			54,00,000
Land & Building A/c	Dr.	28,00,000	
Plant & 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% Debentures 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 & 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:

1. 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.
2. Alternatively, following set of entries may be given in place of the last entry given in the above solution:

Goodwill A/c Dr.	50,000	
To Cash & 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	Note No.	(₹)
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 assets		12,00,000
(Goodwill 12,20,000-20,000)		
(2) Current assets		
(a) Inventories	8	17,40,000
(b) Trade receivables	9	13,40,000
(c) Cash and cash equivalents	10	2,80,000
Total		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		60,00,000
	Issued: 4,14,000 Equity shares of ₹ 10 each (all these shares were Issued for consideration other than cash)		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. 8,20,000	14,20,000	
	Less: Mutual	(2,20,000)	12,00,000
6.	Trade payables		
	A Ltd.	1,00,000	
	B Ltd.	3,40,000	4,40,000
7.	Property, plant & 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.	7,60,000	27,60,000
8.	Inventories		76,60,000
	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 & 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
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Question 15 (MTP Apr'21, Past Exam Nov'18)

On 1st April, 2021, Bimal Ltd. take over the business of Vimal Ltd. and discharged purchase consideration as follows:

- Issued 50,000 fully paid Equity shares of Rs. 10 each at a premium of Rs. 5 per share to the equity shareholders of Vimal Ltd.
- Cash payment of Rs. 50,000 was made to equity shareholders of Vimal Ltd.
- Issued 2,000 fully paid 12% Preference shares of Rs. 100 each at par to discharge the preference shareholders of Vimal Ltd.
- Debentures of Vimal Ltd. (Rs.1,20,000) will be converted into equal number and amount of 10% debentures of Bimal Ltd.

Calculate the amount of Purchase consideration as per AS 14 and pass Journal Entry relating to discharge of purchase consideration in the books of Bimal Ltd. **(5 Marks)**

Solution:

Particulars	Rs.
Equity Shares (50,000 x 15)	7,50,000
Cash payment	50,000
12% Preference Share Capital	2,00,000
Purchase Consideration	10,00,000

As per AS 14, consideration for the amalgamation means the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company. Thus, payment to debenture holders are not covered by the term 'consideration'.

Journal entry relating to discharge of consideration in the books of Bimal Ltd.

Liquidation of Vimal Ltd. A/c	10,00,000	
To Equity share capital A/c		5,00,000
To 12% Preference share capital A/c		2,00,000
To Securities premium A/c		2,50,000
To Bank/Cash A/c		50,000
(Discharge of purchase consideration)		

Question 16 (Past Exam Dec'21)

Moon Limited is absorbed by Sun Limited; the consideration, being the takeover of liabilities, the payment of cost of absorption not exceeding ₹ 10,000 (actual cost ₹ 9000); the payment of 9% Debentures of ₹ 50,000 at a premium of 20% through 8% debentures issued at a premium of 25% of face value; the payment of ₹ 18 per share in cash; allotment of two 11% preference shares of ₹ 10/- each and one equity share of ₹ 10/- each at a premium of 30% fully paid for every three shares in Moon Limited respectively. The number of shares of the vendor company is 1,50,000 of ₹ 10/- each fully paid.

Calculate purchase consideration as per AS-14.

(5 Marks)

Solution:

As per AS 14 "Accounting for Amalgamations", the term consideration has been defined as the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company.

Purchase consideration will be:

	₹	Form
Equity shareholders: $1,50,000 \times ₹ 18$	27,00,000	Cash
$1,50,000 \times \frac{2}{3} \times ₹ 10$	10,00,000	11% Pref. shares
$1,50,000 \times \frac{1}{3} \times ₹ 13$	6,50,000	Equity shares
	43,50,000	

Note:

1. According to AS 14, 'consideration' excludes the any amount payable to debenture- holders. The liability in respect of debentures of vendor company will be taken by transferee company, which will then be settled by issuing new debentures.
2. Liquidation expenses will also not form part of purchase consideration.

Question 17 (Past Exam Nov'22)

Star Limited agreed to take over Moon Limited on 1st April, 2022. The terms and conditions of takeover were as follows:

- (i) Star Limited issued 70,000 Equity shares of ₹ 100 each at a premium of ₹ 10 per share to the equity shareholders of Moon Limited.
- (ii) Cash payment of ₹ 1,25,000 was made to the equity shareholders of Moon Limited.
- (iii) 25,000 fully paid Preference shares of ₹ 70 each issued at par to discharge the preference shareholders of Moon Limited.

You are required:

- (i) to give the meaning of "consideration for the amalgamation" as per AS-14, and
- (ii) Calculate the amount of purchase consideration.

(5 Marks)

Solution:

Consideration for the amalgamation means the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company.

Computation of Purchase consideration	(₹)	Form
For Preference Shareholders of Moon Ltd. ($25,000 \times ₹ 70$)	17,50,000	25,000 Preference
For equity shareholders of Moon Ltd. ($70,000 \times ₹ 110$)	77,00,000	70,000 Equity shares of Star Ltd.
	1,25,000	Cash
Total Purchase consideration	95,75,000	

Question 18 (MTP Nov'21, Mar'23) (RTP Nov'19)

The following information from Balance Sheet of X Ltd. as at 31st March, 2023:

	₹
4,000 Equity shares of ₹ 100 each	4,00,000

10% Debentures	2,00,000
Loans	80,000
Trade payables	1,60,000
General Reserve	40,000
Building	1,70,000
Machinery	3,20,000
Inventory	1,10,000
Trade receivables	1,30,000
Bank	68,000
Patent	65,000
Share issue Expenses	17,000

Y Ltd. agreed to absorb X Ltd. on the following terms and conditions:

- 1) Y 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.
- 2) Y Ltd. is to take over trade payables at book value.
- 3) The purchase consideration is to be paid in cash to the extent of ₹ 3,00,000 and the balance in fully paid equity shares of ₹ 100 each at ₹ 125 per share.

The average profit is ₹ 62,200. The liquidation expenses amounted to ₹ 8,000. Y Ltd. sold prior to 31st March, 2023 goods costing ₹ 60,000 to X Ltd. for ₹ 80,000. ₹ 50,000 worth of goods are still in Inventory of X Ltd. on 31st March, 2023. Trade payables of X Ltd. include ₹ 20,000 still due to Y Ltd.

Show the necessary Ledger Accounts to close the books of X Ltd. and prepare the Balance Sheet of Y Ltd. as at 1st April, 2023 after the takeover.

Solution:

Books of X Limited Realization Account

	₹		₹
To Building	1,70,000	By Trade payables	1,60,000
To Machinery	3,20,000	By Y Ltd.	6,05,000
To Inventory	1,10,000	By Equity Shareholders (Loss)	38,000
To Trade receivables	1,30,000		
To Patent	65,000		
To Bank (Exp.)	8,000		
	8,03,000		8,03,000

Bank Account

To Balance b/d	68,000	By Realization (Exp.)	8,000
To Y Ltd.	3,00,000	By 10% Debentures	2,00,000
		By Loan	80,000
		By Equity shareholders	80,000
	3,68,000		3,68,000

10% Debentures Account

To Bank	2,00,000	By Balance b/d	2,00,000
	2,00,000		2,00,000

Loan Account

To Bank	80,000	By Balance b/d	80,000
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	80,000		80,000
Share Issue Expenses Account			
To Balance b/d	17,000	By Equity shareholders	17,000
	17,000		17,000
General Reserve Account			
To Equity shareholders	40,000	By Balance b/d	40,000
	40,000		40,000
Y Ltd. Account			
To Realization A/c	6,05,000	By Bank	3,05,000
		By Equity share in Y Ltd. (2,440 shares at ₹ 125 each)	3,00,000
	6,05,000		6,05,000
Equity Shares in Y Ltd. Account			
To Y Ltd.	3,05,000	By Equity shareholders	3,05,000
	3,05,000		3,05,000
Equity Share Holders Account			
To Realization	38,000	By Equity share capital	4,00,000
To Share issue Expenses	17,000	By General reserve	40,000
To Equity shares in B Ltd.	3,05,000		
To Bank	80,000		
			4,40,000

Y Ltd**Balance Sheet as on 1st April, 2023 (An extract) ***

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
	a Share capital	1	2,44,000
	b Reserves and Surplus	2	53,500
2	Current liabilities		
	a Trade Payables	3	1,40,000
	b Bank overdraft		3,00,000
	Total		7,37,500
	Assets		
1	Non-current assets		
	a Property, Plant and Equipment	4	4,41,000
	Intangible assets	5	1,08,000
2	Current assets		
	a Inventories	6	91,500
	b Trade receivables	7	97,000
			7,37,500

Notes to Accounts

			₹
1	Share Capital		

	Equity share capital		
	2,440 Equity shares of ₹ 100 each (Shares have been issued for consideration other than cash)		2,44,000
	Total		2,44,000
2	Reserves and Surplus (an extract)		
	Securities Premium		61,000
	Profit and loss account	
	Less: Unrealised profit	(7,500)	(7,500)
	Total		53,500
3	Trade payables		
	Opening balance	1,60,000	
	Less: Inter-company transaction cancelled upon amalgamation	(20,000)	1,40,000
4	Property, Plant and Equipments		
	Buildings		1,53,000
	Machinery		2,88,000
	Total		4,41,000
5	Intangible assets		
	Goodwill		1,08,000
6	Inventories		
	Opening balance	99,000	
	Less: Cancellation of profit upon amalgamation	(7,500)	91,500
7	Trade receivables		
	Opening balance	1,17,000	
	Less: Intercompany transaction cancelled upon amalgamation	(20,000)	97,000

Working Notes:

1.	Valuation of Goodwill	₹
	Average profit	62,200
	Less: 8% of ₹ 4,40,000	(35,200)
	Super profit 27,000	
	Value of Goodwill = 27,000 x 4	1,08,000
2.	Net Assets for purchase consideration	
	Goodwill as valued in W.N.1	1,08,000
	Building	1,53,000
	Machinery	2,88,000
	Inventory	99,000
	Trade receivables (1,30,000-13,000)	1,17,000
	Total Assets	7,65,000
	Less: Trade payables	(1,60,000)
	Net Assets	6,05,000
Out of this ₹ 3,00,000 is to be paid in cash and remaining i.e., (6,05,000 – 3,00,000) ₹ 3,05,000 in shares of ₹ 125. Thus, the number of shares to be allotted $3,05,000/125 = 2,440$ shares.		
3.	Unrealised Profit on Inventory	₹
	The Inventory of X Ltd. includes goods worth ₹ 50,000 which was sold by Y Ltd. on profit. Unrealized profit on this Inventory will be $[20,000/80,000 \times 50,000]$	12,500
	As Y Ltd purchased assets of X Ltd. at a price 10% less than the book value, 10% need to be adjusted from the Inventory i.e., 10% of ₹ 50,000.	(5,000)
	Amount of unrealized profit	7,500

*In the absence of the particulars of assets and liabilities (other than those of X Ltd.), the complete Balance Sheet of Y Ltd. after takeover cannot be prepared.

MCQs

1. In case of amalgamation, the entry for elimination of unrealized profit or loss on stock is made
 - a. By the vendor company
 - b. By the purchasing company
 - c. By the third party
 - d. By the court
2. If expenses of liquidation of the vendor company are paid by the purchasing company then, in purchasing company's book, the account debited is
 - a. Goodwill account.
 - b. Liquidation expense account.
 - c. Vendor company account.
 - d. General reserve.
3. Amalgamation adjustment reserve is opened in the books of the amalgamated company to incorporate
 - a. Assets of the amalgamating company.
 - b. Non- Statutory reserves of the amalgamating company.
 - c. Statutory reserves of the amalgamating company.
 - d. General reserve of the amalgamating company.
4. Amalgamation Adjustment Reserve is presented in the financial statements of the transferee company as
 - a. Other current asset.
 - b. Separate line item with a negative sign under the head 'Reserves and Surplus'.
 - c. Other non-current assets.
 - d. Investment of the company
5. A company into which the vendor company is merged is called
 - a. Transferee company.
 - b. Transferor company.
 - c. Selling company.
 - d. Acquiree company.
6. If the purchase consideration is more than net assets (at agreed values) of the transferor company, difference shall be recorded as _____ in the books of the transferee company.
 - a. Goodwill.
 - b. Capital Reserve.
 - c. Profit.
 - d. Loss.

ANSWERS/HINTS

1. (b) 2. (a) 3. (c) 4. (b) 5. (a) 6. (a)