8

AMALGAMATION OF LIMITED COMPANIES-I

Unit Structure

8.0 Objectives
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8.0 OBJECTIVES:

After studying this unit the students will be able to:

- Understand the Concept of Amalgamation
- Calculate the amount of Purchase Consideration
- Know the Various methods of ascertaining Purchase Consideration.
- Make the Accounting Procedure for Amalgamation.

8.1 INTRODUCTION :

Amalgamation means coming together of two or more limited companies for betterment of the business. It includes dissolution of one or more limited companies and formation of one new company. There can be three situations as below :

a) Amalgamation- Here one or more than one existing limited companies come together and form a new limited company to take over their business.

b) Absorption- Here one existing limited company takes over the business of another existing limited company
c) External reconstruction - Here one limited company is newly formed to take over the business of another existing limited company which is a loss making company.

The I.C.A.I has issued Accounting Standard 14 governing the procedure and accounting of Amalgamation of companies.

8.2 ACCOUNTING STANDARD 14 ISSUED BY INSTITUTE OF CHARTERED ACCOUNTS OF INDIA :

i. **Scope:** Accounting Standard 14 [Accounting for Amalgamation], prescribed by the Institute of Chartered Accounts of India, deals with accounting for amalgamations. The meaning and types of amalgamation, according to AS 14 are explained below.

ii. **Amalgamation:** Amalgamation means an amalgamation pursuant to the provision of the Companies Act, 1956 or any other statute which may be applicable to the Companies, Amalgamation involves acquisition of one company by another. After Amalgamation, the acquired company is dissolved and ceases to exist.

iii. **Transferor Company:** Transferor Company means the Company which a transferor another Company (vendor company).

iv. **Transferee Company:** Transferee Company means the Company into whicha transferor Company is amalgamated (purchasing company).

v. **Types of Amalgamations :** (discussed in detail below)

8.3 TYPES OF AMALGAMATION:

The Companies Act 1956 has not specifically defined the term ‘Amalgamation’. However from several legal decisions, the definition of Amalgamation may be inferred. The Institute of Chartered Accountants has introduced Accounting Standard no.14 (AS-14) on Accounting for Amalgamations. The standard recognizes two types of Amalgamations.

(a) Amalgamation in the nature of merger.
(b) Amalgamation in the nature of purchase.

(a) Amalgamation in the nature of merger means which satisfies all the following conditions:

i. All the assets and liabilities of the transferor company are taken over by the transferee company.

ii. Shareholders holding not less than 90% of the face value of equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries of their nominees) become equity shareholders of the transferee company by virtue of the amalgamation.

iii. The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares.

iv. The business of the transferor company is intended to be carried on after the amalgamation, by the transferee company.

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

(b) Amalgamation in the nature of purchase If Amalgamation does not satisfy any one of the above five conditions then it will be regarded as Amalgamation in the nature of purchase

8.4 DISTINCTION BETWEEN MERGER AND PURCHASE :

Merger	Purchase
1. Shareholders of the transferor company holding 90% of the face value of equity shares become shareholders of transferee company.	1. Shareholders of the transferor company may not become shareholders of transferee company.
2. There is a genuine polling of assets and liabilities of the amalgamating companies.	2. There is no genuine polling of assets and liabilities of the amalgamation companies.
3. There is poling of interest of shareholders also.	3. There may not be pooling of interest of shareholders
4. Values of assets and liabilities, reserves represent the same values of amalgamating	4. The values of assets and liabilities may be different than the amalgamating companies.

companies.	

In the syllabus of T.Y.B.Com of Mumbai University Amalgamation in the nature of merger is excluded, it is not discussed henceforth in this book.

8.5 PURCHASE CONSIDERATION :

8.5.1 MEANING

Purchase Consideration is the sale price of the business agreed mutually between the two parties, the transferor company (selling company) and the transferee company (purchasing company). The AS 14 defines the Purchase Consideration as " the aggregate of the shares and other securities issue and payment made in the form of cash or otherwise by the transferee company to the "SHAREHOLDERS OF THE TRANSFEROR COMPANY". In other words any payment made to or in satisfaction of other liabilities should not be included in the amount of purchase consideration. If any payment is made to the creditors, debenture holders or any other liabilities, then it should be assumed that such liability is taken over by the transferee company and then it is settled by the transferee company. It should also be noted that liquidation expenses of the transferor company should not be included in the purchase consideration.

8.5.2 METHODS OF PURCHASE CONSIDERATION:

a. **Lump-sum method**: The problem may give the amount of purchase consideration directly and hence there will not be any need to calculate the purchase consideration.
e.g. Alka techno Ltd. agrees to take over business of WLC Ltd for a sum of Rs.10 lakhs.

b. **Net Payment Method**: If the purchase consideration is not given Lum-sum then this method should be adopted. Here the purchase consideration is arrived at by adding up cash paid and the agreed values of shares, securities issued by the transferee company to share holders of transferor company in discharge of the purchase consideration.
e.g. Reena Engineers Ltd. takes over business of Ramesh Kashyap Ltd. and agrees to pay the purchase consideration as follows:

issue of 10,000 equity shares of Rs.10 each at Rs. 12 each and cash Rs. 50,000.

Hence the purchase consideration would be	Rs
10,000 equity shares of Rs.10 each at Rs. 12 each	1,20,000
Cash	50,000
Purchase consideration	**1,70,000**

c. **Net Assets Method** : If the purchase consideration can not be calculated by above two methods then this methods should be adopted. It is the aggregate of the assets taken over at agreed values less liabilities taken over at agreed values.

Assets taken over at agreed values,(excluding ficitious assets)	Rs.	Rs.
Goodwill	xx	
Land & Buildings	xx	
Plant & Machinery	xx	
Furniture & Fittings	xx	
Motor vehicles	xx	
Investments	xx	
Stock	xx	
Debtors	xx	
Cash & bank balances	xx	xxx
Less : Liabilities taken over at agreed value		
Creditors	xx	
Bills payables	xx	
Bank over draft	xx	
Debentures	xx	(xxx)
Purchase consideration		xxx

d. **Exchange of shares Method / Intrinsic value Method** : Under this method the intrinsic value of the shares of both the companies is calculated and then the transferor company issue the shares to the transferee company on the basis of these values.

8.6 ACCOUNTING PROCEDURE IN THE BOOKS OF TRANSFEROR COMPANY:

Step 1. Open following Ledger Accounts

1. Realisation A/c
2. Equity Shareholders A/c
3. Preference Shareholders A/c
4. Cash/ Bank A/c
5. Liabilities not taken over A/c
6. Transferee company's A/c
7. Equity Shares in transferee company A/c
8. Preference Shares in transferee company A/c

Step2. Pass following journal entries

Sr. no	Particulars	Dr. Rs	Cr. Rs
1.	Transfer all assets to realization A/c Whether taken over or not , at their book values.		

	Realisation A/c Dr.	xx	
	To Sundry assets A/c		Xx
	Note: 1.Fictitious assets should not be transferred to realization A/c		
	2. Cash & bank balance should be transferred to realization A/c only if it taken over by the transferee company		
	3. Debtors and R.D.D should be treated as separate A/c. Debtors should be transferred at their gross value on debit side and R.D.D should be transferred on the credit side of realisation A/c		
	4. This entry closes all Assets A/c		
2.	Transfer all liabilities which are taken over by the transferee company to realization A/c, credit side		
	Sundry liabilities A/c Dr.	xx	
	To Realisation A/c		xx
3.	Open separate A/c for Each liability not taken over and bring down the balance on the credit side.		
4.	Transfer Equity Share Capital and Reserves to Equity share holders A/c		
	Equity share Capital A/c Dr.	x	
	Securities Premium A/c Dr.	x	
	Capital Reserve A/c Dr.	x	
	Capital Redemption Reserve A/c Dr.	x	
	General Reserve A/c Dr.	x	
	Profit & Loss A/c Dr.	x	
	To Equity Shareholders A/c		x
5.	Transfer Preference Share Capital to Preference Shareholders A/c		
	Preference Share Capital A/c Dr.	x	
	To Preference Shareholders A/c		x
6.	Record the sale of business		
	Transferee Company A/c Dr.	x	
	To Realisation A/c		x
	(with the amount of purchase Consideration)		
7.	Receive the amount of purchase consideration		
	Equity shares in transferee company A/c Dr	x	

	Preference shares in transferee company A/c Dr.	x	
	Cash/ Bank A/c Dr.	x	
	To Transferee Company A/c		x

8.	Dispose off assets not taken over by the transferee company		
	Cash / Bank A/c Dr.	Xx	
	To Realisation A/c		Xx
	(No separate entry is required for profit/ loss on this transaction it is automatically adjusted in realization A/c)		
9.	Discharge the liabilities not taken over by the Transferee company.		
	Liability A/c Dr.	Xx	
	Realisation A/c (if loss) Dr.	Xx	
	To Cash / Bank A/c		xx
	To Realisation A/c (if Profit)		xx
10.	Payment of realization Expenses		
	Realisation A/c Dr.	Xx	
	To Cash/ Bank A/c.		Xx
11.	Settle the claim of preference shareholders		
	Preference shareholders A/c. Dr.	Xx	
	Realisation A/c. (if paid at premium) Dr.	Xx	
	To preference Shares in transferee Co. A/c		Xx
	To Cash/ Bank A/c.		Xx
	To Realisation A/c. (if paid at discount)		Xx
12.	Balance the Realisation A/c. and transfer the profit / loss on Realisation to Equity Shareholders A/c.		
	a. If Profit		
	Realisation A/c Dr.	Xx	
	To Equity shareholders A/c.		Xx
	OR		
	b. If loss		
	Equity shareholders A/c. Dr.	Xx	
	To Realisation A/c.		Xx
13.	Close the Equity shareholders A/c.		
	Equity shareholders A/c. Dr.	Xx	
	To Equity shares in transferee Co. A/c		Xx
	To Cash/ bank A/c		Xx

8.7 ACCOUNTING PROCEDURE IN THE BOOKS OF TRANSFEREE COMPANY :

Following Journal Entries are passed in the books of transferee company.

8.7.1 PURCHASE METHOD

Sr.no	Particulars	Dr. Rs	Cr.Rs.
1.	Recording Purchase of Business		
	Business Purchase A/c Dr.	xx	
	To Liquidator of transferor company		X
	(The entry should be passed at purchase consideration amount.)		
2.	Recording of assets and liabilities taken over		
	Sundry assets A/c Dr.	xx	
	(With Agreed values)		
	Goodwill A/c (if any) Dr.	xx	
	To Sundry Liabilities A/c		X
	To Business Purchase A/c		Xx
	To Capital Reserve A/c		Xx
3.	Recording Discharge of purchase consideration		
	Liquidator of transferor company A/c Dr.	Xx	
	Discount on issue of shares A/c Dr.	Xx	
	To Equity Share Capital A/c.		XX
	To Preference Share Capital A/c.		XX
	To Securities Premium A/c.		Xx
4.	Discharge of Liabilities of Transferor Company		
	Debentures of Transferor Company A/c Dr.	Xx	
	Discount on issue of Debentures A/c Dr.	Xx	
	To new Debentures A/c.		XX
	To Securities Premium A/c.		Xx
5.	Recording of payment of liquidation expenses		
	Capital Reserve/ Goodwill A/c. Dr.	Xx	
	To Cash/Bank A/c.		Xx
6.	Recording of Expenses incurred by the transferee company for its own formation.		
	Preliminary Expenses A/c. Dr.	Xx	
	To Cash / Bank A/c		Xx
7.	Recoding of Statutory Reserve of transferor company		
	Amalgamation adjustment A/c Dr.	Xx	
	To Statutory Reserve A/c.		XX
8.	Adjusting of mutual indebtedness of transferor & transferee company		
	Sundry Creditors A/c. Dr.	Xx	
	To Sundry Debtors A/c.		Xx

8.7.2 MERGER METHOD

Sr. no	Particulars	Dr. Rs	Cr.Rs.
1.	Recording Purchase of Business		
	Business Purchase A/c Dr.	xx	
	To Liquidator of transferor company		X
	(The entry should be passed at purchase consideration amount.)		
2.	Recording of assets and liabilities taken over		
	Sundry assets A/c Dr.	xx	
	General Reserve A/c (if any) Dr.	xx	
	To All Reserves of transferor co.(except General reserve)		
	To Sundry Liabilities A/c		X
	To Business Purchase A/c		Xx
	To General Reserve A/c (Balancing figure)		xx
3.	Recording Discharge of purchase consideration		
	Liquidator of transferor company A/c Dr.	Xx	
	Discount on issue of shares A/c Dr.	Xx	
	To Equity Share Capital A/c.		XX
	To Preference Share Capital A/c.		XX
	To Securities Premium A/c.		Xx
4.	Discharge of Liabilities of Transferor Company		
	Debentures of Transferor Company A/c Dr.	Xx	
	Discount on issue of Debentures A/c Dr.	Xx	
	To new Debentures A/c.		XX
	To Securities Premium A/c.		Xx
5.	Recording of payment of liquidation expenses		
	General Reserve/ A/c. Dr.	Xx	
	To Cash/Bank A/c.		Xx
6.	Recording of Expenses incurred by the transferee company for its own formation.		
	Preliminary Expenses A/c. Dr.	Xx	
	To Cash / Bank A/c		Xx
7.	Adjusting of mutual indebtedness of transferor & transferee company		
	Sundry Creditors A/c. Dr.	Xx	
	To Sundry Debtors A/c.		Xx

8.8 ILLUSTRATIONS :

Illustration: 1

Balance Sheet of Mihir Ltd as on 31st March 2009 is as follows:

Liabilities	Rs	Assets	Rs
Share Capital 10,000 Equity share of Rs 100	10,00,000	Goodwill	1,00,000
2,000 7% Preference Shares of Rs.100 each fully paid	2,00,000	Land & Building	5,00,000
Securities Premium	1,00,000	Furniture	80,000
Revenue Reserves	1,25,000	Sundry Debtors	4,50,000
Sundry Creditors	1,75,000	Stock	3,80,000
		Bank	90,000
	16,00,000		16,00,000

Mihir Ltd received the following offers:

1. Nishith Ltd. agrees to pay Rs.18,00,000 cash.
2. Waridhi Ltd agrees to take over on the following terms:
   a) Equity shareholders to given 25 Equity shares fully paid of Rs.10 each in Waridhi Ltd for every 2 Equity shares of Mihir Ltd.
   b) 7% Preference shareholders of Mihir Ltd to be issued 9% Preferance shares of Rs.100 each fully paid on 1:1 basis.
   c) Sundry Creditors to be paid in cash.
3. Roohi Ltd. Offers to take over business of Mihir Ltd.as follows:
   a) Assets to be revalued as follows:

Goodwill	2,00,000
Land & Building	7,00,000
Furniture	50,000
Sundry Debtors	4,00,000
Stock	3,40,000
Bank	90,000

b) Sundry creditors to be taken over subject to 5% discount.

c) 7% Preferance shareholders to be issued 10% Preferance shares of Rs. 100 each of same amount. Balance of purchase consideration to be discharged by issue of Equity shares of Rs.10 each at par.

4 Aashna Ltd. Agreed to take over Mihir Ltd. on the basis of intrinsic value of Equity share of Mihir Ltd., revaluing Goodwill at Rs.2,00,000.the entire purchase price to be paid by issue of 2,000 9% Preferance shares of Rs. 100 each at par and balance in Equity shares of Rs.10 each to be considered worth Rs. 12.50.each.

Calculate:

a) Purchase consideration
b) Statement of net assets taken over.
in each of the above cases

Solution:

1. Offer of Nishith Ltd.
   a) Purchase consideration: Rs.18,00,000
   b) Statement of net assets taken over

All assets taken over at agreed values:

Goodwill	1,00,000	
Land&Building	5,00,000	
Furniture	80,000	
SundryDebtors	4,50,000	
Stock	3,80,000	
Bank	90,000	1600000
Less : Liabilities taken over		
Sundry Creditors		(1,75,000)
Net assets taken over		14,25,000
Purchase consideration		18,00,000
Capital Reserve		3,75,000

2. Offer of Waridhi Ltd.
   a) Purchase consideration

(10,000/2 x25) equity shares of Rs.10	12,50,000
9% Preference shares of Rs. 100 each	2,00,000
	14,50,000

b) Statement of net assets taken over
All assets taken over at agreed values:

Goodwill	1,00,000	
Land&Building	5,00,000	
Furniture	80,000	
SundryDebtors	4,50,000	
Stock	3,80,000	
Bank	90,000	1600000
Less : Liabilities taken over		
Sundry Creditors		(1,75,000)
Net assets taken over		14,25,000
Purchase consideration		14,50,000
Capital Reserve		25,000

3. Offer of Roohi Ltd.

a) Purchase consideration (Net assets method)
All assets taken over at agreed values:

Goodwill	2,00,000	
Land&Building	7,00,000	
Furniture	50,000	
SundryDebtors	4,00,000	
Stock	3,40,000	
Bank	90,000	17,80,000
Less : Liabilities taken over		
Sundry Creditors		(1,66,250)
Net assets taken over		14,33,750
Purchase consideration		14,33,750

b) Discharge of purchase consideration

10% Preferance shares of Rs. 100 each	2,00,000
1,23,375 Equity shares of Rs. 10 each	12,33,750
Total	**14,33,750**

4. Offer of Aashna Ltd.

a) Purchase consideration Intrinsic value of equity shares method)

All assets taken over at agreed values:

Goodwill	2,00,000	
Land&Building	5,00,000	
Furniture	80,000	
SundryDebtors	4,50,000	
Stock	3,80,000	
Bank	90,000	1700000
Less : Liabilities taken over		
Sundry Creditors	1,75,000	
7% Preferance share capital	2,00,000	(3,75,000)
Net amount payable to equity shareholders		13,25,000

b) Discharge of purchase consideration

2,000 9% Preference shares of Rs. 100 each at par	2,00,000
1,06,000 equity shares of Rs. 10 each at Rs. 12.50	13,25,000

Illustration: 2

The following is the Balance Sheet of Bad Dream Ltd as on 30th September, 2009

Balance Sheet as on 30th September, 2009

Liabilities	Rs	Assets	Rs
Authorised Share Capital		Land & Buildings	200000
10000 Equity Shares of Rs100	1000000	Plant & Equipments	300000
1000 6% Preference Shares of Rs 100 each	100000	Furnitures	65000
Total	1100000	Patents	45000
Issued capital		Sundry Debtors	149450
6,000 Equity Shares	600000	Inventory	68950
1000 6% Preference Shares of Rs 100 each	100000	Cash	3700
10% Debentures	100000	Profit & loss A/C	307900
Sundry Creditors	100000		
Bank Overdraft	240000		
	1140000		**1140000**

A new Company Good Morning Ltd was formed to take over this company. The Authorized capital of the new company was Rs 1500000 divided into 100000 Equity shares of Rs 10 each and 5000 7% Preference shares of Rs 100 each.

The terms and conditions agreed for this were as follows:

a) 10% debenture holders agreed to take new 9%Debentures of Rs.95000 in full satisfaction.

b) 6% Preference shareholders were to receive 3 new 7% Preference shares of Rs.100 each for every 4 old preference shares.

c) The equity shareholders to receive 30,000 Equity shares of Rs.10 each, credited as Rs.8 paid up

d) Good Morning Ltd. to issue 20,000 equity shares of Rs.10 each at par for cash

e) Good morning Ltd to make a call of Rs.2 per share on shares issued to Bad Dream Ltd.

You are required to give necessary Ledger A/c s to close the books of Bad Dream ltd and Journal entries in the books of Good Morning Ltd and Balance Sheet of Good Morning Ltd.

Solution:

Statement of Purchase consideration: (Net Payment method)

a) 750 7% Perferance shares of Rs.100 each	75000
b) 30,000 Equity shares of Rs.10 each Rs. 8 paid up	240000
	315000

Goodwill/Capital reserve (Net Assets taken over)

Land & Buildings	200000	
Plant & Equipments	300000	
Furnitures	65000	
Patents	45000	
Sundry Debtors	149450	
Inventory	68950	
Cash	3700	832100
Less: Liabilities taken over at agreed values		
10% Debentures	100000	
Sundry Creditors	100000	
Bank Overdraft	240000	440000
Net Assets taken over		392100
Purchase consideration		315000
Capital Reserve		77100

In the books of Bad Dream Ltd

Realization A/c

To Land & Buildings	200000	By 10% Debentures	100000
To Plant & Equipments	300000	By Sundry Creditors	100000
To Furnitures	65000	By Bank Overdraft	240000
To Patents	45000	By Good Morning	315000
To Sundry Debtors	149450	By Pref Shareholders A/c	25000
To Inventory	68950	By Equity Share holders A/c	52100
To Cash	3700		
	832100		832100

Equity Shareholders A/c

To Profit and Loss	307900	By Equity Share Capital A/c	600000
To Realisation A/c	52100		
To Equity Shares in Good Morning Ltd	240000		
	600000		600000

Good morning Ltd A/c

To Realisation A/c	315000	By Pref Shares in Good Mor A/c	75000
		By Equity Shares in Good mor	240000
	315000		315000

Preference Share Holders A/c

To Preference Shares in Good Morning Ltd	75000	By Preference Share capital A/c	100000
To Realisation A/c	25000		
	100000		100000

Equity Shares in Good morning Ltd

To Good morning Ltd	240000	By Equity Share Holders A/c	240000
	240000		240000

Preference Shares in Good Morning Ltd

To Good morning Ltd	75000	By Preference Share Holders A	75000
	75000		75000

Journal Entries in the Books of Good morning Ltd.

1	Business Purchase A/c	Dr	315000	
	To Liquidator of Bad dream Ltd			315000
	(Being Business Purchased)			
2	Land and Buildings	Dr	200000	
	Plant and Equipments	Dr	300000	
	Furnitures	Dr	65000	
	Patents	Dr	45000	
	Sundry Debtors	Dr	149450	
	Inventry A/c	Dr	68950	
	Cash	Dr	3700	
	To Business Purchase A/c			315000
	To Sundry Creditors			100000
	To Debentures			100000
	To Bank Overdraft			240000
	To Capital Reserve			77100
	(Being Sundry Assets and Liabilities taken over recorded)			
3	Liquidator of Bad dream Ltd	Dr	315000	
	To Equity Share Capital A/c			240000
	To 7%Preference Share Capital A/c			75000
	(Being Purchase Consideration Discharged.)			
4	Bank A/c	Dr	200000	
	To Equity Share Capital A/c			200000
	(Being 20000 Equity shares of Rs 10 each issued for cash.)			
5	Equity Share Call A/c	Dr	60000	
	To Equity Share Capital A/c			60000
	(Being call made at Rs 2 per share on 30000 equity shares)			
6	Bank A/c	Dr	60000	
	To Equity Share Call A/c			60000
	(Being Call amount received.)			

Balance Sheet of Good Morning Ltd.

Liabilities	Rs	Assets	Rs
Authorised Share Capital		Land & Buildings	200000
100000 Equity Shares of Rs10 each	1000000	Plant & Equipments	300000
5000 7% Preference Shares of Rs 100 each	500000	Furnitures	65000
Total	1500000	Patents	45000
Issued capital		Sundry Debtors	149450
50000 Equity Shares of Rs 10 each	500000	Inventory	68950
750 7% Preference Shares of Rs 100 each	75000	Cash	3700
Capital Reserve	77100	Bank Balance	20000
10% Debentures	100000		
Sundry Creditors	100000		
	852100		**852100**

Illustration: 3

The following are the Balance Sheets of P Ltd and S Ltd as on 31st March, 2009
Balance Sheet as on 31st March, 2009

Liabilities	P Ltd	S Ltd	Assets	P Ltd	S Ltd
Equity Share Capital (Rs 10 each)	500,000	300,000	Land and Building	250,000	155000
14% Preference Share Capital (Rs 100 each)	220,000	170,000	Plant and Machinery	325,000	170000
General Reserve	50,000	25,000	Furniture and Fittings	57,500	35000
Export Profit Reserve	30,000	30,000	Investments	125,000	95000
Profit and Loss A/c	75,000	50,000	Stock	90,000	103000
13% Debentures	50,000	35,000	Debtors	72,500	52000
Sundry Creditors	65,000	50,000	Cash and Bank	70,000	50000
	990,000	**660,000**		**990,000**	**660000**

P Ltd takes over S Ltd on 1st April, 2009. P Ltd discharges the Purchase Consideration as below:

a) Issued 35000 Equity Shares of Rs 10 each at par to the equity shareholders of S Ltd.

b) Issued 15% Preference Shares of Rs 100 each

to discharge the Preference share holders of S Ltd at 10% premium.

c) The Debentures of S Ltd will be converted into equivalent numbers of debentures of P Ltd.

You are required to give necessary ledger accounts to close the books of S Ltd and Journal entries in t the books of P Ltd and Balance sheet of P Ltd after absorption.

Solution:

Statement of Purchase consideration: (Net Payment method)

a) 35000 equity shares of Rs 10 each		350000
1870 15%Preference Shares of Rs 100 each		187000
(Old Preference Share Capital	170000	
Add : 10%Premium	17000)	
		537000

In the books of S Ltd
Realization A/c

To Land and Buildings	155000	By 13% Debentures	35000
To Plant and Equipments	170000	By Current Liabilities	50000
To Furnitures	35000	By P Ltd	537000
To Investment	95000	By Equity Share holders A/c	55000
To Inventory	103000		
To Sundry Debtors	52000		
To Cash	50000		
To Preference Share holders	17000		
	677000		677000

Equity Shareholders A/c

To Realisation A/c	**55000**	**By Equity Share Capital A/c**	**300000**
To Equity Shares in P Ltd	**350000**	**By General Reserve**	**25000**
		By Profit and Loss A/c	**50000**
		By Export Profit Rerve	**30000**
	405000		**405000**

P Ltd A/c

To Realisation A/c	537000	By Equity Shares in P Ltd	350000
		By Preference Shares in P Ltd	187000
	537000		537000

Preference Share Holders A/c

To Preference Shares in P Ltd	187000	By Preference Share capital A/c	170000
		By Realisation A/c	17000
	187000		187000

Equity Shares in P Ltd

To P Ltd A/c	350000	By Equity Share Holders A/c	350000
	350000		350000

Preference Shares in P Ltd

To P Ltd A/c	187000	By Equity Share Holders A/c	187000
	187000		187000

Journal Entries in the books of P Ltd

Sr.No	Particulars		Dr. Rs.	Cr. Rs.
i.	Business Purchase A/c	Dr.	5,37,000	
	To Liquidator of Q Ltd.			5,37,000
	(Being Business of Q Ltd. Purchased)			
ii.	Building A/c	Dr.	155000	
	Machinery A/c.	Dr.	170000	
	Furniture and Fittings	Dr	35000	
	Investment	Dr	95000	
	Stock	Dr.	103000	
	Debtors	Dr.	52000	
	Cash and Bank A/c.	Dr.	50000	
	To 13 % Debentures			35000
	To Current Liabilities			50000
	To Business Purchase			537000
	To Capital Reserve			38000
	(Being sundry assets & liabilities taken over of Q Ltd. Recorded)			
iv.	Liquidator of P Ltd. A/c	Dr.	1875000	
	To Equity share capital A/c			1250000
	To securities Premium A/c			625000
	(Being Purchase consideration discharge)			
v.	Liquidator of Q Ltd. A/c.	Dr.	537000	
	To Equity Share Capital A/c.			350000
	To 15% Preference Share Capital A/c.			187000
	(Being purchase consideration discharged)			
vi.	Amalgamation Adjustment A/c.	Dr.	30000	
	To Export profit reserve			30000
	(Being statutory reserve maintained)			
vii.	13% Debentures in Q Ltd. A/c.	Dr	35000	
	To 13% Debentures			35000

Balance Sheet as on 31st March, 2009

Liabilities	Rs	Assets	Rs
Equity Share Capital (Rs 10 each)	850,000	Land and Building	405,000
14% Preference Share Capital (Rs 100 each)	220,000	Plant and Machinery	495,000
15% Preference Share Capital (Rs 100 each)	187,000	Furniture and Fittings	92,500
General Reserve	50,000	Investments	220,000
Export Profit Reserve	60,000	Stock	193,000
Capital Reserve	38,000	Debtors	124,500
Profit and Loss A/c	75,000	Cash and Bank	120,000
13% Debentures	85,000	Amalgamation Adjustment A/c	30000
Current Liabilities	115,000		
	1,680,000		**1,680,000**

Illustration: 4

The following is the Balance Sheet of Time Pass Ltd as on 30th September, 2009

Balance Sheet as on 30th September, 2009

Liabilities	Rs	Assets	Rs
Issued capital		Land & Buildings	85000
18000 Equity Shares of Rs10	180000	Plant & Equipments	45000
General Reserve	24000	Furnitures	15000
Profit & loss A/C	10400	Trademarks	7000
12% Debentures	80000	Investments	23000
Sundry Creditors	63720	Sundry Debtors	60000
		Stock	112000
		Bank	11120
	358120		**358120**

Time Pass Ltd was absorbed by Busy Ltd., on the following terms and conditions:

All liabilities and all assets are to be taken over except Investments which were sold by Time Pass Ltd. at 90% of book value.

Debentures of Time Pass Ltd, to be discharged at a discount of 10% by the issue of 14% debentures of Rs 100 e each in Busy Ltd.

Trademarks were found useless.

Issue of one equity share of Rs 10 each in Busy Ltd., issued at Rs 12 and a cash payment of Rs 3 for every s hare in Time Pass Ltd.

a) Cost of absorption paid : Rs 1160
b) Time Pass Ltd. sold half the shares received from Busy Ltd. at Rs 15 per share.

You are required to give necessary Ledger A/c s to close the books of Time Pass Ltd. and Journal entries in the books of Busy Ltd.

Solution:

Statement of Purchase consideration: (Net Payment method)

a) 18000 Equity shares of Rs.10 each at Rs.12 per share	216000
b) Cash at Rs. 3 per share on 18000 Equity shares	54000
	270000

Goodwill/Capital reserve (Net Assets taken over)

Land & Buildings	85000	
Plant & Equipments	45000	
Furnitures	15000	
Sundry Debtors	60000	
Stock	112000	
Bank	11120	
		328120
Less :		
Liabilities taken over		
Debentures	80000	
Creditors	63720	143720
Net assets taken over		184400
Less :		
Purchase consideration		270000
Goodwill		85600

In the books of Time Pass Ltd
Realization A/c

To Land & Buildings	85000	By 10% Debentures	80000
To Plant & Equipments	45000	By Sundry Creditors	63720
To Furnitures	15000	By Busy Ltd.	270000
To Trademarks	7000	By Bank (Investment sold)	20700
To Sundry Debtors	60000	By Bank (shares sold)	27000
To Bank	11120		
To Investments	23000		
To Stock	112000		
To Equity Share holders A/c	103300		
	461420		461420

Equity Shareholders A/c

To Bank	**209700**	**By Equity Share Capital A/c**	**180000**
		By Profit and Loss A/c	**10400**
		By General Reserve	**24000**
To Equity Shares in Busy Ltd	**108000**	**By Realisation A/c**	**103300**
	317700		**317700**

Busy td A/c

To Realisation A/c	270000	By Equity Shares in Busy Ltd	216000
		By Bank	54000
	270000		270000

Bank A/c

To Equity shares in busy Ltd	135000		
To Realisation A/c	20700	By Equity Shareholders A/c	209700
To Busy Ltd.	54000		
	209700		209700

Equity Shares in Busy Ltd

To Busy Ltd.	216000	BY Bank	135000
To Realisation A/c	27000	By Equity Share Holders A/c	108000
	243000		243000

Journal Entries in the Books of Busy Ltd.

1	Business Purchase A/c	Dr	270000	
	To Liquidator of Bad dream Ltd			270000
	(Being Business Purchased)			
2	Land and Buildings	Dr	85000	
	Plant and Equipments	Dr	45000	
	Furnitures	Dr	15000	
	Sundry Debtors	Dr	60000	
	Stock		112000	
	Bank		11120	
	Goodwill		77600	
	To Business Purchase A/c			270000
	To Sundry Creditors			63720
	To Debentures			72000
	(Being Sundry Assets and Liabilities taken over recorded)			
3	Liquidator of Time Pass Ltd	Dr	270000	
	To Equity Share Capital A/c			180000
	To Securities Premium A/c			36000
	To Bank			54000
	(Being Purchase Consideration Discharged.)			
4	Goodwill A/c	Dr.	1160	
	To Bank			1160
	(Being amalgamation expenses paid)			
5	Debentures in Time Pass A/c	Dr.	72000	
	To Debentures A/c			72000
	(Being new debentures issued in satisfaction of old Debentures)			

Illustration 5

A Ltd and B Ltd agreed to amalgamate and form a new company C Ltd. which will take over all the assets and liabilities of the two companies.

The assets and liabilities of A Ltd. Are to be taken over at a book value for shares in C Ltd. At the rate of 5 shares in C Ltd. at 10% premium (i.e. Rs 11 per share) for every four shares in A Ltd.

In the case of B Ltd.

a) The debentures of B Ltd. would be paid off by the issue of an equal no. of debentures in C Ltd.

b) The 11.5% Preference Shareholders of B Ltd. would be allotted four 12% Preferences of Rs 100 each in C Ltd. for every five Preference shares in B Ltd.

c) Sufficient shares of C Ltd would be allotted to the equity share holders to cover the balance on their account after adjusting asset values by reducing Plant and Machinery by 10% and providing 5% on sundry debtors.

The summarized Balance Sheets of the two companies just prior to amalgamation were as follows:

Liabilities	A Ltd.	B Ltd	Assets	A Ltd.	B Ltd
Issued capital			Plant & Equipments	800000	800000
Equity Capital of Rs10 each	400,000	500000	Stock	65000	60000
11.5 Preference Shares of Rs					
100 each.		300000	Profit and Loss A/c		140000
12% Debentures		200000	Sundry Debtors	95000	50000
Profit & loss A/C	500000		Bank	65000	40000
Sundry Creditors	75000	90000			
Contingency Reserve	50000				
	1,025,000	**1090000**		**1025000**	**1090000**

Show the Journal entries in the books of both the companies.

Solution:

Statement of Purchase consideration for A Ltd.

5 Equity Shares of Rs 10 each at 10% premium for every four shares in A Ltd.	550000

Statement of Purchase Consideration for B Ltd / Net Assets taken over of A Ltd.

	A Ltd.	B Ltd.
Plant and Equipments	800000	720000
Stock	65000	60000
Sundry Debtors	95000	47500
Bank	65000	40000
	1025000	**867500**
Less: Liabilities taken over		
Debentures		200000
Sundry Creditors	75000	90000
	-75000	**-290000**
Net Assets taken Over	**950000**	**577500**
Less:Purchase Consideration	-550000	
Capital Reserve	400000	
Purchase Consideration		577500

In the books of A Ltd and B Ltd
Realization A/c

To Plant & Equipments A/c	800000	800000	By Debentures A/c		200000
To Stock A/c	65000	60000	By Creditors A/c	75000	90000
To Sundry Debtors A/c	95000	50000	By C Ltd A/c	550000	577500
To Bank A/c	65000	40000	By Preference Shareholders A/c		60000
			By Equity Share holders A/c	400000	22500
	1025000	950000		1025000	950000

C Ltd A/c

To Realisation A/c	550000	577500	By Equity Shares in C Ltd	550000	337500
			By Preference Shares in C Ltd		240000
	550000	577500		550000	577500

Equity Shareholders A/c

To Profit and Loss A/c		**140000**	**By General Reserve A/c**	**50000**	
To Equity Shares in Good Morning Ltd A/c	**550000**	**337500**	**By Profit and Loss A/c**	**500000**	
To Realisation A/c	**400000**	**22500**	**By Equity Share Capital A/c**	**400000**	**500000**
	950000	**500000**		**950000**	**500000**

Preference Share Holders A/c

To Preference Shares in C Ltd		240000	By Preference Share capital A/c		300000
To Realisation A/c		60000			
		300000			300000

Equity Shares in C Ltd

To C Ltd	550000	337500	By Equity Share Holders A/c	550000	377500
	550000	337500		550000	377500

Preference Shares in C Ltd

To C Ltd	240000	By Preference Share Holders A/c	240000
	240000		240000

Journal Entries in the Books of C Ltd.

1	Business Purchase A/c	Dr	1127500	
	To Liquidator of A Ltd A/c			550000
	To Liquidator of B Ltd A/c			577500
	(Being Business Purchased)			
2	Plant and Equipments A/c	Dr	800000	
	Stock A/c		65000	
	Debtors A/c		95000	
	Bank A/c		65000	
	To Business Purchase A/c			550000
	To Sundry Creditors			75000
	To Capital Reserve A/c			400000
	(Being Sundry Assets and Liabilities taken over recorded)			
3	Plant and Equipments A/c	Dr	720000	
	Stock A/c		60000	
	Debtors A/c		47500	
	Bank A/c		40000	
	To Business Purchase A/c			577500
	To Sundry Creditors			90000
	To Debentures			200000
	(Being Sundry Assets and Liabilities taken over recorded)			
4	Liquidator of A Ltd	Dr	550000	
	To Equity Share Capital A/c			500000
	To Secuity Premium A/c			50000
	(Being Purchase Consideration Discharged.)			
5	Liquidator of B Ltd	Dr	577500	
	To Equity Share Capital A/c			337500
	To Preference Share Capital A/c			240000
	(Being Purchase Consideration Discharged.)			
6	Old Debentures A/c	Dr	200000	
	To New Debenture A/c			180000
	To Capital Reserve A/c			20000
	(Being old Debentures settled at 10% discount.)			

Balance Sheet of C Ltd.

Liabilities	Rs	Assets	Rs
Issued capital		Plant & Equipments	1520000
Equity Capital of Rs10 each	837500	Stock	125000
11.5 Preference Shares of Rs			
100 each.	240000	Sundry Debtors	142500
12% Debentures	180000	Bank	105000
Sundry Creditors	165000		
Security Premium	50000		
Capital Reserve	420000		
	1892500		**1892500**



9

AMALGAMATION OF LIMITED COMPANIES-II

Unit Structure

9.1 Solved problems

9.1 SOLVED PROBLEMS :

Illustration 1

On 31st March, 2000, Thin Ltd. was absorbed by thick Ltd., the latter taking over all the assets and liabilities of the former at book values. The consideration of the business was fixed at Rs 400000 to be discharged by the transferee company in the form of its fully paid equity shares of Rs 10 each, to be distributed among the shareholders of the transferor company, each shareholder getting two shares for every share held in the transferor company. The balance sheet of the two companies as on the 31st March, 2000 stood as under:

Liabilities	Thick Ltd	Thin Ltd	Assets	Thick Ltd	Thin Ltd
Equity Shares of Rs 10 each, fully paid	900000	200000	Plant & Equipments	412000	100000
			Stock	265500	60000
Profit & loss A/C	20502	12900	Cash at Bank	14000	8300
Workmen Compensation Fund	12000	9000	Sundry Debtors	221200	46000
General Reserve	180000	50000	Cash in Hand	869	356
Sundry Creditors	58567	30456	Goodwill	200000	60000
Staff Provident Fund	10200	4000	Prepaid Insurance		700
			Income Tax Refund		
Provision for taxation	12300	5000	claim		6000
			Furniture	80000	30000
	1193569	311356		1193569	311356

Amalgamation expenses amounting to Rs 1000 were paid by Thick ltd. You are required to:

a) Show the necessary ledger accounts in the books of Thin Ltd.,
b) Show the necessary journal entries in the books of thick Ltd., and
c) Prepare the Balance Sheet of Thick Ltd. in vertical form after amalgamation.

Solution:

In the books of Thin Ltd.'s.

Realization A/c

To Goodwill A/c	60000	By Sundry Creditors A/c	30456
To Plant and Machinery A/c	100000	By Staff Provident Fund A/c	4000
To Furniture A/c	30000	By Provision for taxation A/c	5000
To Stock - in - Trade A/c	60000	By Thick Ltd. A/c	400000
To Sundry Debtors A/c	46000		
To Prepaid Insurance A/c	700		
To Income Tax Refund Claim A/c	6000		
To Cash in hand A/c	356		
To Cash at Bank A/c	8300		
To Equity Share holders A/c	128100		
	439456		439456

Equity Shareholders A/c

To Equity Shares in Thick Ltd A/c	400000	By Profit and Loss A/c	12900
		By General Reserve A/c	50000
		By Workmen Compensation Fund A/c	9000
		By Equity Share Capital A/c	200000
		By Realisation A/c	128100
	400000		400000

Thick Ltd A/c

To Realisation A/c	400000	By Equity Shares in Thick Ltd A/c	400000
	400000		400000

Equity Shares in Thick Ltd

To Thick Ltd	400000	By Equity Share Holders A/c	400000
	400000		400000

Journal Entries in the books of Thick Ltd.

1	Business Purchase A/c	Dr	400000	
	To Liquidator of Thin Ltd A/c			400000
	(Being Business Purchased)			
2	Plant and Equipments A/c	Dr	100000	
	Stock A/c		60000	
	Debtors A/c		46000	
	Goodwill A/c		197100	
	Furniture A/c		30000	
	Prepaid Insurance A/c		700	
	Income Tax Re-fund Claim A/c		6000	
	Cash in hand		356	
	Cash in Bank A/c		8300	
	To Business Purchase A/c			400000
	To Provision for Taxation A/c			5000
	To Staff Provident Fund A/c			4000
	To Sundry Creditors			30456
	To Workmen Compensation Fund A/c			9000
	(Being Sundry Assets and Liabilities taken over recorded)			
3	Liquidator of Thin Ltd A/c	Dr	400000	
	To Equity Share Capital A/c			400000
	(Being Purchase Consideration Discharged.)			
4	Goodwill A/c	Dr	1000	
	To Bank A/c			1000
	(Being amalgamation Expenses paid.)			

Balance Sheet of Thick ltd

Liabilities	Rs.	Assets	Rs.
Equity Shares of Rs 10 each, fully paid	1300000	Plant & Equipments	512000
General Reserve	41900	Furniture	110000
Profit & loss A/C	20502	Goodwill	260000
Workmen Compensation Fund	21000	Sundry Debtors	267200
		Cash in Hand	22525
Sundry Creditors	89023	Stock	325500
Staff Provident Fund	14200	Prepaid Insurance	700
		Income Tax Refund	
Provision for taxation	17300	claim	6000
	1503925		1503925

Illustration : 2

On 31st March, 2009, Sky dud Ltd. was absorbed by Hidud Ltd.,

The balance sheet of the two companies as on the 31st March, 2009 stood as under:

Liabilities	Hidud Ltd	Skydud Ltd	Assets	Hidud Ltd	Skydud Ltd.
Equity Shares of Rs 10 each, fully paid	800000	500000	Plant & Equipments	1600000	830000
General Reserve	1000000	360000	Goodwill		20000
Profit & loss A/C		100000	Investments		170000
Loans	400000		Current Assets	1680000	690000
Bills Payable	100000	220000			
Sundry Creditors	460000	420000			
Provision for taxation	520000	110000			
	3280000	1710000		3280000	1710000

For the purpose of absorption the goodwill of Skydud was considered valueless. Plant and Equipments Are to be depreciated by Rs. 40000. The shareholders of Skydud Ltd are to be allotted sufficient number of Equity shares in Hidud Ltd, based on intrinsic value of equity shares of both the companies.

You are required to:

a) Show the necessary ledger accounts in the books of Skydud Ltd.,
b) Show the necessary journal entries in the books of Hijack Ltd., and
c) Prepare the Balance Sheet of Hijack Ltd. after amalgamation.

Solution:

In the books of Skydud Ltd.

Realization A/c

To Goodwill A/c	20000	By Sundry Creditors A/c	420000
To Plant and equipm. A/c	830000	By Bills Payable A/c	220000
To Investments	170000	By Provision for taxation A/c	110000
To Current Assets	690000	By Hidud Ltd. A/c	900000
		By Equity Share holders A/c	60000
	1710000		1710000

Equity Shareholders A/c

To Equity Shares in Hidud Ltd A/c	900000	By Equity Share capital A/c	500000
To Realisation A/c	60000	By General Reserve A/c	360000
		By Capital Reserve A/c	100000
	960000		960000

Hidud Ltd A/c

To Realisation A/c	900000	By Equity Shares in Hidud Ltd A/c	900000
	900000		900000

Equity Shares in Hidud Ltd

To Hidud Ltd	900000	By Equity Share Holders A/c	900000
	900000		900000

Journal Entries in the books of Hidud Ltd.

1	Business Purchase A/c	Dr	900000	
	To Liquidator of Skydud Ltd A/c			900000
	(Being Business Purchased)			
2	Plant and Equipments A/c	Dr	790000	
	Investments A/c	Dr.	170000	
	Current Assets A/c	Dr.	690000	
	To Business Purchase A/c			900000
	To Sundry Creditors			420000
	To Provision for Taxation A/c			110000
	To Bills Payable A/c			220000
	(Being Sundry Assets and Liabilities taken over recorded)			
3	Liquidator of Thin Ltd A/c	Dr	900000	
	To Equity Share Capital A/c			400000
	To Securities Premium			500000
	(Being Purchase Consideration Discharged.)			

Balance Sheet of Hidud Ltd. as on 1st April 2009

Liabilities	Rs.	Assets	Rs.
Equity Shares of Rs 10 each, fully paid	1200000	Plant & Equipments	2390000
General Reserve	1000000		
Securities Premium	500000	Investments	170000
Loans	400000	Current Assets	2370000
Bills Payable	320000		
Sundry Creditors	880000		
Provision for taxation	630000		
	4930000		4930000

Working Notes:

1.Calculation of Intrinsic Value of Equity shares:

	Hidud Ltd. Rs.	Skydud Ltd. Rs.
Equity share capital	800000	500000
General Reserve	1000000	360000
Profit and Loss A/c		100000
	1800000	960000
Less:		
Depreciation of Plant	40000	
Goodwill	20000	60000
Equity Shareholders Funds	1800000	900000
Number of Equity shares	80000	50000
Intrinsic value per equity share	22.50	18.00

2. Value of 4 shares of Hidud Ltd. = Value of 5 shares of Skydud Ltd.

3. Purchase consideration Rs. 900000 to be discharged by issue of 40000 Equity shares of Rs. 10 each at a premium of Rs.12.50 per share.

Illustration : 3

Eno Ltd. and Fanta .Ltd. agreed to amalgamate by transferring their undertakings to a new company, Fantino Ltd. formed for that purpose. On the date of transfer, Balance sheets of the two companies as on 31 March 2009 were as under:

Liabilities	Eno Ltd. (Rs.)	Fanta Ltd (Rs.)	Assets	Eno Ltd. (Rs.)	Fanta Ltd. (Rs.)
Authorized and Issued Capital:			Leasehold premises	60,000	31,000
Ordinary Shares of			Freehold Property	3,000	
Rs. 10 each	75,000	25,000	Debtors	18,000	5,000
18% Debentures		3,000	Investments	13,000	3,000
Reserve		2,000	Bank	10,000	2,000
Mortgage Loan (Secured on freehold Property)					
Sundry Creditors	4,000	10,000			
Profit & Loss A/c	20,000	1,000			
	1,04,000	**41,000**		**1,04,000**	**41,000**

The purchase consideration consisted of:

(a) The assumption of the liabilities of the both companies:

(b) The discharge of the Debentures in Fanta Ltd., by the issue of Rs. 3500, 18.5% Debentures in Fantino Ltd.

(c) Issue at a premium of Rs. 5 per share of ordinary shares of Rs. 10 each in Fantino Ltd. for the purpose of transfer, the assets are to be revalued as under:

	Eno Ltd. Rs.	Fanta Ltd. Rs.
Leasehold premises	65,000	35,000
Freehold Property	5,000	
Debtors	17,100	4,500
Investments	14,900	4,000
Goodwill	11,000	4,000

You are required to:

i) Prepare necessary ledger accounts in the books of Eno Ltd.

ii) Pass Journal Entries in the books Fantino Ltd. under Purchase Method.

iii) Indicate the basis on which the shares of Fantino Ltd. will be distributed among the shareholders of Eno Ltd. and Fanta Ltd. respectively.

Purchase Consideration:

	Eno. Ltd. Rs.	Fanto Ltd Rs.
Assets taken over:		
Leasehold premises	65,000	
Freehold Property	5,000	35,000
Debtors	17,100	
Investments	14,900	4,500
Goodwill	11,000	4,000
Bank	10,000	2,000
(A)	**1,23,000**	**49,500**
Less: Liabilities taken over:		
Mortgage Loan	5,000	
18% Debentures		3,500
creditors	4,000	10,000
(B)	9,000	13,500
Net Assets	**1,14,000**	**36,000**

No. of Shares = 1,14,000/15 36,000/15

= 7,600 2,400

Ratio of distribution = 7600 : 7500 2400:2500

= 76:75 24:25

In the books of Eno Ltd.
Realization A/c

	Rs.		Rs.
To Leasehold premises	60,000	By Mortgage Loan	5,000
To Freehold Property	3,000	By Sundry Creditors	4,000
To Debtors	18,000	By Fantino Ltd.-	
To Investments	13,000	(Purchase	1,14,000
To Bank	10,000	Consideration)	
To Equity Shareholders' A/c (Profit on Realization)	19,000		
	1,23,000		**1,23,000**

Fantino Ltd. A/c

	Rs.		Rs.
To Realization A/c	1,14,000	By Equity Shares in Fantino ltd	1,14,000
	1,14,000		**1,14,000**

Equity Shares in Fantino A/c

	Rs.		Rs.
To Fantino Ltd	1,14,000	By Equity Shareholders A/c	1,14,000
	1,14,000		**1,14,000**

Equity Shareholders A/c

	Rs.		Rs.
		By Share Capital	75,000
To Shares in Fantino Ltd. A/c	1,14,000	By Profit and Loss A/c	20,000
		By Realization A/c	19,000
	1,14,000		**1,14,000**

In the Book of Fanta Ltd.
Realization A/c

	Rs.		Rs.
	31,000	By Creditors	10,000
To Leasehold premises	5,000	By 18% Debentures	
To Debtors	3,000	By Fantino Ltd. A/c	3,000
To Investment	2,000	(Purchase Consideration)	
To Bank			36,000
To Equity Shareholders (Profit on Realization)	8,000		
	49,000		49,000

Equity Shareholders A/c

	Rs.		Rs.
To Equity Shares in Fantino Ltd.	36,000	By Share Capital A/c	25,000
		By Reserve A/c	2,000
		By Profit and Loss A/c	1,000
		By Realisation A/c	8,000
	36,000		**36,000**

Fantino Ltd. A/c

	Rs.		Rs.
To Realisation A/c	36,000	By Shares in Fantino Ltd.A/c	36,000
	36,000		**36,000**

Equity Shares in Fantino A/c

	Rs.		Rs.
To Fantino Ltd	36,000	By Equity Shareholders A/c	36,000
	36,000		36,000

Illustration: 4

The following are the Balance Sheets of Prabha Ltd. and Surya Ltd. as on 31st March 2008.

Balance Sheet as on 31st March 2008

Liabilities	Prabha Ltd Rs.	Surya Ltd. Rs.	Assets	Prabha Ltd Rs.	Surya Ltd. Rs.
Equity Share			Land & Buildings	50,000	46,500
capital (Rs.10each)	1,00,000	90,000	Plant & Machinery	65,000	51,000
15 % Preference			Furniture & Fittings	11,500	10,500
Share Capital			Investments	25,000	28,500
(Rs, 100 each)	44,000	51,000	stock	18,000	30,900
General Reserve	10,000	7500	Debtors	14,500	15,600
Export Profit			Cash and Bank	14,000	15,000
Reserve	6,000	6,000			
Investment					
Allowance					
Reserve		3,000			
Profit & Loss A/c	15,000	15,000			
13 % Debentures	10,000	10,500			
(Rs. 100 each)					
Current Liabilities	13,000	15,000			
	198,000	198,000		198,000	198,000

Prabha Ltd. takes over Surya: Ltd. on 1st April 2008. Prabha Ltd. discharges the purchase consideration as below:

a) Issued 10,500 equity shares of Rs.10 each at par to the equity shareholders of Surya Ltd.

b) Issued 15% preference shares of Rs.100 each to discharge the preference share holders of Surya Ltd. at 10% premium the debentures of Surya Ltd. will be converted into equivalent no. of debentures of Prabha Ltd.

The Statutory reserves of Surya Lts. (export profit Reserve and investment allowance reserve are to be maintain for 3 more years.)

Debtors of Prabha Ltd. include Rs.5000 due from Surya Ltd.

You are required to prepare necessary ledger accounts in the books of Surya Ltd. and the Balance Sheet of Prabha Ltd. after absorption

Solution: In The books of Surya Ltd.

Realization Account

To land & building	46,500	By 13% Debentures	10,500
To plant & Machinery	51,000	By current Liabilities	15,000
To furniture	10,500	By Prabha Ltd.	1,61,100
To Investment	28,500	By Equity share holders	16,500
To stock	30,900		
	15,600		
	15,000		
	5,100		
	203,100		203,100

Equity Share holder A/c

To Equity shares in Prabha Ltd.	105,000	By Equity share Capital	90,000
		By General Reserve	7,500
		By Export profit Reserve	6,000
To Realisation A/c	16,500	By Investment allowence reserve	3,000
		By Profit & Loss A/c	15,000
	1,21,500		1,21,500

Preference Shareholders A/c

To prefernce shares in prabha Ltd.	56,100	By preference Share Capital	51,000
		By Realisation	5,100
	56,100		56,100

Prabha Ltd. A/c

To Realisation A/c	1,61,100	By Equity shares in Prbha Ltd	1,05,000
		By preference shares in Prabha Ltd.	56,100
	1,61,100		1,61,100

Equity shares in Prabha Ltd.

To Prabha Ltd	1,05,000	By Equity share holders	1,05,000
	1,05,000		**1,05,000**

Preference shares in Prabha Ltd.

To Prabha Ltd	56,100	By Preference share holders	56100
	56100		56100

Statement of purchase consideration (Net Payment Method)

1. 10,500 Equity shares of Rs. 10 each		1,05000
2. To Preference shareholders	51000	
10% premium	5100	56100
		161100

i.e. 561 preference shares of Rs. 100 each

Prabha Ltd.

Balance Sheet as on 31st March 2008

Liabilities	Rs.	Assets	Rs.
Share capital		Land and Buildings	96500
20,500 Equity shares of Rs.10 each	2,05,000	Furniture & fittings	22,000
15% 1001 preference		Investments	53,500
Shares of Rs.100each	1,00,100	Stock	48,900
General Reserve	10,000	Debtors	25,100
Capital Reserve	11400	Cash at bank	29,000
Profit & Loss A/c	15000	Amalgamation	
Export Profit Reserve	12000	Adjustment A/c	9000
Investment Allowance reserve	3000		
13% Debentures (100each)	20,500		
Current Liabilities	23,000		
	4,00,000		**4,00,000**

Calculation of capital reserve on amalgamation

		Rs.
Assets of Surya Ltd. Taken over		1,98,000
Loss: 13 % Debentures	10,500	
Current Liabilities	15,000	25,500
Net assets taken over		1,72,500
Less: Purchase Consideration		1,61,100
Capital Reserve		**11,400**

Illustration : 5

The Balance sheets of Alpha Ltd. and beets Ltd. as on 31st March, 2008 were as Follows:

Liabilities	Alpha Ltd. Rs.	Beeta Ltd. Rs.	Assets	Alpha Ltd. Rs.	Beeta Ltd. Rs.
Equity Share Capital			Building	4,00,00	70000
(Rs.10 Each)	8,00,000	3,00,000	Machinery	4,00,000	150000
Export profit reserve	2,00,000	30000	Debtors	6,00,000	2,00,000
Profit & Loss A/c	2,65,000	2,37,000	Cash at Bank	2,50,000	37000
12%Debetores	5,00,000	3,00,000	Preliminary	50,000	20,000
(Rs. 100 each)			expenses		
	1,12,000	63000			
Bills payable	23,000	70,000			
	2200,000	**12,50,000**		**2200,000**	**12,50,000**

A new company Zinta Ltd. was formed to acquire all the assets and liabilities of Alpha Ltd. and Beeta Ltd.

a) Zinta Ltd. to have an authorized capital of Rs. 25,00,000 divided in 2,50,000 shares of Rs.10 each

b) Business of both the companies taken over for a total price of rs.30 Lakh to be discharged by Zinta Ltd. by issue of equity Shares of Rs. 10 each at a premium of 50%

c) The shareholders of Alpha Ltd. and Beeta Ltd. to get shares in Zinta Ltd. in the ratio of net asset valuation of their respective business.

d) The debentures of both the companies to be converted into equivalent number of 14 % Debentures in Zinta Ltd.

e) Export Profit reserve is to be maintained for two more years

f) The assets of the companies to be revalued at

	Alpha Ltd.	Beeta Ltd.
Building	10,00,000	11,50,000
Debtors	3,00,000	1,13,000

g) Liquidation expenses of Alpha Ltd & Beeta Ltd. amounting to Rs. 20,000 were paid by Zinta Ltd. you are required to give Journal Entries in the books of Zinta Ltd. and also prepare Balance sheet of Zinta Ltd. after amalgamation

1. Statement of purchase consideration total purchase consideration
   Lakh equity shares of Rs. 10 each issued
   At Rs.15 each 30,00,000
2. Statement of Net Assets

Building	10,00,000	1150,000
Machinery	3,00,000	1,13,000
Stock	5,00,000	1,43,000
Debtors	6,00,000	2,00,000
Cash at bank	2,50,000	37,000
	26,50,000	1643000
Less: Liabilities		
12% Debentures	500,000	300,000
Current Liabilities	1,12,000	63000
Bills Payable	23000	70000
R.D.D	1500	10000
	6,50,000	4,43,000
Net Assets	20,00,000	12,00,000

No. of shares to issued

Alpha Ltd. $\frac{200000}{3200000}$ X 2000000 = 125000 Shares

Beeta Ltd. $\frac{200000}{3200000}$ X 1200000 = 75000 Shares

Journal of Zinta Ltd.

Sr.No	Particulars		Dr. Rs.	Cr. Rs.
i.	Business Purchase A/c	Dr.	3000000	
	To Liquidator of Alpha Ltd.			1875000
	To Liquidator of Beeta Ltd.			1125000
	(Being Business of Alpha Ltd. & Beeta Ltd. Purchase)			
ii.	Building A/c	Dr.	1000000	
	Machinery A/c.	Dr.	300000	
	Stock	Dr.	500000	
	Debtors	Dr.	600000	
	Cash and Bank A/c.	Dr.	250000	
	To 12 % Debentures			500000
	To Sundry Creditors			112000
	To Bills Payable			23000
	To R.D.D.			15000
	To Business Purchase			1875000
	To Capital Reserve			125000
	(Being sundry assets & liabilities taken over of (Alpha Ltd. Recordable)			

iii.	Building A/c	1150000	
	Machinery A/c	113000	
	Stock A/c	143000	
	Debtors A/c.	200000	
	Cash and bank A/c	37000	
	To 12% Debentures		300000
	To Sundry Creditors		63000
	To Bills Payable		70000
	To R.D.D		10000
	To Business Purchase		1125000
	To Capital Reserve		75000
	(Being Sundry assets & liabilities taken over to Beeta Ltd. recorded)		
iv.	Liquidator of Alpha Ltd. A/c Dr.	1875000	
	To Equity share capital A/c		1250000
	To securities Premium A/c		625000
	(Being Purchase consideration discharge)		
v.	Liquidator of Beeta Ltd. A/c. Dr.	1125000	
	To Equity share Capital A/c.		750000
	To Securities premium A/c.		375000
	(Being purchase consideration discharge)		
vi.	Amalgamation Adjustment A/c. Dr.	230000	
	To Export profit reserve		230000
	(Being statutory reserve maintained)		
vii.	12% Debentures in Alpha Ltd. A/c. Dr.	5,00,000	
	12% Debentures in Beeta Ltd. A/c. Dr	3,00,000	
	To 14% Debentures		800000
viii.	Capital Reserve A/c. Dr.	20000	
	To Bank A/c.		20000
	(Being liquidation expenses of Alpha Ltd. and Beeta Ltd. Paid)		

Balance sheet of Zinta Ltd. as on 1st April 2008

Liabilities	Rs.	Assets	Rs.
Share Capital		Building	2150000
Authorized		Machinery	413000
250000 Equity shares	2500000	Stock	643000
Issued subscribed paid up		Debtors 800000	
2 lakh equity share	2000000	Less R.D.D (25000)	775000
Securities premium	1000000	Cash at Bank	267000
Export profit reserve	2,30000	Amalgamation	230000
Capital Reserve	180000	Adjustment A/c	
14% debentures	800000		
Sundry Creditors	175000		
Bills Payable	93000		
	4478000		4478000

Illustration 6

The following is the balance Sheet of Dalal Ltd. as on 31st March 2009.

Balance Sheet as on 31st March 2008

Liabilities	Rs.	Assets	Rs.
100000 Equity Shares		Buildings	526000
Of Rs. 10 each	100000	Plant & machinery	312000
General reserve	127500	Furniture	267000
Profit & loss A/c	222500	Trade marks	49000
12% Debentures	300000	Investments	120000
Creditors A/c	30500	Debtors	3,12000
Income tax Provision	60000	Stock	54000
		Preliminary Expenses	15,000
	20,15,000		**20,15,000**

Dalal Ltd. was absorbed by Nutan Ltd. on the following terms and conditions:

a) Assume all liabilities and to acquire all assets expect investments which were sold by Dalal Ltd. at 90% of book value

b) Discharge the debentures of Dalal Ltd. at a discount of 10% by the issue of 14 % debentures of Rs.100 each in Nutan Ltd.

c) Trade marks were found useless.

d) Issue of one equity share of Rs. 10 in Nutan Ltd. issued at Rs. 12 each and a cash payment of Rs. 4 for every share in Dalal Ltd.

e) Pay the cost of absorption Rs. 15000

f) Dalal Ltd. sold in the open market 25 % of shares received from Nutan Ltd. at Rs. 16 per share show necessary ledger accounts in the books of Dalal Ltd. and opening Journal Entries in the books of Nutan Ltd.

Solution:

Statement of purchase consideration	**Rs.**
100000 Equity share in Nutan Ltd. at Rs. 12 per share	1200000
Cash = 100000 x 4	400000
	1600000

In the Books of Dalal Ltd

Realization A/c

To Building	526000	By 12% Debentures	300000
To plant & machinery	312000	By creditors A/c	305000
To Furniture	267000	By income tare provision	60000
To Trade Marks	4900	By Nutan Ltd. A/c	1600000
To Investments	120000	By Cash	108000
To Debtors	312000	By equity shares in Nutan Ltd.	
To stock	360000		100000
To Bank	540000		
To cash (Expenses)	15000		
To Equity share holders	458000		
	2473000		**2473000**

Equity shareholders A/c

To preliminary Expenses	15000	By Equity share capital	1000000
To Equity shares in Nutan Ltd	900000	By General Reserve	127500
To Cash	893000	By profit & Loss A/c	222500
	1808000		**1808000**

Nutan Ltd.A/c

To Realization A/c	1600000	By Faculty shares in Nutan Ltd.	1200000
		By Bank	400000
	1600000		**1600000**

Equity shares in Nutan Ltd. A/c.

To Nutan Ltd	1200000	By Cash	400000
To Realization	100000	By Equity shareholders	900000
	1300000		**1300000**

Cash and Bank A/c.

To Nutan Ltd.	4,00000	By Realization	15000
To Realization (Investment sold)	108000	By Equity share holders	893000
To Equity share in Nutan Ltd.	400000		
	908000		**908000**

Illustration : 7

XY Ltd. was formed to take over the business of X Ltd. and Y Ltd. on 1st April 2009. The Balance sheets at X Ltd. & Y Ltd. as on that date were as under:

Balance sheets as on 31.03.09

Liabilities	X Ltd. Rs.	Y Ltd Rs.	Assets	X Ltd. Rs.	Y Ltd. Rs.
Share Capital					
Equity Shares of			Land & Building	150000	350000
Rs. 10 each full			Plant	100000	120000
Paid	200000	300000	Furniture	60000	80000
General Reserve	50000	80000	Stock	120000	80000
Profit & Loss A/c	40000	80000	Debtors	150000	330000
Investment Allowance			Bank Balance	20000	40000
Reserve	10000	20000			
Export profit Reserve	100000	200000			
10% Debentures	100000	250000			
Sundry creditors	100000	70000			
	600000	**100000**		**600000**	**100000**

The authorized capital of XY Ltd. was Rs. 1500000 divided in equity shares at Rs. 10/- each

XY Ltd. issued sufficient no of Equity share to discharge the claim of equity shareholders of both the companies

You are required to (1) give necessary ledger A/c's in the books of X Ltd. Y Ltd. (2) Give Necessary journal Entries in the books of XY Ltd. assuming that the amalgamation is in the nature of Also prepare balance sheet of XY Ltd.

In The Books of X Ltd. Y Ltd.

Realisation A/c

	X Ltd	**Y Ltd**		**X Ltd.**	**Y Ltd**
To Land & Building	150,000	350,000	By 10%		
To Plant	100,000	120,000	Debentures	100,000	250,000
To Furniture	60,000	80,000	By Creditors	100,000	10,000
To Stock	12,000	80,000			
To Debetors	150,000	330,000	By XY Ltd	400,000	680,000
To Bank	20,000	40,000			
	600000	**1000000**		**600000**	**1000000**

Equity Share holders A/c

To Realisation	400000	680000	By Equity share Capital	200000	350000
			By Reserve	50000	80000
			By Profit Loss	40000	80000
			By Investment All	10000	20000
			By Reserve Export Profit	100000	200000
	400000	**680000**		**400000**	**680000**

XY Ltd.

Ro realization	400000	680000	By Equity Shares in XY Ltd	400000	680000
	400000	**680000**		**400000**	**680000**

Equity Shares In XY LTD. A/c.

To XY Ltd.	400000	680000	By Equity share holders	400000	680000
	400000	**680000**		**400000**	**680000**

Working Notes:

1. Purchase consideration	**X Ltd.**	**Y Ltd.**
All Assets taken over at agreed valuation		
Land Building	150000	35000
Plant	100000	120000
Furniture	10000	80000
Stock	120000	80000
Debtors	150000	330000
Bank	20000	40000
Less:	600000	1000000
Liabilities taken over at agreed valuation		
10% Debentures	100000	250000
Sundry creditors	100000	70000
Net assets taken over	400000	680000
2. Discharge of purchase consideration	**X Ltd.**	**Y Ltd**
40000 each of Rs.10/-	400000	680000
68000Equity shares of Rs.		
	400000	680000

Journal of XY Ltd.

Particulars		**Dr. Rs**	**Cr. Rs**
1. Business Purchase A1		1080000	
To Liqudator of x			400000
To Liqudators of Y in			680000
(Being business of X Ltd. & Y Ltd. Purchase			
2. Land and Buiding A/c	Dr	150000	
Plant A/c	Dr	150000	
Furniture A/c.	Dr.	60000	
Stock A/c	Dr.	120000	
Debetors A/c.	Dr.	150000	
Bank A/c	Dr.	200000	
To Business			400000
To Debentures A/c			100000
To Creditors A/c.			100000
(Being Assets and liabilities taken over of mind)			
3. Liquidator of X Ltd.		400000	
To Equity share consited			400000
(Being purchase consideration)			
4. Land and Building A/c.		350000	
Plant A/c.	Dr	120000	
Furniture A/c.	Dr.	80000	

Stock A/c.	Dr.	80000	
Debtors A/c.	Dr.	330000	
Bank A/c.	Dr.	40000	
To Business purchase			680000
To Debetures A/c.			250000
To creditors A/c			70000
(Being assets and liabilities of Y Ltd taken over)			
5. Liquidator of Y Ltd	Dr.	680000	
To Equity share capital			680000
(Being purchase consideration discharged)			
6. Amalgamation Adjustment		330000	
To investment allowance			30000
To export profit reserve			300000
7. 10% Debetures in X Ltd.	Dr.	100000	
10% Debetures in Y Ltd. A/c.	Dr	250000	
To 10% Debetures A/c.			350000
(Being new debentures issued in cancellation of old debentures)			

Balance Sheet XY Ltd. as on 1.04.09

Liabilities	Rs.	Assets	Rs.
		Land & Building	500000
Equity share capital		Plant	220000
10800 Equity shares		Furniture	140000
Of Rs. lot furnitures	1080000	Stock	200000
		Debetors	480000
Investment Allowance	30000	Bank	60000
Export Profit		Amalgamation	
Reserve	300000	Adj A/c	330000
10% Debentures	350000		
Creditors	170000		
	1930000		**1930000**

Illustration : 8

Following are Balance Sheets of Vasu Ltd. and Vasanti Ltd as on 31st March 2009

Liabilities	Vasu Ltd	Vasanti Ltd.	Assets	Vasu Ltd.	Vasanti Ltd.
Equity share Capital (Rs.100)	200000	80000	Premiers	50000	50000
			Equipments	15000	
Securities Premium	40000	80000	Furniture	50000	200000
			Investments	80000	50000
General Reserve	100000	100000	Inventory	205000	105000
12 Debentures	200000	200000	Receivables	135000	180000
Accounts Payable	160000	160000	Cash	1000	15000
			Preliminary Experts	20000	20000
	700000	**620000**		**700000**	**620000**

On the above date Vasu Ltd. absorbed the business of Vasanti Ltd. on the following terms and conditions

(a) It issued 3000 equity shares of Rs. 100 at a premium of 10% to the equity shareholders of Vasanti Ltd.
(b) It issued 10% debentures in discharged of 12% debentures of Vasanti Ltd.
(c) Premises of Vasanti Ltd are to be revalued at Rs.150000

You are required to give necessary ledger A/c in the books of Vasanti Ltd. journal entries in the books of Vasu Ltd. and Balance sheet of Vasu Ltd. after absorption.

In the books of Vasanti Ltd.

Realization A/c

To Premises	50000	By 120% debentures	200000
To Furniture	200000	By Accounts Payable	160000
To Investments	50000		
To Inventory	105000	By Vasu Ltd.	330000
To Receivables	180000		
To Cash	15000		
To Equity Shareholders A/c	90000		
	690000		**690000**

Equity shareholders A/c

To Preliminary	20000	By Equity Share Capital	80000
To Equity shares in Vasu Ltd	330000	By securities Premium	80000
		By General Reserve	100000
		By Realization A/c	90000
	350000		**350000**

Vasu Ltd A/c.

To Realization	330000	By Equity shares in Vasu Ltd	330000
	330000		330000

Equity Shares in Vasu Ltd.

To Vasu Ltd.	330000	By Equity share holders Ltd.	330000
	330000		330000

Journal of Vasu Ltd		Dr. Rs	Cr. Rs.
1. Business Purchase A/c	Dr.	330000	
• To liquidators Vasanti Ltd			330000
(Being Business Purchased)			
2. Premises A/c	Dr.	150000	
Furniture A/c.	Dr.	200000	
Investments A/c	Dr.	50000	
Inventory A/c	Dr	105000	
Receivables A/c.	Dr	180000	
Cash A/c	Dr.	15000	
To capital reserve			10000
To Business Purchase			330000
To 12% Debentures			200000
To A/c payable			160000
(Being assets and liabilities taken over)			
3. Liquidators of Vasanti Ltd.		330000	
To Equity share Capital			300000
To securities Premium			30000
(Being purchase consideration discharge)			
4. 12 % Debentures in Vasanti Ltd.	Dr.	200000	
To 10% Debentures in Vasu Ltd			200000
(Being debentures issued)			

Balance Sheet of Vasu Ltd as on 1st April 2009

Liabilities	Rs.	Assets	Rs.
Equity Share Capital		Premises	200000
5000 Equity		Equipment	150000
Share of Rs.100/-	500000	Furniture	250000
Securities Premium	70000	Investment	130000
Capital Reserve	10000	Inventory	310000
General Reserve	100000	Receivable	315000
21% Debenture	200000	Receivable	315000
10% Debenture	200000	Cash	25000
Accounts Payable	920000		20000
	1400000		**1400000**

Working Notes:

1. Purchase consideration
   Net payment method
   3000 Equity shares of Rs. 100 at Rs. 110/- = 330000
   330000

2. Good will/ Capital Reserve
   All Assets taken over at agreed values

Premises	150000	
Furniture	200000	
Investments	50000	
Inventory	105000	
Receivable	180000	
Cash	15000	700000
Less: Liabilities taken over at agreed values		
12% Debentures	200000	
Accounts Payable	160000	360000
Net assets taken over		340000
Less purchase consideration		330000
Capital reserve		10000

Illustration :8

Balance sheet of Asha Ltd. & Nisha Ltd. as on 31st March 2009

Liabilities	Asha Ltd	Nisha Ltd.	Assets	Asha Ltd.	Nisha Ltd.
Share Capital			Land	60000	-
Equity Share of			Plant	240000	200000
Rs.10/- Fully Paid	500000	300000	Motor Vehicles	60000	
			Stock	150000	140000
Securities reserve	100000		Debtors	300000	175000
General Reserve	100000	100000	Bank	90000	45000
12% Debentures		100000			
Current Liabilities	200000	60000			
	900000	**560000**		**900000**	**560000**

Asha Ltd agreed to absorb Nisha Ltd on the following Terms and conditions

a) The shares of Nisha Ltd. are to be considered worth Rs. 15/- and shares of Asha Ltd. are to be considered worth Rs.14/- each

b) Asha Ltd shall issue 30000 equity shares to the shareholders Nisha Ltd. and balance of purchase consideration shall be paid in cash

c) The debenture holders of Nisha Ltd. agreed to take up 10% new debentures of Asha Ltd. at 5% discount

d) Cost of liquidation of Nisha Ltd. Rs.5000 to be paid and borne by Asha Ltd.

Show necessary ledger accounts in the books of Nisha Ltd. Journal Entries in the books of Asha Ltd. and balance sheet Asha Ltd. after abortion

In The books of Nisha Ltd. Realization A/c

To Plant	200000	By 12% Debentures	100000
To Stock	1400000	By current liabilities	60000
To Debtors	1750000	By Asha Ltd.	450000
To Bank	45000		
To equity share Holders profit	50000		
	610000		**610000**

Equity shareholders A/c

To equity shares In Asha Ltd	420000	BY equity share capital	300000
To Cash	30000	By General Reserve	100000
		By realization	50000
	450000		**450000**

Asha Ltd. A/c

To realization A/c	450000	By equity shares In Asha Ltd.A/c	420000
		By cash	30000
	450000		**450000**

Equity shares in Asha Ltd.

To Asha Ltd	420000	By Equity share Holders A/c	420000
	420000		**420000**

Cash A/c

To Asha Ltd	30000	By equity share holders A/c	30000
	30000		**30000**

Journal of Asha Ltd

1. Business Purchase A/c		450000	
To Liquidator of Nisha Ltd.			450000
(Being business purchase)			
2. Plant A/c	Dr.	200000	
Stock A/c	Dr.	140000	
Debtors A/c	Dr.	175000	
Bank A/c	Dr.	45000	
Good will A/c	Dr.	50000	
To business purchase			450000
To 120% Debentures			100000
To Current liabilities			60000
(Being sundry assets and liabilities taken over recorded)			
3. Liquidator of Nisha Ltd.	Dr	450000	
To Equity share capital			300000
To Securities premium A/c			120000
To Cash A/c			30000
(Being Purchase consideration discharged)			

4. 12 % Debentures A/c	Dr.	100000	
To 10% Debentures A/c			95000
To Capital Reserve			5000
(Being old debentures discharged)			
5. Goodwill A/c		5000	
To Cash			5000
6. Capital Reserve A/c	Dr.	5000	
To Good will			5000
(Being Capital Reserve eliminated)			

Asha Ltd
Balance Sheets as on 1st April 2009

Liabilities	B	Assets	B
Share Capital		Good will	50000
8000 Equity shares	800000	Land	60000
Of Rs. 100/- Fully Paid		Plant	440000
Securities Premium	220000	Motor vehicles	60000
General reserve	100000	Stock	290000
10% Debentures	95000	Debtor	475000
Current Liabilities	260000	Bank	100000
	1475000		**1475000**

Illustration No.9

The Balance sheet of Priti Ltd. as on 31st March 2009 was as follows:

Liabilities	Rs.	Assets	Rs.
Capital :		Goodwill	40,000
50,000 Equity Shares of		Plant and Machinery	3,00,000
Rs. 10 each fully paid	5,00,000	Stocks	1,60,000
20000 6 % Cumulative Preference Shares of Rs. 10 each fully paid	2,00,000	Sundry Debtors	2,40,000
5% Debentures of Rs.100 each	1,00,000	Cash at Bank	17,800
Bank Overdraft	40,000	Profit & Loss A/c.	2,80,200
Bills payable	28,000	Preliminary Expenses	10,000
Sundry Creditors	1,83,000	Commission & Brokerage on issue of Shares	8,000
Interest Accrued on Debentures	5,000		
	10,56,000		10,56,000

The Following sceme of reconstration was approved by all the concern parties a Sanctioned by the court.

1. The Company to go in liquidation and a new company, Priya Ltd, with an authorized Capital of Rs. 5,00,000 be formed to take over the business of Priti Ltd

2. Preferential creditors of Rs. 33000 included in the above balance sheet are to be paid in full.
3. Balance creditors to receive 60% of their claim in cash.
4. Preference shareholders to receive 5000 equity shares of Rs. 10 each at par in full satisfaction their claim
5. Equity share holders to allotted one share of Rs.10 each, credited as Rs. 4 paid up for every share held by them. They have also agreed to pay the balance Rs.6/- share immediately
6. Debentures holders to receive equal no of 12 % debentures of Rs.75 each in the new company. Interest due to them being waived.
7. Reconstruction Cost amounting to Rs.10000 paid by Priya L
8. Your required to give necessary ledger accounts in the books of Priti Ltd. and Balance sheet of Priya Ltd. After reconstructions.

Solution: 1. Purchase consideration(net payment Method)

To Preference share holders 5000 equity shares of Rs. 10 each fully paid	50,000
To Equity share holders 50000 equity shares Rs. 4 paid up	2,00,000
Total Purchase consideration	**2,50,000**

2.Goodwill/ Capital reserve

Assets taken over		
Plant & machinery	3,00,000	
Stock	1,60,000	
Debtors	2,40,000	
Cash Bank	17,800	
		7,17,800
Less liabilities taken over		
Debentures	75,000	
Bank overdraft	40,000	
Bills payable	28,000	
Creditors	1,23,000	
		2,66,000
Net assets taken over		4,51,800
Purchase consideration		2,50,000
Capital reserve		**2,01,800**

In the books of Priti Ltd.
Realisation Account

To Goodwill	40000	By debentures	100000
To Plant & Machinery	300000	By bank over draft	40000
To Stock	160000	By bills payable	28000
To Debentures	240000	By creditors	1,83000
To cash Bank	17800	By interest on debenture	5000
		By Priya Ltd.	250000
		By preference share holders	150000
		By Equity share holders	1800
	757800		**757800**

Equity shareholders account

To profit & loss A/c	280200	By equity share capital	500000
To Preliminary expences	10000		
To share issue expence	8000		
To Realisation A/c	1800		
To Equity share in Priya Ltd.	200000		
	500000		**500000**

Preference shareholders account

To Equity shares in Priya Ltd.	50000	By preference Capital	200000
To realization A/c	150000		
	200000		**200000**

Priya Ltd. A/c

To Realisation A/c	250000	By Equity shares in Priya Ltd	250000
	250000		**250000**

Equity share in Priya Ltd A/c

To Priya Ltd.	250000	By Equity share holders A/c	200000
		By Preference shareholders A/c	50000
	250000		**250000**

Journal Entries in the books of Priya Ltd.

Sr.No.	Particulars		Dr. Rs.	Cr. Rs.
1	Business purchase A/c.	Dr.	250000	
	To Liquidator of Priti Ltd.			250000
	(Being business purchase recorded)			
2	Plant and Machinery A/c.	Dr.	300000	
	Stock A/c.	Dr.	160000	
	Debtors A/c.	Dr.	240000	
	Cash Bank A/c.	Dr.	17800	
	To Debentures A/c.			75000
	To Bank Overdraft A/c.			40000
	To Bills payable			28000
	To Creditors			123000
	To Business purchase			250000
	To Capital Reserve			201800
	(Being sundry assets and liabilities taken over recorded)			
3	Liquidator of Priti Ltd. A/c.	Dr.	250000	
	To Equity Share Capital(fully paid)			50000
	To Equity Share Capital (partly paid)			200000
	(Being purchase consideration discharged.)			
4	Equity Share Call A/c	Dr.	300000	
	To Equity Share Capital A/c			300000
	(Being call made on 50000 Equity shares at Rs. 6/ share)			
5	Bank A/c Dr.		300000	
	To Equity Share Call A/c			300000
	(Being Call amount received)			
6	Creditors A/c	Dr.	123000	
	To Bank A/c			123000
	(being Creditors Paid)			
7	Debenture holders of Priti Ltd. A/c	Dr.	75000	
	To 12% Debentures A/c			75000
	(Being new debentures issued)			
8	Capital reserve A/c	Dr.	10000	
	To Bank			10000
	(Being cost of reconstruction paid)			

Balance sheet of Priya Ltd. as on 1st April, 2009

Liabilities	Rs.	Assets	Rs.
Share Capital:		Plant & Machinery	300000
Authorised		Stock	160000
10000 Equity share of Rs.10 each	1000000	Debtors	240000
Issued, subscribed, paid up		Cash and Bank	144800
55000 Equity Shares of Rs. 10/-	550000		
Capital Reserve	191800		
12 % Debentures	75000		
Bills Payable	28000		
	844800		**844800**



10

AMALGAMATION OF LIMITED COMPANIES-III

Unit Structure

10.1 Solved problems
10.2 Key words
10.3 Exercise

10.1 SOLVED PROBLEMS :

Illustration 1 (Adjustment of rights of shareholders)

Chaitanya Limited is absorbed by New wave limited. Following are the Balance sheets of the above companies as on 31st March 1996.

Capital and Liabilities	Chaitanya Ltd. Rs.	New Wave Ltd. Rs.	Assets	Chaitanya Ltd. Rs.	New Wave Ltd. Rs.
Share Capital : Paid up Share Capital : 10,000 Equity Share of Rs. 100 each of 70 paid up	7,00,000	75,00,000	Sundry Assets	20,30,000	98,10,000
1,00,000 Equity Shares of Rs. 100 each Rs 75 per Share paid up	8,50,000	22,00,000	Cash in hand	20,000	2,70,000
Reserve Fund P & L A/c	3,00,000	2,00,000			
Sundry Creditors	2,00,000	1,80,000			
	20,50,000	**1,00,80,000**		**20,50,000**	**1,00,80,000**

It was decided that the holder of every three shares in Chaityanya Limited was to receive five shares in New Wave Limited, plus as much cash as is necessary to adjust the rights of Shareholders of both companies in accordance with the intrinsic value of shares as per respective balance sheets.

Pass the necessary journal entries in the books of New Wave Limited and prepare the balance sheet giving effect to the above scheme of absorption (T.Y.B.com April 1996)

Solution

In the Books of New Wave Ltd.
Calculation of the Intrinsic Value of Shares

Particulars	**Chaitanya Ltd. Rs.**	**New WaveLtd. Rs.**
Sundry Assets	20,30,000	98,10,000
Cash in hand	20,000	2,70,000
Total Assets	20,50,000	1,00,80,000
Less : Sundry Creditors	2,00,000	1,80,000
Net Assets	18,50,000	99,00,000

Intrinsic Value = Net Assets Available to Equity Shareholders / No. of Equity Shares

= 18,50,000 / 10,000 = 99,00,000 / 1,00,000

= Rs/ 185/- = Rs. 99/-

Calculation of amount to be paid in cash :

Intrinsic values of 3 shares in Chaitanya Ltd.	185 x 3 =	555
Intrinsic values of 5 shares in New Wave Ltd.	99 x 5=	495
Difference for every 3 shares Payable in Cash		60

Calculation of Purchase Consideration:(Net Payment Method)

1. Shares to be allotted :16,666 Shares x Rs. 99		=	16,49,934
2. Cash	10,000 x Rs. 60	=	2,00,000
3. Cash for Fraction of Shares (0.666 x 99)		=	66
			18,50,000

Journal of New Wave Ltd.
(Purchase Method)

		Debit Rs.	Credit Rs.
Business Purchase A/c	Dr.	18,50,000	
To Liquidators of Chaitanya Ltd. A/c			18,50,000
(Being Purchase Consideration due)			
Sundary Assets	Dr.	20,30,000	
Cash A/c	Dr.	20,000	
To Sundry Creditors A/c			2,00,000
To Business Pruchase A/c			18,50,000
(Being Assets and Liabilities taken over)			
Liquidators of Chaitanya Ltd. A/c	Dr.	18,50,000	
To Equity Share Capital A/c (16,666 x 75)			12,49,950
To Cash A/c			2,00,066
To Securities Permium A/c			3.99,984
(Being the Purchase Consideration settled)			

New Wave Ltd.

Balance Sheet
as on 31st March, 1996

Liabilities	Rs.	Rs.	Assets	Rs.	Rs
Paid up Capital			Sundry Assets		
1,16,666 Shares			Chaitanya Ltd.	20,30,000	
of Rs 75/- per share			New Wave Ltd.	98,10,000	1,18,40,000
paid up		87,49,950	Cash in hand:		
Reserve Fund		22,00,000	Chaitanya Ltd.	20,000	
Securities Premium		3,99,984	New Wave Ltd.	2,70,000	
P&L A/c		2,00,000		2,90,000	
Sundry Creditors:			Less : Cash Paid as Purchase Consideration	2,00,066	89,934
Chaitanya Ltd.	2,00,000				
New Wave Ltd.	1,80,000	3,80,000			
		1,19,29,934			1,19,29,934

Illustration 2 (Absorption – Net Payment Method)

Premier Ltd. Agreed to acquire the business of Modern Auto Ltd. as on 31st March, 1997. The Balance Sheet of Modern Auto Ltd. as on that date was as under.

Liabilities	Rs.		Assets	Rs.
Share Capital :			Goodwill	10,000
6000 Equity Shares			Building	30,000
of Rs. 10 each fully	60,000		Machinery	34,000
paid			Stock	16,800
General Reserve	17,000		Book Debts	3,600
Profit and Loss	11,000		U.T.I. Bank	5,600
Account			Account	
6% Debentures	10,000			
Sundry Creditors	2,000			
	1,00,000			**1,00,000**

The Consideration payable by Premier Ltd. was agreed as follows:

a) Cash payment equal to Rs. 2.50 per share in Modern Auto Ltd.

b) Issue of 9,000 Equity shares of Rs. 10 each of Premier Ltd. having as agreed value of Rs. 15 per share.

c) Issue of such an amount of fully paid 8% Debentures of Premier Ltd. at Rs. 96 each as is sufficient to discharge 6% Debentures, of Modern Auto Ltd. at 20% premium.

While computing purchase consideration. Premier Ltd. valued building and machinery at Rs. 60,000 each, stock at Rs. 14,200 and Book debts subject to 5% provision for discount. The cost of liquidation of Modern Auto Ltd. was Rs. 500.

Prepare:

(i) Necessary ledger Accounts in the books of Modern Auto Ltd.

(ii) Journalise the transaction in the books of Premier Ltd. Under Purchase Method

(T.Y.B.Com. 1997)

Solution:

Determination of Purchase Consideration:

To Whom	Amt	Mode of Discharge
Equity Shareholders	15,000	Cash (6,000 Equity Shares @
Equity Shareholders	1,35,000	2.5) 9,000 equity shares of
	1,50,000	Rs. 10 each at Rs. 15

In the Book of Modern Auto Ltd. Realisation A/c

	Rs.		Rs.
To Sundry Assets :		By Creditors	2,000
Goodwill 10,000		By 6%	10,000
Building 30,000		Debentures	
Machinery 34,000		By Premier Ltd.	1,50,000
Stock 16,800			
Debtors 3,600			
Bank 5,600	1,00,000		
To Bank (Expenses)	500		
To Equity Shareholders (Profit)	61,500		
	1,62,000		**1,62,000**

Premier Ltd. A/c

	Rs.			Rs.
To Realisation A/c	1,50,000		By Cash	15,000
			By Equity Shares in P. Ltd.	1,35,000
	1,50,000			**1,52,000**

Journal of Premier Ltd.

		Debit Rs.	Credit Rs.
Building A/c	Dr.	60,000	
Machinery A/c	Dr.	60,000	
Stock A/c	Dr.	14,200	
Book Debts A/c	Dr.	3,600	
U.T.I. Bank A/c	Dr.	5,600	
Goodwill A/c (Balance Figure)		20,780	
To Reserve for Discount on Debtors			180
To Creditors A/c			2,000
To Liquidators of Modern Auto Ltd. A/c			1,50,000
To 6 % Debentures (Modern Auto)			12,000
(Being Assets and Liabilities taken over)			
Liquidator of Moderyn Auto Ltd A/c	Dr.	1,50,000	
To Cash A/c			15,000
To Equity Share Capital A/c			90,000
To Securities Premium A/c			45,000
(Being discharged Purchase Consideration)			
6% Debentures (Modern Auto)	Dr.	12,000	
Discount on issue of Debentures	Dr	500	
To 8% Debentures	.		12,500
(Being 8% Debentures issued in settlement of 6% Debentures)			

Illustration 3

The following are the Balance Sheets of Maths Ltd. and Stats Ltd. as on 31st March 2002:

	Maths Ltd		Stats Ltd	
Share Capital				
42% Preference Shares of Rs 100 each fully paid	10			
Equity Shares of Rs. 10 each full paid	25	35	10	10
Reserve and Surplus		15		40
Shareholder's Fund		50		50
Loan Funds:				
Secured Loans	30			-
Unsecured Loans	20	50		-
		100		50
Represented by:				
Fixed Assets (W.D.V.)	-	50		4
Current Assets	400		60	
Less : Current Liabilities	350	50	14	46
		100		50

On that day the following scheme was agreed upon:

a) Stats Ltd took over the assets of Maths Ltd. for Rs. 5 Crores.

b) Stats Ltd allotted 10 lakhs Equity Shares Rs. 10 each at a premium of Rs. 40 per share in discharge to this takenover.

c) The Directors of Stats Ltd. revalued the fixed of Maths Ltd. at Rs. 1.10 crores. The other assets were recorded at the values appearing in the Balance Sheets of Maths Ltd.

d) Maths Ltd. dealt with the shares received from Stats Ltd. as under

i) Allotment in full settlement

To Secured lenders	60,000 shares
To Unsecured lenders	40,000 shares
To Preference Shareholders	20,000 shares

ii) Allotment in partial settlements

To Equity Shareholders	80,000 shares

iii) Sale in Mumbai Stock Exchange at Rs 60 per share 8,00,000 shares.

The sale proceeds were partially used to settle all the current liabilities.

You are asked to:

i) Prepare the necessary ledger accounts in the books of Maths Ltd.

ii) Prepare the Balance Sheets of Stats Ltd. in Horizontal form on completion of the above scheme as at 31st March 2002, under Purchase Method.

(T.Y.B.Com April 1998)

Solution :

In the Books of Maths Ltd.
Realisation A/c

Dr. **Cr.**

	Rs.		Rs.
To Assets Ltd.		By Secured Loans	30,00,000
Fixed Assets	50,00,000	By Unsecured Loans	20,00,000
Current Assets	4,00,00,000	By Current Liabilities	3,50,500
To Equity Shares in Stats Ltd. (Secured Loan)	30,00,000	By Stats Ltd. (Purchase Consideration)	5,00,00,000
To Equity Shares in Stats Ltd. (Unsecured Loan)	20,00,000	By Equity Shares in Stats Ltd. (Profit on Sale)	80,00,000
To Cash (Current Liability)	3,50,00,000		
To Equity Shareholders A/c (Profit on Realisation)	1,30,00,000		
	9,80,00,000		**9,80,00,000**

Cash A/c

	Rs.		Rs.
To Equity Shares in Stats Ltd.	4,80,00,000	By Realisation A/c (Expenses)	3,50,00,000
		By Equity Shareholders A/c	1,30,00,000
	4,80,00,000		4,80,00,000

Equity Shareholders A/c

Dr. **Cr**

	Rs.		Rs.
To Cash	1,30,00,000	By Equity Share Capital A/c	25,00,000
To Equity Shares in Stats Ltd.	40,00,000	By Reserve & Surplus	15,00,000
		By Realisation A/c	1,30,00,000
	1,70,00,000		**1,70,00,000**

Preference Shareholders A/c

Dr. **Cr.**

	Rs.			Rs.
To Equity Shares in Stats Ltd.	10,00,000		By Preference Share Capital A/c	10,00,000
	1,70,00,000			10,00,000

Stats Ltd A/c

Dr. **Cr.**

	Rs.		Rs.
To Realisation A/c.	5,00,00,000	By Equity Share in Stats Ltd.	5,00,00,000
	5,00,00,000		**5,00,00,000**

Equity Shares in Stats Ltd. A/c

Dr. **Cr.**

	Rs.		Rs.
To Stats Ltd.	5,00,00,000	By Realisation A/c	30,00,000
To Realisation A/c	80,00,000	By Realisation A/c	20,00,000
		By Preference Shareholders	10,00,000
		By Cash	4,80,00,000
		By Equity Share holders	40,00,000
	5,80,00,000		**5,80,00,000**

Stats Ltd.
Balance sheets as on 1st April 2002

Liabilities	Rs.	Assets	Rs.
Share Capital		Fixed Assets	1,14,00,000
Authorised		Investments	Nil
Issued,		Current Assets	4,60,00,000
Subscribed and paid up :		Loans & Advances	Nil
11,00,000 Equity Shares of Rs. 10 each	1,10,00,000	Miscellaneous Expenditure : (Not Written off)	Nil
(Of the above, 10,00,000 Shares of Rs. 10 each are allotted for consideration other than cash)			
Reserves and Surplus			
Capital Reserves	10,00,000		
Securities Premium A/c (10,00,000 Shares x Rs. 40)	4,00,00,000		
Other Reserves	40,00,000		
Secured Loans	Nil		
Unsecured Loans	Nil		
Current Liabilities and provisions			
Current Liabilities	14,00,000		
Provision	Nil		
	5,74,00,000		**5,74,00,000**

Working notes:

1. Purchase consideration on Lumpsum basis Rs. 5,00,00,000
2. Purchase consideration discharge by issue of 10,00,000. Equity Shares of Rs. 10 each for Rs. 50.
3. **Capital Reserves :**

	Rs.
Fixed Assets	1,10,00,000
Current Assets	4,00,00,000
	5,10,00,000
Less: Purchase Consideration	5,00,00,000
Capital Reserve	**10,00,000**

Illustration 4 (Absorption – Net Payment Method)

The following are the Balance Sheets of Fat Ltd. and Thin Ltd. as at 31st December, 2001:

	Fat Ltd		Thin Ltd	
Share Capital				
Equity Shares of Rs. 10 each full paid	50		20	
6% Preference Shares of Rs 100 each fully paid	-	50	15	35
Reserve and Surplus :				
Securiteis Premium	10		5	
Capital Reserve	15		10	
Other Reserves	40	65	15	30
Secured Loans		20		10
Unsecured Loans		15		5
Loan From Pvt. Ltd.		-		5
		150		85
Fixed Assets :				
Cost	90		40	
Less : Depreciation	30	60	15	25
Investments in Madhyam Ltd. at Cost		-		30
Loan to Thin Ltd.		5		-
Net Current Assets		85		30
		150		85

On that day Fat Ltd. absorbed Thin Ltd. on the following terms :

a) All the assets and liabilities of Thin Ltd. other than Investments is Madhyam Ltd. are taken over Rs. 40 lakhs.

b) Thin Ltd. to receive from Fat Ltd. 15% Debentures of Rs 12 lakhs at par and Equity Shares of the par value of Rs. 10 each at a premium of Rs. 4 per share for the balance.

c) The Preference Shareholders of Thin Ltd. are to be allotted the debentures received from Fat Ltd. and 10,000 Equity Shares of Fat Ltd. is full discharge of their interest in Thin Ltd.

d) The balance of Equity Shares received from Fat Ltd. and the Investments in Madhyam Ltd. are to be allotted to the Equity Shareholders of Thin Ltd.

e) The Direction of Fat Ltd. revalued the fixed assets taken over from Thin Ltd. at Rs. 41,00,000

You are asked to :

i) Show the relevant ledger accounts in the books of Thin Ltd.

ii) Show the Balance sheet of Fat Ltd. after giving effect to the above transactions as at 31st December, 2001. Under Purchase Method.

(T.Y.B.Com, 1998)

Solution :

In the Books of Thin Ltd.
Realisation A/c

Dr. Cr.

	Rs.		Rs.
To Assets Ltd.		By Provision for Depreciation	15.00
Fixed Assets 40.00		By Loans (Secured)	10.00
Net Current Assets 30.00	70.00	By Loans (Unsecured)	5.00
To Equity Shareholders A/c	6.60	By Loan (Fat Ltd)	5.00
(Profit on Realisation)		By Fat Ltd.	40.00
		By Preference Shareholders	1.60
	76.60		76.60

Equity Shareholders A/c

Dr. Cr.

	Rs.		Rs
To Investment in Madhyam Ltd.	30.00	By Equity Share Capital A/c	20.00
To Equity Shares in Fat Ltd. (1,90,000	26.60	By Securities Premium	5.00
		By Capital Reserve	10.00
		By other Reserves	15.00
		By Realisation A/c	6.60
	56.60		56.60

6% Preference Shareholders A/c

Dr. Cr.

	Rs.		Rs.
To 15% Debentures in Fat Ltd.	12.00	By Preference Share	
To Equity Shares in Fat Ltd. (10,000)	1.40	Capital A/c	15.00
To Realisation A/c	1.60		
	15.00		15.00

Fat Ltd A/c

Dr. Cr.

	Rs.		Rs.
To Realisation A/c	40.00	By 15% Debentures in Fat Ltd.	12.00
		By Equity Shares in Fat Ltd $\left(\frac{28,00,000}{14} = 2,00,000\right)$	28.00
	40.00		40.00

Equity shares in Fat Ltd A/c

Dr. Cr.

	Rs.		Rs.
To Fat Ltd. (2,00,000 x 14	28.00	By Preference Shareholders (10,000 x 14)	1.40
		By Equity Shareholdsers (1,90,000 x 14)	26.60
	28.00		28.00

15% Debentures in Fat Ltd A/c

Dr. **Cr**

	Rs.		Rs.
To Fat Ltd	12.00	By Preference Shareholders	12.00
	12.00		12.00

Investment in Madhyam Ltd. A/c

Dr. Cr

	Rs.		Rs.
To Balance b/d	30.00	By Equity Shareholders	30.00
	30.00		30.00

Fat Ltd.
Balance sheets as on 1st January, 2002

Liabilities	Rs.	Rs.		Assets	Rs.	Rs.
Share Capital				**Fixed Assets**		
Authorised				Cost (90+4)	131.00	
Issued, Subscribed and paid up : 7,00,000 Equity Shares of Rs. 10 each (Of the above, 2,00,000 Shares of Rs. 10 each are allotted for consideration other than cash)		70.00		Less : Depreciation	30.00	101.00
				Investments		Nil
				Current Assets		
				Net Current Assets (85+30)		115.00
				Loans & Advances		Nil
				Miscellaneous Expenditure : (Not Written off)		Nil
Reserves and Surplus						
Capital Reserves (15+11)	26.00					

Securities Premium A/c (10 + 8)	18.00					
Other Reserves	40.00	84.00				
Secured Loans :						
15% Debentures	12.00					
Secured Loans (20+10)	30.00	42.00				
Unsecured Loans(15+5)		20.00				
Current Liabilities and provisions		Nil				
		216.00		**Total**		**216.00**

Working Notes :

1. Purchase Consideration (Lumpsum Basis) Rs. 40 Lakhs
2. Purchase Consideration Settlement.

Payment to		**Rate Rs.**	**Rs.**
a) Equity Shareholders : Equity Shares in Fat Ltd	1,90,000	14.00	26.60
b) Preference Shareholders: (15% Debentures in Fat Ltd.)			12.00
Equity Shares in Fat Ltd.	10,000	14.00	1.40
Total			**40.00**

3. Capital Reserve on take over of Thin Ltd.

Assets taken over:		
Fixed Assets (as revalued)	Rs.	41.00
Net Current Assets	Rs.	30.00
	Rs.	71.00
Less : Loans taken over	Rs.	20.00
Value of Net Assets taken over	Rs.	51.00
Less : Purchase Consideration Paid	Rs.	40.00
Capital Reserve	Rs.	11.00

Illustration 5 (Purchase Consideration Nil)

The following are the Balance Sheets of Bada Ltd. and Choota Ltd. as on 31.03.2002:

		Bada Ltd. Rs.		Chotta Ltd. Rs
1. Sources of Funds				
Authorised Share Capital		500		25
a) Issued Share Capital				
for Cash fully paid Equity Share of Rs 10/- each or consideration other than cash		100		10
as Bonus share fully paid Equity share of Rs 10/- each				
out of General Reserve		400		15
		500		25
b) Reserve and Surplus :				
Capital Reserves		100		5
Revenue Reserve		1,900		70
		2,000		75
Owner's Fund		2,500		100
c) Loan Funds :				
Unsecured Debentures		500		100
Total Fund Rs.		3,000		200
d) **Fund Employed in**				
Fixed assets : Cost	600		5	
Less Depreciation	500	100	4	1
2. Investments :				
a) 2.5 Crore Shares of Chotta Ltd. fully paid at cost	20			
b) 1 Crore Unsecured Debentures of Chotta Ltd. of RS 100 each fully paid at cost	98			
c) 1 Crore fully paid Equity Shares of Rs 10/- each of Madhyam Ltd. at cost (Market Value Rs. 30 crores)		118	10	10
3. Current Assets , Loans and Advances :				
Current Assets	2,100		150	
Loans and Advances	3,000		100	

	5,100		250	
Less : Current Liabilities	1,500		50	
Provisions	818		15	
	2,318	2,782	65	185
4. Miscellaneous Expenditure to the extent not written of adjusted..				4
		3,000		200

On the day Bada Ltd. absorbed Chotta Ltd. taking over all the assets and liabilities. The consideration was Rs. Nil. You are asked to pass the journal entries in the books of Bada Ltd. and prepare the balance sheet of Bada Ltd in vertical form after absorption under purchase method, showing corresponding figures before absorption.

(T.Y.B.Com October 1999)

Solution:

Journal Entries
In the Books of Bada Ltd.

No.		Debit Rs.	Credit Rs.
	Fixed Assets A/c	1	
	Investment A/c	10	
	Current Assets A/c	250	
	To Investments in Shares of Chhota Ltd		20
	To Current Liabilities		65
	To Investment in Debentures of Chhota Ltd.		98
	To Capital Reserve (Balance Figure)		78
	(Being Premises of Chhota Ltd. taken over)		

Bada Ltd
Balance Sheet
(After Absorption)

	Rs.	**Rs**	**Rs.**
I. Sources of Funds			500
Authorised Share Capital			
a) Issued Share Capital			
for Cash fully paid Equity			
Share of Rs 10/- each	100		
For consideration other than			
cash as Bonus share fully paid			
Equity share of Rs 10/- each	400	500	
out of General Reserve			

b) Reserve and Surplus :			
Capital Reserves	178		
Revenue Reserve	1,900	2,078	
c) Owner's Fund		2,578	
d) Loan Funds :			
e) Unsecured Debentures		500	
f) Funds Employed in			3,078
II. Application of Funds			
1. Fixed Assets : cost	601		
Less : Depreciation	500	101	
2. Investments			
1 crore fully paid Equity Shares of Rs. 10 each of Madhyam Ltd. at cost (Market value Rs. 30 crore)		10	
3. Current Assets, Loans and Advances			
a) Current Assets	2,250		
b) Loans and Advances	3,100		
	5,350		
Less : Current Liabilities	(1,550)		
Provisions	(833)	2,967	
			3,078

Illustration 6 (Amalgamation – Valuation of Goodwill)

The Balance sheets of Bill Ltd. and Mona Ltd. as on 1st January 2002 were as under.

Liabilities	Bill Ltd Rs.	Mona Ltd Rs.	Assets	Bill Ltd. Rs.	Mona Ltd. Rs.
Equity Capital (of Rs 1/- each full paid)	31,000	33,500	Fixed Assets	45,000	29,000
			Current Assets	25,000	61,000
Profit and Loss A/c	19,000	1,500			
Current Liabilities	20,000	55,000			
	70,000	**90,000**		**70,000**	**90,000**

Oral Ltd. was formed to amalgamate the business of the two companies. The authorized capital of Oral Ltd. being Rs. 1,00,000 divided into Equity Shares of Re 1/- each of which 20,000 shares were issued for each at a premium of 25 paise per share and are fully paid.

The amalgamation took place on 1st January 2002 on the following terms:

a) All the assets and liabilities of Bill Ltd. and Mona Ltd. to be assured by Oral Ltd. for a total consideration of 80,000 shares of Oral Ltd.

b) The Fixed and Current Assets and Liabilities are taken over at book value.

c) Goodwill to be valued on the basis of 2.5 years purchase of past 3 years Average profit after deducting Normal Profit of 10% on Capital employed as on 1st January 2002 of each company

d) The trading profits for the year ending:

	Bill Ltd.	Mona Ltd.
	Rs.	Rs.
31.12.1999	7,050	5,500
31.12.2000	8,800	6,400
31.12.2001	8,900	6,850

e) Ignore taxation

You are required to ascertain and prepare :

a) number of shares to be issued by Oral Ltd. to share holders of Bill Ltd. and Mona Ltd. Stating the ratio thereof to their former holding

b) Balance sheet of Oral Ltd. amalgamation of Bill/Mona Ltd. Under Purchase Method.

(T.Y.B.Com October 1999)

Solution:

Valuation of Goodwill

	Bill Ltd Rs	**Mona Ltd. Rs.**
1. Capital Employed	50,000	35,000
2. Normal Rate of Return (NRR)	10%	10%
3. Standard Profit	5,000	3,500
4. Average Past Profit	8,250	6,250
5. Super Profit = Average profit – standard profit	3,250	2,750
6. Goodwill = no. of year purchased x Super profit	x 2.5 Yrs	x 2.5 Yrs
	8,125	6,875
Denomination of Purchase Consideration		
Fixed Assets	45,000	29,000
Current Assets	25,000	61,000
Goodwill	8,125	6,875
	78,125	**96,875**
Less : Current Liabilities	(20,000)	(55,000)
	58,125	41,875

Issue Price of One Equity Share in Oral Ltd $\frac{58.125 + 41,875}{80,000}$

= Rs. 1.25

Oral Ltd.
Balance Sheet

Liabilities	RS.	Assets	Rs.
Share Capital		Fixed Assets	74,000
Authorised		Goodwill	15,000
1,00,000 Equity Shares of Re 1/- each	1,00,000	Current Assets	86,000
		Bank	25,000
Issued and paid up:			
1,00,000 Equity Share of Re 1/- each fully paid	1,00,000		
(of the above 80,000 shares are issued to Vendors of business and consideration other than cash)			
Reserve and Surplus:			
Securities Premium	25,000		
Current Liabilities	75,000		
	2,00,000		2,00,000

Number of Shares to be issued to Bill Ltd and Mona Ltd by Oral Ltd.

	Bill Ltd.	Mona Ltd
Purchase Consideration	58,125	41,875
Issue Price per Share	1.25	1.25
No. of Shares	= 46,500	33,500

The ratio of Shares in Oral Ltd. to be issued to Shareholders of old Companies

=	46,500	33,500
	31,000	33,500
	1.5 : 1	1 : 1

For every 2 shares in Bill Ltd., new 3 shares in Oral Ltd.
For every one share in Mona Ltd., one new share in Oral Ltd.

Illustration 7 (Absorption – P. C. Lump sum)

M.D. Ltd. and M.L.D. Ltd. furnish you with their Balance Sheets as on 31st December 2001:

	M.D.Ltd Rs.		M.L.D. Ltd Rs.	
Source of Funds:				
Share Capital: Authorised	25		50	
Issued paid up				
Equity Shares of Rs. 10 each fully paid in cash		05		03
Reserve / Surplus:				
Capital Reserve	04		05	
Revenue Reserves	15	19	-	05
		24		08
Less : Debit Balance in Profit/Loss A/c		-		02
		24		06
Loan Funds:		06		04
Secured by a charge on Fixed Assets		30		10
	12		12	
Funds Represented by :	06		06	
Fixed Assets		06		06
Less : Depreciation		24		04
Net Current Assets		30		10

On the basis of the above the following decision were taken and approved by the Mumbai High Court:

a) Direction of M.L.D. Ltd. are to bring fresh Equity share Capital of Rs. 10 Lakhs at par.

b) The business of M.D. Ltd. to be absorbed by M.L.D. Ltd. for Rs. 27 Lakhs to be discharge in the form of Equity Shares of Rs. 10 each at par. Fixed Assets taken over from M.D. Ltd. are to be valued at Rs. 8 lakhs

c) M.L.D. Ltd. is to provide Rs. 3 lakhs for depreciation on its original fixed assets. Capital Reserve appearing in the books of M.L.D. Ltd. is to be utilized for this purpose and to write off the adverse balance in revenue statement.

d) Bank monies brought in under(a) above are to be utilized to pay – off all secured lenders.

You are asked to:

Prepare Balance Sheet of M.L.D. Ltd. in Horizontal form on the basis of the above information after absorption, under Purchase Method.

(T.Y.B.Com April, 2000)

Solution :

Calculation of Purchase consideration paid by M.L.D. Ltd. to M.D. Ltd. Lump sum Rs. 27,00,000.

Discharge by :

Issue of 2,70,000 Equity Shares of Rs. 10 each at par i.e. Rs 27,00,000.

Calculation of Goodwill / Capital Reserve in the books of M.L.D. Ltd.

	Rs.
Assets taken over	
Fixed Assets	8,00,000
Net Current Assets	24,00,000
	32,00,000
Less: Loan Funds (secured by a charge of FA)	6,00,000
	26,00,000
Add: Goodwill (Balance Figure)	1,00,000
Purchase: Consideration	27,00,000

In the Book of M.L.D. Ltd.
Balance Sheet
As on 31st December 2001

Liabilities	**Rs.**	**Assets**	**Rs.**
Share Capital		Fixed Assets	1,00,000
Authorised Capital	50,00,000	Goodwill	11,00,000
Issued:		Others	
Paid up Equity Shares of Rs.10 each fully paid (including Rs. 27,00,000 shares issued for consideration other than cash for acquisition of business of M.D. Ltd.)	40,00,000	Current Assets (24,00,000+4,00,000)	28,00,000
	40,00,000		40,00,000

Additional Points :

1. Capital Reserve A/c	Dr.	5,00,000	
To Fixed Assets (Depreciation			3,00,000
To Profit and Loss A/c			2,00,000

Since Balance of Capital Reserve Account is completely utilized, there will be no balance in Balance Sheet.

2.	Share Capital paid up		
	Original	Rs.	3,00,000
	Given to M.D. Ltd.	Rs.	27,00,000
	Fresh Issue	Rs.	10,00,000
			40,00,000

3. Amount raised by fresh issue Rs. 10,00,000 is used to pay loan funds (6,00,000 + 4,00,000) hence there is no Bank balance in Balance Sheet..

Illustration 8 (Dissented Shareholders)

Liabilities	**Rs.**	**Assets**		**Rs.**
Share Capital		**Fixed Assets**		
2,500 Equity		Land and		
Shares RS. 100		Building	1,30,000	
each fully paid	2,50,000	Plant and		
Sundry Creditors	1,10,000	Machinery	75,000	2,05,000
		Current Assets		
Preferential	15,000	Stock	50,000	
Creditors		Debtors	57,000	
		Cash	1,000	1,08,000
		Preliminary		5,500
		Expenses		
		Profit and Loss A/c		56,500
	3,75,000			**3,75,000**

The shareholders of the company resolved to take the company into voluntary liquidation and to form M/s Useful Limited, a new company with an authorized share capital of Rs. 10 lakh to take over the business on the following terms:

a) Preferential creditors of Rs. 15,000 are to be paid in full.

b) Unsecured creditors to receive 50 paise in a rupee in full settlement of their claims or par value of their claim in 7% Debentures of useful limited.

c) 2,500 Equity Shares of RS 100 each Rs. 60 paid to be distributed prorata to existing shareholders.

Five shareholders holding 200 shares dissented and their interest was purchased at Rs 50 per share by an assenting shareholder to whom the shares were transferred Half the unsecured creditors opted to be paid in cash, and the fund for this purpose were procured by calling up the balance of RS. 40 per share. Cost of liquidation amounting to Rs. 3,500 paid by Useful Ltd. as part of purchase consideration.

Journalise the above transaction in the books of Useful Limited and prepare the balance sheet in vertical form thereafter assuming the Plant and Machinery, Stock and Debtors were acquired at their book values and Land and Building is to be taken at Rs. 68000.

(T.Y.B.Com April 2000)

Solution

In the Book of Useful Ltd.
Calculation of Purchase Consideration

To Whom	What	How	Amount Rs.
1. Equity Shareholders	Equity Shares Capital	2,500 x 60	1,50,000

No effect of settlement of dissenting shareholders and transfer to shares in Balance Sheets.

Journal Entries
In the Book of Useful Ltd.

		Rs.	Rs,
1. Business Purchase A/c	Dr	1,50,000	
To Liquidator of Useless Ltd.			1,50,000
(Being taken over business of Useless Ltd)			
2. Land and Building A/c	Dr.	68,000	
Plant and Machinery A/c	Dr.	75,000	
Stock A/c	Dr.	50,000	
Debetors A/c	Dr.	57,000	
Cash A/c	Dr.	1,000	
To Preferential Creditors			15,000
To Unsecured Creditors			27,500
To Unsecured Creditors			55,000
To Business Purchase A/c			1,50,000
To Capital Reserve A/c			3,500
(Being Assets & Liabilities brought into the Books)			

3. Liquidator of Useless Ltd A/c To Equity Share Capital A/c (Being Purchase Consideration discharged)	Dr	1,50,000	1,50,000
4. Preferential Creditors A/c Unsecured Creditors A/c To Cash A/c (Being Preferential & Unsecured Creditors paid off)	Dr. Dr.	15,000 27,500	 42,500
5. Unsecured Creditors A/c To 7% Debentures A/c (Being Unsecured Creditors settled on issue of 7% Debentures)	Dr.	55,000	55,000
6. Goodwill A/c To Cash A/c (Being paid for cost of Liquidation)	Dr.	3,500	3,500
7. Bank A/c To Equity Share Capital (2,500 x 40) A/c (Being collected a call of Rs. 40 per share)	Dr.	1,00,000	1,00,000

Useful Ltd.
Balance Sheet as on 31st December 1999

	Schedule No.	Rs.	Rs.
I. Sources of Funds			
1. Shareholder's Fund			
a) Capital	1	2,50,000	
b) Reserve and Surplus	2	3,500	2,53,500
2. Loan Funds :			
a) Secured Loans	3	55,000	
b) Unsecured Loans		Nil	55,000
Total			**3,08,5000**
II. Application of Funds			
1. Fixed Assets	4		
a) Gross Block	-	-	
b) Less : Depreciation	-	-	Nil
c) Net Block	-	-	1,46,500
d) Capital Work in Progress	-	-	Nil
2. Investments	-	-	Nil
3. Current Assets, Loans & Advances			
a) Inventories	-	50,000	-
b) Sundry Debtors	-	57,000	-
c) Cash and Bank Balances	-	55,000	-
d) Other Current Assets	-	Nil	-
e) Loans and Advances	-	Nil	-

		1,62,000	
Less : Current Liabilities and Provisions			
a) Liabilities	-	Nil	
b) Provisions	-	Nil	
Net Current Assets			1,62,000
4. a) Miscellaneous expenditure to the extent not written off or adjusted	-	-	Nil
b) Profit and Loss Account	-	-	Nil
Total			**3,08,500**

Schedules forming part of Balance Sheet:

Schedule 1 Share Capital

	Rs.
Authorised :	
10,000 Equity Shares of Rs 100 each	10,00,000
Issued and Subscribed :	
2,500 Equity Shares of RS. 100 Each	2,50,000
	2,50,000

Schedule 2 Reserve and Surplus

	Rs.
Capital Reserve	3,500
	3,500

Schedule 3 Secured Loans

	Rs.
7% Debentures	55,000
	55,000

Schedule 1 Share Capital

	Rs.
Goodwill	3,500
Land and Buildings	68,000
Plant and Machinery	75,000
	1,46,500

Working

	Rs.
Cash Balance	1,000
Received From Useless Ltd	1,00,000
Share Capital (2,500 x 40)	1,01,000
Less: Paid on preferential creditors	15,000
Paid to unsecured creditors	27,500
Liquidation Expenses	3,500
Balance	**55,000**

Illustration 9 (Ext – Reconstruction – Net Payment Method)

The following was the Balance Sheet of DT. Ltd. as on 30th June 2001

Liabilities	Rs.	Assets	Rs.
Share Capital		Goodwill	25,000
2,500 8% Cumulative Preference Shares of Rs. 100 each	2,50,000	Fixed Assets	12,85,000
		Stock	3,03,000
		Debtors	2,50,000
		Bank Balance	7,000
12,000 Equity Shares of Rs 100 each	12,00,000	Preliminary Expenses	25,000
9% Debentures	5,00,000	Profit and Loss A/c	6,00,000
Interest Accrued thereon Creditors	45,000		
	5,00,000		
	24,95,000		**24,95,000**

Note: Preference dividend was in arrears RS. 40,000

The following scheme of Reconstruction is duly sanctioned:

a) A new company TD Ltd. is formed with Rs. 15,00,000 as Authorised share capital divided into 15,00,000 Equity Shares of Rs. 10 each.

b) The Company will acquire DT Ltd. on the following conditions :

i) Old Companies Debentures will be paid by similar debentures in the new company. For the arrears of interest, equivalent amount of equity shares will be issued.

ii) The creditors will be paid for every Rs. 100 for their claim, Rs sixteen cash and ten equity shares in the new company.

iii) Preference shareholders are paid ten Equity shares in the new company for each shares held by them in the old company. They will not press for their dividend arrears.

iv) Equity Shareholders will be given ten equity shares in the new company for three shares held in the old company

v) Expenses of Rs. 20,000 will be borne by the new company, as a part of purchase consideration.

c) The new company will take the current assets at their book value except stock which will be reduced by Rs. 15,000 Intangible, assets are not to appear in the new balance sheet, appropriate adjustment being made in the values of fixed assets

d) Remaining equity shares in the new company are issued to the public and are fully paid.

You are required to prepare :

a) In the book of DT Ltd. (i) Realisation Account (ii) DT Equity Shareholders account

b) In the Book of DT. Ltd. i) Journal Entries (ii) Balance Sheet

Solution

Calculation of Purchase Consideration

	Rs.
To Preference Shareholders: 25,000 Equity Shares of Rs. 10/- each To Equity Shareholders $\frac{10}{3}$ x12,000 = 40,000 shares of Rs. 10/- each	2,50,000 4,00,000 6,50,000

Note: As per AS – 14 expenses are not covered by purchase consideration

	Rs.		Rs.
To Sundry Assets	18,70,000	By Liabilities 9% Debentures Interest on Debentures **Creditors :** By T.D. Ltd. By Equity Shareholders A/c (Loss)	5,00,000 45,000 5,00,000 6,50,000 1,75,000
	18,70,000		**18,70,000**

DT Equity Shareholders A/c

	Rs		Rs.
To Preliminary Expenses	25,000	By Equity Share Capital	12,00,000
To Profit & Loss A/c	6,00,000		
To Realisation (Loss)	1,75,000		
To Equity Shares in TD Ltd.	4,00,000		
	12,00,000		**12,00,000**

Journal of TD. Ltd.

	Dr Rs.	**Dr Rs,**
1. Business Purchase A/c Dr	6,50,000	
To Liquidator of DT Ltd.		6,50,000
(Being Purchase Consideration Due)		
2. Stock A/c Dr.	2,88,000	
Debetors A/c Dr.	2,50,000	
Bank A/c Dr.	7,000	
Fixed Assets Dr.	12,30,000	
To 9% Debenture A/c		
To Creditors A/c		5,45,000
To Business Purchase A/c		5,80,000
(Being Assets & Liabilities taken over, balance being Fixed Assets)		6,50,000
3. Liquidator of DT.Ltd A/c Dr	6,50,000	
To Equity Share Capital A/c		6,50,000
(Being Purchase Consideration discharged)		
4. Bank A/c Dr.	3,05,000	
To Equity Share Capital A/c		3,05,000
(Being amount received for issue of remaining shae to Public)		
5. 9% Debentures holder of DT Ltd A/c Dr.	5,45,000	
To 9% Debentures A/c		5,00,000
To Equity Shares Capital A/c		45,000
(Being Debentures holder's claim settled)		

6. Creditors A/c	Dr.	5,80,000	
To Cash A/c			80,000
To Equity Share CApital A/c			5,00,000
(Being Creditors A/c Settled)			
7. Goodwill A/c	Dr.	20,000	
To Cash A/c			20,000
(Being paid for Realisation Expenses)			

TD Ltd.
Balance Sheet
As on 1st July, 2001

Liabilities	Rs.	Assets	Rs.
Share Capital		Fixed Assets	12,50,000
15,000 Equity		**Current Assets:**	
Shares of Rs. 100	15,00,000	Stock	2,88,000
each		Debtors	2,50,000
Secured Loan:	5,00,000	Bank Balance	2,12,000
9% Debentures			
	20,00,000		**20,00,000**

Working note:

Cash A/c

	Rs.		Rs
To Sundry	7,000	By Goodwill A/c	20,000
Liabilities		By Creditors :	80,000
To Equity Share	3,05,000	By Balance c/d	2,12,000
Capital			
	3,12,000		**3,12,000**

Illustration 10

Madhuri Limited absorbed Shruti Limited on 31st March, 2001 on which day, the balance sheet of Shruti Limited was as under:

Balance Sheet
As on 31st March, 2001

Liabilities	Rs.	Assets	Rs.
Equity Share		Goodwill	30,000
Capital of Rs 10/-	5,00,000	Bank Balance	40,000
each		Inventories	1,55,000
5% Preference	2,00,000	Plant and Machinery	2,05,000
Shares of Rs 100		Debtors	85,000
each		Land and Buildings	2,50,000
Creditors	50,000	Preliminary	17,500
Bill Payable	30,000	Expenses	
		Profit and Loss A/c	27,500
	7,80,000		**7,80,000**

The business of Shruti Limited was taken over by Madhuri Limited on the following terms and conditions:

a) For every 10 equity shares of Shruti Limited Madhuri Limited issued 11 fully paid equity shares of Rs. 10 each and paid Rs. 15 each.

b) Preference shares of Shruti Limited were paid 6% preference shares of Madhuri Limitd at a premium of 8%.

c) All assets and liabilities were taken over except cash to the extent of Rs. 7,000 which was left for meeting realization expenses.

d) Land and building was revalued at Rs. 3,00,000. All other assets and liabilities were taken over at the book value.

e) For the purpose of carrying out the above absorption. Madhuri limited made necessary arrangements of funds from bank.

Prepare :

i) Necessary ledger accounts in the book of Shruti Limited
ii) Balance sheet in the books of Madhuri Limited .

(T.Y.B.Com October, 2001)

Solution :

Purchase Consideration :		**Rs.**
a) Issue of Equity Shares in Madhavi Ltd.		
$\frac{11}{10}$ x 50m000 = 55,000 shares of Rs. 10 each	=	5,50,000
b) Payment in cash $\frac{15}{10}$ x 50,000	=	75,000
c) Issue of 6% Preference Shares of Madhavi Ltd		
2,000 x 108	=	2,16,000
		8,41,000

In the book of Shruti Ltd.
Realisation A/c

	Rs		Rs.
To Goodwill	30,000	By Creditors	50,000
To Bank	33,000	By Bills Payable	30,000
To Inventories	1,55,000	By Madhavi Ltd.	8,41,000
To Plant & Machinery	2,05,000		
To Debtors	55,000		
To Land & Building	2,50,000		
To Preference Shareholders (Loss on Settlement)	16,000		
To Cash	7,000		
To Equity Shareholders A/c (Profit)	1,70,000		
	9,21,000		**9,21,000**

Equity Shareholders A/c

	Rs.		Rs.
To Preliminary Expenses	17,500	By Equity Capital	5,00,000
To Profit and Loss A/c	27,500	By Realisation A/c	1,70,000
To Equity Shares in Madhavi Ltd.	5,50,000		
To Cash	75,000		
	6,70,000		**6,70,000**

Preference Shareholders A/c

	Rs.		Rs.
To 6% Preference Shares in Madhavi Ltd	2,16,000	By Preference Capital	2,00,000
		By Realisation A/c	16,000
	2,16,000		**2,16,000**

Madhavi Ltd. A/c

	Rs.		Rs.
To Realisation A/c	8,41,000	By Equity Shares in Madhavi Ltd.	5,50,000
		By Preference Shares in Madhavi Ltd.	2,16,000
		By Cash	75,000
	8,41,000		**8,41,000**

Equity Shares in Madhavi Ltd. A/c

	Rs.		Rs.
To Madhavi Ltd.	5,50,000	To Equity Shareholders A/c	5,50,000
	5,50,000		**5,50,000**

6% Preference Shares in Madhavi Ltd. A/c

	Rs.		Rs.
To Madhavi Ltd	2,16,000	By Preference Shareholders A/c	2,16,000
	2,16,000		**2,16,000**

Cash A/c

	Rs.		Rs.
To Balance b/d	7,000	By Realisation A/c	7,000
To Madhavi Ltd.	75,000	By Equity Shareholders A/c	75,000
	82,000		**82,000**

Madhavi Ltd.
Balance Sheet
as on 31st March, 2001

Liabilities	Rs.		Assets	Rs.
Share Capital			**Fixed Assets :**	
55,000 Equity			Goodwill	1,73,000
Share of Rs 10/-			Land & Building	3,00,000
each	5,50,000		Plant & Machinery	2,05,000
2,000 6%			**Current Assets:**	
Preference Shares			Inventors	1,55,000
of Rs 100 each	2,00,000		Debtors	55,000
Reserve & Surplus				
Securities	16,000			
Premium				
Current Liabilities :				
Creditors	50,000			
Bill Payable	30,000			
Bank OD	42,000			
	8,88,000			**8,88,000**

Illustration 11

Following are the balance Sheet of Big Ltd. and Small Ltd as on 31st March 2001.

Liabilities	Big Ltd Rs	Small Ltd Rs.	Assets	Big Ltd Rs.	Small Ltd. Rs.
Equity	10,00,000	3,00,000	Plant	8,00,000	-
Shares			Computer	1,00,000	30,000
Reserves	3,00,000	70,000	Stocks	3,00,000	2,70,000
Bill			Debtors	1,80,000	55,000
Payable	50,000	10,000	Cash at	1,00,000	75,000
Sundry			Bank		
Creditors	1,50,000	80,000	Bill	20,000	30,000
			Receivable		
	15,00,000	**4,60,000**		**15,00,000**	**4,60,000**

Big Ltd takent over business of Small Ltd. for RS 3,00,000 in the form of Equity Shares of RS. 10/- each allotted at par, Included in bills payable of Big Ltd. are bills amounting to Rs. 30,000 accepted in favour of Small Ltd. for goods purchased. Of the above mentioned bills of Rs. 30,000 bills for Rs. 5,000 only still remain on the date of absorption in the hands of Small Ltd. The rest having been endorsed in favour of Creditors or got discounted with the bank.

On the date of absorption the stock of Big Ltd. include goods purchased from Small Ltd. at the invoice price of Rs. 15,000 Small Ltd. charging profit at 25% on cost.

Expenses of liquidation of Small Ltd. Rs. 7,000 were met by Big Ltd.

Prepare realization account and Equity shareholders account in the books of Small Ltd. Also pass necessary Journal Entries (narration not required) in the books of Big Ltd. and prepare in Balance Sheet after absorption of Small Ltd.

(T.Y.B.Com April 2002)

Solution :

In the Books of Small Ltd.
Realisation A/c

	Rs			Rs.
To Computer A/c	30,000		By Bills Payable A/c	10,000
To Stock A/c	2,70,000		By Sundry Creditors A/c	80,000
To Debtors A/c	55,000		By Big Ltd. A/c	3,00,000
To Cash at Bank A/c	75,000		By Equity Shareholders A/c (Loss)	70,000
To Bills Receivable A/c	30,000			
	4,60,000			**4,60,000**

Equity Shareholders A/c

	Rs.			Rs.
To Realisation A/c	70,000		By Equity Shares Capital A/c	3,00,000
To Equity Shares in Big Ltd. A/c	3,00,000		By Reserve A/c	70,000
	3,70,000			6,70,000

Journal of Big Ltd.

		Debit Rs.	Credit Rs.
2001 March, 31	Business Purchase A/c Dr.	3,00,000	
	To Liquidator of Small Ltd. A/c		3,00,000
	Computer A/c Dr.	30,000	
	Stock A/c Dr.	2,70,000	
	Debtors A/c Dr.	55,000	
	Cash at Bank A/c Dr.	75,000	
	Bills Receivable A/c Dr.	30,000	

	To Bills Payable A/c		10,000
	To Sundry Creditors A/c		80,000
	To Business Purchase A/c		3,00,000
	To Capital Reserve A/c		70,000
	Liquidator of Small Ltd. A/c Dr.	3,00,000	
	To Equity Share Capital A/c		3,00,000
	Bills Payable A/c Dr.	5,000	
	To bills Receivable A/c		5,000
	Capital Reserve A/c Dr.	3,000	
	To Stock A/c		3,000
	Capital Reserve A/c or Goodwill A/c Dr.	7,000	
	To Bank A/c		7,000

Big Ltd.
Balance Sheet as on 31st March 2001

Liabilities	Rs.		Assets	Rs.
Share Capital :			**Fixed Assets :**	
Issued and			Plants	8,00,000
Subscribed			Computers	1,30,000
1,30,000 Equity	13,00,000		**Current Assets,**	
Shares of Rs. 10			**Loans and**	
each fully paid			**Advances :**	
(Of the above Rs.			**Current Assets**	
3,00,000 have been			Stock	5,67,000
allotted to Vendors to			Debtors	2,35,000
pursuant to a			Cash at Bank	1,68,000
contract without			**Loans and**	
payment being			**Advances**	
received in cash)			Bill Receivable	45,000
Reserve & Surplus				
Capital Reserve	60,000			
Other Reserve	3,00,000			
Current Liabilities and Provisions				
Current Liabilities				
Bill Payable	55,000			
Sundry Creditors	2,30,000			
Provisions	Nil			
	19,45,000			**19,45,000**

Illustration 12

The following were the Balance sheets of Amar Ltd and Akbar Ltd as at 31st March 2002.

Liabilities	Bill Ltd Rs.	Mona Ltd Rs.	Assets	Bill Ltd. Rs.	Mona Ltd. Rs.
Equity Share Capital (fully paid share of Rs 10/- each)	15,00,000	6,00,000	Land & Building	8,00,000	
Securities Premium	3,00,000	-	Plant & Machinery	12,00,000	5,00,000
Foreign Projects Reserve	-	31,000	Furnitures, Fixtures and Fittings		
General Reserve	9,50,000	3,20,000	Stock in Trade	2,50,000	1,60,000
Profit and Loss A/c	2,87,000	82,500	Sundry Debtors	7,70,000	4,10,000
12% Debentures	-	1,00,000	Cash at Bank	2,20,000	1,10,000
Bills Payable	12,000	-	Bills Receivable	1,00,000	62,000
Sundry Creditors	1,30,000	45,000		-	8,000
Sundry Provisions	1,61,000	71,500		-	-
	33,40,000	12,50,000		33,40,000	12,50,000

At the bill receivable held by Akbar Ltd. were Amar Lts's acceptances. On 1st April 2002. Amar Ltd. took over Akbar Ltd. in an amalgamation in the nature of merger.

It was agreed that in discharge of consideration for the business, Amar Ltd. would allot three fully paid equity shares of Rs. 10 each at par for every two shares held in Akbar Ltd.

It was also agreed that 12% Debentures in Akbar Ltd. would be converted into 13% Debentures in Amar Ltd. of the same amount and denomination. Expenses of amalgamation amounting to Rs. 1,000 were borne by Amar Ltd.

You are required to

a) Pass Journal entries in the books of Amar Ltd. and
b) Prepare Balance Sheet of Amar Ltd. immediately after the merger

(T.Y.B.Com. March 2003)

Solution :

Purchase Consideration :

	Rs.
Equity Shares in Amar Ltd. $\left(\frac{3}{2}x60{,}000\right)$ 90,000 Equity Shares of Rs. 10 each	9,00,000
	9,00,000

Journal of Amar Ltd.

	Dr. Rs.	Dr. Rs
Business Purchase A/c Dr.	9,00,000	
To Liquidator of Akbar Ltd.		9,00,000
(Being Pruchase of Akbar Ltd.)		
Plant and Machinery A/c Dr.	5,00,000	
Furniture, Fixtures & Fittings A/c Dr.	1,60,000	
Stock in Trade A/c Dr.	4,10,000	
Sundry Debtors A/c Dr.	1,10,000	
Cash at Bank A/c Dr.	62,000	
Bills Receivable A/c Dr.	8,000	
To Foreign Project Reserve A/c		31,000
To General Reserve A/c (Balance Figure)		20,000
To Profit & Loss A/c		82,500
To 12% Debentures A/c		1,00,000
To Sundry Creditors A/c		45,000
To Sundry Provisions A/c		71,500
To Business Purchase A/c		9,00,000
(Being brought into books the Assets and Liabilities taken over)		
Liquidator of Akbar Ltd. A/c	9,00,000	
To Equity Share Capital A/c Dr.		9,00,000
(Being issued 90,000 Equity Shares of Rs. 10 each in Settlement of Purchase Consideration)		
Bills Payable A/c Dr.	8,000	
To Bills Receivable A/c		8,000
(Being inter company Bills Receivable adjusted)		

12% Debentures A/c Dr. To 13% Debentures A/c (Being 12% Debentures in Akbar Ltd. converted into 13% Debentures)	1,00,000	 1,00,000
General Reserve A/c Dr. To Bank A/c (Being paid for expenses of amalgamation)	1,000	 1,000

Amar Ltd.
Balance Sheet (After Merger)
As on 31st March 2002

Liabilities	Rs.	Assets	Rs.
Share Capital :		**Fixed Assets :**	
24,000 Equity		Loans & Buildings	8,00,000
Shares of Rs. 10 each	24,00,000	Plants & Machinery	17,00,000
Reserve & Surplus		Furniture, Fixtures & Fittings	4,10,000
Securities Premium	3,00,000	**Current Assets :**	
Foreign Project Reserve	31,000	Stock	11,80,000
		Debtors	3,30,000
General Reserve	9,69,000	Cash at Bank	1,61,000
Profit & Loss Reserve	3,69,000		
Secured Loans :			
13% Debentures	1,00,000		
Current Liabilities			
Bill Payable	4,000		
Sundry Creditors	1,75,000		
Sundry Provisions	2,32,000		
	45,81,000		**45,81,000**

Illustration 13

X Ltd. agreed to acquire the assets excluding cash as 31st December, 2002 of Y Ltd. The Balance Sheet of Y Ltd. as on 31st December 2002 was as follows :

Liabilities	Rs.	Assets	Rs.

Equity Share Capital : Shares of Rs. 10 each	3,00,000	Goodwill	6,000
		Land & Buildings	1,20,000
		Plant & Machinery	2,00,000
		Stock	80,000
General Reserve	80,000	Debtors	30,000
Profit & Loss A/c	60,000	Cash	10,000
Debentures (Rs100 each)	50,000		
Creditors	10,000		
	5,00,000		**5,00,000**

The Consideration was as follows:

a) A cash payment of Rs 4/- for every shares of Y Ltd.

b) The issue of one equity of Rs. 20 each (market value of RS. 12.50) in the X Ltd. for every share of Y Ltd.

c) The issue of 1100 debentures of Rs. 50 each in X Ltd. to enable Y Ltd to discharge its debentures at a premium of 10%

d) The expenses of liquidation of Y Ltd. amounting to Rs. 40,000 were to be met themselves.

You are required to open necessary ledger accounts in the book of Y Ltd.

Solution :

Purchase Consideration

			Rs.
a)	Cash Payment 30,000 x 4	=	1,20,000
b)	Equity Shares in X Ltd. 30,000 x 12.50	=	3,75,000
			4,95,000

In the Book of Y Ltd.
Realisation A/c

	Rs		Rs.
To Goodwill	60,000	By Debentures	50,000
To Land & Building	1,20,000	Bills Creditors	10,000
To Plant & Machinery	2,00,000	By X Ltd	4,95,000
To Stock	80,000		
To Debtors	30,000		
To Cash (Creditors)	10,000		
To Cash (Expenses)	4,000		
To Equity Shareholders (Profit)	51,000		
	5,55,000		**5,55,000**

Equity Shareholder's A/c

	Rs		Rs.
To Equity Shares in X Ltd	3,75,000	By Equity Capital	3,00,000
To Cash	1,16,000	By General Reserve	80,000
		By Profit & Loss A/c	60,000
		By Realisation A/c	51,000
	4,91,000		**4,91,000**

X Ltd. A/c

	Rs		Rs.
To Realisation A/c	4,95,000	By Cash	1,20,000
		By Equity Shares in X Ltd	3,75,000
	4,95,000		**4,95,000**

Equity Shares in X Ltd. A/c

	Rs		Rs.
To X Ltd.	3,75,000	By Equity Shareholders	3,75,000
	3,75,000		**3,75,000**

Cash A/c

	Rs		Rs.
To Balance b/d	10,000	By Creditors	10,000
To X Ltd.	1,20,000	By Realisation A/c	4,000
		By Equity Shareholders A/c	1,16,000
	1,30,000		**1,30,000**

Illustration 14

On 31st March 2002, B Ltd. was absorbed by A Ltd. the latter taking over all the assets and liabilities of the former at book values. The consideration for the business was fixed at Rs. 80,000 to be discharged by the transfer company in the form of its fully paid equity shares of Rs. 10 each, to be distributed among the shareholders of the transferor company, each shareholder getting two shares for every share held in the transferor company.

The Balance sheet of the two companies as at 31st March 2002 were as under:

Balance Sheet

S on 31st March 2001

Liabilities	A Ltd Rs.	B Ltd Rs.	Assets	A Ltd. Rs.	B Ltd. Rs.
Share Capital:			Goodwill	40,000	12,000
Authorised	3,00,000	1,00,000	Plant & Machinery	82,400	20,000
Issued and Subscribed			Furniture	16,000	6,000
			Stock in Trade	53,100	12,000
Equity Shares of Rs. 10 each fully paid up	1,80,000	40,000	Sundry Debtors	44,240	9,200
			Prepaid Insurance	-	140
General Reserve	36,000	10,000			
Profit & Loss A/c	4,100	2,580	Income Tax Refund Claim	-	1,200
Sundry Creditors	14,114	7,890	Cash in Hand	174	70
Bills Payable	2,040	800	Cash in Bank	2,8000	1,660
Provision for	2,460	1,000			
	2,38,714	**62,270**		**2,38,714**	**62,270**

Amalgamation expenses amounting to Rs. 200 were paid by A Ltd. You are required to:

1. Show the necessary Journal Entries in the book of A Ltd. assuming amalgamation in the nature of merger.
2. Prepare the balance Sheet of A Ltd. after the amalgamation

(T.Y.B.Com. Oct 2003)

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs
1	Business Purchase A/c Dr. To Liquidators of B Ltd. A/c (Being purchased business)		90,000	 90,000
2	Goodwill A/c Dr. Plant & Machinery A/c Dr. Furniture A/c Dr. Stock in Trade A/c Dr. Sundry Debtors A/c Dr. Prepaid Insurance A/c Dr. Income Tax Refund Claim A/c Dr. Cash in Hand A/c Dr. Cash in Bank A/c Dr. General Reserve A/c Dr. To Sundry Creditors A/c		12,000 20,000 6,000 12,000 9,200 140 1,200 70 1,660 27,420	 7,890

	To Bills Payable A/c To Provision for Taxation To Business Purchase A/c (Being Assets and Liabilities taken over)			800 1,000 80,000
3	Liquidator of B Ltd. A/c Dr To Equity Share Capital A/c (Being settled purchase consideration)		80,000	 80,000
4.	General Reserve A/c Dr. To Bank A/c (Being paid for expenses)		200	 200

Balance Sheet of A Ltd. as at 31st March, 2002

Liabilities	Rs.	Assets	Rs.
Share Capital :		**Fixed Assets :**	
Authoriesed :		Goodwill	52,000
3000 Equity Shares of Rs. 10 each fully paid up	3,00,000	Plants & Machinery	1,02,400
		Furniture	22,000
Issued, Subscribed & Paid up :		**Current Assets :**	
	2,60,000	Stock in Trade	65,100
26,000 Equity Shares of Rs. 10 each fully paid up		Sundry Debtors	53,440
		Cash in Hand	44
(Out of the above 8,000 Equity Shares of Rs 10 each fully paid up have been issued for consideration other than cash)		Cash at Bank	4,460
		Loans and Advances	
		Prepaid Insurance	140
		Income tax Refund Claim	1,200
Reserve & Surplus			
General Reserve	8,380		
Profit & Loss Reserve	4,100		
Current Liabilities and Provisions			
Sundry Creditors	22,004		
Bill Payable	2,840		
Provision for Taxation	3,460		
	3,00,784		**45,81,000**

Working Notes:

		Rs.
1.	Statement of Purchase Consideration:	
	8,000 Equity Shares of A Ltd. at RS. 10 at par	80,000
2.	General Reserve :	
	Equity Shares Capital of A Ltd.	40,000
	General Reserve	10,000
	Profit and Loss A/c	2,580
	Net Assets Taken over	52,580
	Less : Amalgamation Expenses	80,000
	∴ General Reserve	27,420
	Less : Amalgamation Expenses	200
	General Reserve of A Ltd.	27,620
3.	General Reserve of B Ltd	36,000
	Add : General Reserve of A Ltd.	27,620
	Balance c/f	8,380

Illustration 15 (Issue of Shares in fraction, unrealised profit in stock)

Following are the balance sheets of Galaxy Ltd. and Gemini Ltd., as on 31st March 2003

Balance Sheet
As on 31st March 2003

Liabilities	A Ltd Rs.	B Ltd Rs.	Assets	A Ltd. Rs.	B Ltd. Rs.
Share Capital: (Rs. 10 each)			Fixed Assets	60,000	1,25,000
			Loan to Gemini	5,000	-
Reserve Fund	50,000	1,00,000	Ltd.		
Foreign projects	20,000	30,000	Debtors	15,000	10,000
			Stock	10,000	15,000
Reserve	5,000	-	Cash at Bank	-	5,000
Creditors	15,000	20,000			
Loan from Galaxy Ltd.	-	5,000			
	90,000	**1,55,000**		**90,000**	**1,55,000**

Gemini Ltd. agreed to absorb Galaxy Ltd. on the following terms:

Gemini Ltd. shall give one share of Rs. 10 each at RS 35 per share for every 3 shares held in Galaxy Ltd. the amount for the fraction of shares shall be paid in cash calculated as per the market price of the share of Gemini Ltd.

Stock of Galaxy Ltd. includes goods worth Rs. 7,500 purchased from Gemini Ltd. which has a profit margin of 20% on cost.

Debtors of Gemini Ltd. includes Rs. 2,500 being amount due from Galaxy Ltd. but the Creditors of Galaxy Ltd. include Rs. 2,000 only being the amount due to Gemini Ltd.

The Difference between the Debtors and Creditors is due to cash in transit.

The shares of Gemini Ltd. are quoted in the market at Rs. 45 per share.

You are requested to pass the journal Entries in the books of Gemini Ltd. and the Balance Sheet after the absorption, assuming that the Foreign Projects Reserve is still to be maintained for 3 years.

Assume that the amalgamation is in the nature of Purchase.
(T.Y.B.Com April 2004)

Solution:

Purchase Consideration

	Rs.
One Share in Gemini Ltd. for every 3 shares of Galaxy Ltd. $\frac{5,000}{3}$ = 1,666 Equity Shares of Rs. 10 each @ Rs. 35 each full paid up	58,310
Cash – 0.67 share x Market value of share of Gemini Ltd (Rs 45)	30
Purchase Consideration	**58,340**

Journal of Gemini Ltd.

(Amalgamation is in the nature of purchase)

	Dr. Rs.	Dr. Rs
Business Purchase A/c Dr. To Liquidator of Galaxy Ltd. A/c *(Being business of Galaxy Ltd. taken over)*	58,340	58,340
Fixed Assets A/c Dr. Loan to Gemini Ltd. A/c Dr. Debtors A/c Dr. Stock A/c Dr. To Creditors A/c To Business Purchse A/c To Capital Reserve A/c (Bal Figure) (Being various assets and liabilities of Galaxy Ltd. taken over at agreed values)	60,000 5,000 15,000 10,000	 15,000 58,340 16,660
Liquidator of Galaxy Ltd. A/c Dr. To Equity Share Capital A/c (1.666 x 10) To Securities Premium A/c (1.666 x 25) To Cash/Bank A/c (Being Payment to purchase Consideration to liquidators of Galaxy Ltd.)	 58,340	 16,660 41,650 30
Goodwill A/c Dr. To Stock Reserve A/c (Being profit element in stock of Galaxy Ltd)	1,250	 1,250
Loan from Galaxy Ltd A/c Dr. To Loan to Gemini LTd A/c (Being inter – company loan set off)	5000	 5,000
Creditors A/c Dr. Cash to Transit A/c Dr. To Debtors Bank A/c (Being inter – company debts set off)	2,000 500	 2,500
Amalgamation Adjustment A/c Dr. To Foreign Projects Reserve A/c (Being Foreign Projects Reserve maintained	5,000	 5,000

Balance Sheet of Gemini Ltd.

As at 31st March 2003

Liabilities	Rs.	Assets	Rs.
Share Capital :		**Fixed Assets :**	1,85,000
11,666 Equity Shares of		**Current Assets :**	
Rs. 10 each fully paid up		Stock 25,000	
(of the above, 1,666		Less: Stock Reserve 1,250	23,750
share have been	1,16,660	Debtors	22,500
Issued for		Cash in Transit	4,970
consideration other		**Miscellaneous**	500
than cash)		**Expenditure :**	
Reserve & Surplus	41,650	Amalgamation	
Securities Premium		Adjustment A/c	5,000
Capital Reserve 16,660			
General Reserve 1,250			
Less : Goodwill	15,410		
Reserve Fund	30,000		
Foreign Project Reserve	5,000		
Current Liabilities			
Creditors	33,000		
	2,41,720		**2,41,720**

Illustration 16 (Statutory Reserve to be maintained)

The Following is the Balance Sheet of Vikrant Ltd.

Liabilities	Rs.	Assets	Rs.
Issued and Paid up		Intangible Assets	50,000
Equity Share	5,00,000	Fixed Assets	4,20,000
Capital		Current Assets	1,10,000
Statutory Reserve	10,000	Profit and Loss A/c	80,000
(to be maintained for 3 more years)			
Debentures	1,00,000		
Creditors	50,000		
	6,60,000		**6,60,000**

Virat Ltd. agreed to absorb Vikram Ltd. on the following terms:

1. Virat Ltd. agreed to take over all the assets and liabilities
2. The assets of Vikrant Ltd. are to be considered to be worth Rs. 5,00,000
3. The Purchase price is to be paid one – quarter in ash and the balance in shares which are issued at the market price.

4. Liquidation expenses amounted to Rs. 300 agreed to be paid by Vikrant Ltd.
5. Market value of shares of RS. 10 each of Virat Ltd. is Rs. 12 per share.
6. Debentures of Vikrant Ltd. were paid.
7. The amalgamation is in the nature of purchase

You are required to show:

a) Purchase consideration

b) Ledger accounts in the books of Vikrant Ltd.

c) Opening entries in the book of Virat Ltd.

(T.Y.B.Com Oct 2004)

Solution:

Purchase Consideration

		Rs.
Market value of assets taken over		5,00,000
Less: Liabilities taken over	50,000	
Debentures	1,00,000	1,50,000
		3,50,000

Discharge of Purchase Consideration :

	Rs.
In Cash $\frac{1}{4}$ x Rs. 3,50,000	87,500
In Shares $\frac{3}{4}$ x Rs. 3,50,000	2,62,500
	3,50,000

In the Book of Vikrant LTd.
Realisation A/c

Dr. **Cr.**

Liabilities	Rs.	Assets	Rs.
To Intangible Assets A/c	50,000	By Debentures A/c	1,00,000
		By Creditors A/c	50,000
To Fixed Assets A/c	4,20,000	By Virat Ltd. A/c (Purchase Price)	3,50,000
To Current Assets A/c	1,10,000	By Shareholders A/c	80,300
To Bank A/c (Expenses)	300		
		(Loss on Realisation)	
	5,80,300		**5,80,300**

Equity Shareholders A/c

Dr. Cr.

	Rs		Rs
To Realisation A/c	80,300	By Share Capital A/c	5,00,000
To Profit and Loss A/c	80,000	By Statutory Reserve A/c	10,000
To Bank A/c	87,200		
To Equity Shares in Virat Ltd	2,62,500		
	5,10,000		**5,10,000**

Virat Ltd A/c

Dr. **Cr.**

	Rs		Rs
To Realisation A/c	3,50,000	By Bank A/c	87,500
		By Equity Share in Virat	2,62,500
	3,50,000		**3,50,000**

Bank A/c

Dr. **Cr.**

	Rs.		Rs.
To Virat Ltd. A/c	87,500	By Realisation A/c	300
		By Shareholders A/c	87,200
	87,500		87,500

Equity Share in Virat Ltd. A/c

Dr. **Cr.**

	Rs.		Rs.
To Virat Ltd. A/c	2,62,500	By Equity Shareholders A/c	2,62,500
	2,62,500		**2,62,500**

Journal of Virat Ltd.

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs
1	Business Purchase A/c Dr. To Liquidators of Vikarant Ltd. A/c (Being purchased business of Vikrant Ltd)		3,50,000	 3,50,000
2	Sundry Assets A/c Dr. To Trade Creditors A/c To Debentures A/c To Business Purchase A/c (Being Assets and Liabilities taken over)		5,00,000	 50,000 1,00,000 3,50,000
3	Liquidator of Vikran Ltd. A/c Dr To Share Capital A/c To Securities Premium A/c To Bank A/c (Being purchase consideration settled)		3,50,000	 2,18,750 43,750 87,500
4.	Amalgamation Adjustment A/c Dr. To Statutory Reserve A/c (Being statutory reserve maintained)		10,000	 10,000
5	Debentures A/c Dr. To Bank A/c (Being payment to debenture holders of Vikrant Ltd.)		1,00,000	 1,00,000

Working Notes:

Number of shares to be issued to Vikrant Ltd.
Amount to be paid in form of equity share capital Rs. 2,62,500
Agreed value of one equity Share Rs. 12

Number of equity shares to be issued = $\frac{2,62,500}{12}$ i.e. 21,875 shares

Share Capital = 21,875 x 10
= 2,18,750
Securities Provision = 21,875 x 2
= 43,750

Illustration 17

The following are the Balance sheets as on 31.12.2004 of Nisha Ltd. and Usha Ltd.

Liabilities	A Ltd Rs.	B Ltd Rs.	Assets	A Ltd. Rs.	B Ltd. Rs.
Equity Share Capital: (Rs. 10 per share)	2,00,000	1,20,000	Land & Building	70,000	-
15% Debentures	40,000	-	Plant and Machinery	2,20,000	1,00,000
Reserve Fund	76,000	5,000	Stock	35,000	18,000
Employee's Provident Fund	6,000	-	Debtors	25,000	16,000
Sundry Creditors	30,000	16,000	Bank	6,000	2,000
Profit & Loss A/c	4,000	-	Misc Exp.not W/o	-	-
			Advertisement Expenses		5,000
	3,56,000	**1,41,000**		**3,56,000**	**1,41,000**

The two companies agreed to amalgamation and form a new company M/s Ujala Ltd/ which takes over the assets and liabilities of both the companies.

The authorized capital of Ujala Ltd. is Rs. 20,00,000 consisting of 2,00,000 Equity Shares of Rs. 10 each. The assets of Nisha Ltd. are taken over at 90% of the book value with the exception of land and building which are accepted to book value.

Both the companies are to receive 10% of the net valuation of their respective business as Goodwill.

The purchase consideration is to be satisfied by Ujala Ltd. in its fully paid shares at 10% premium. In return of Debentures of Nisha Ltd. Debentures of the same amount and denomination are to be issued by Ujala Ltd.

Close the books of Nisha Ltd. and Usha Ltd. and show the Opening Balance sheet of Ujala Ltd. under Purchase Method.

(T.Y.B.Com. March 2005)

Solution:

Computation at Purchase Consideration

	Nisha Ltd		Usha Ltd		Total	
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Assets Taken over						
Land and Building	70,000				70,000	
Plant and Machinery	1,98,000		1,00,000		2,98,000	
Stock	31,500		18,000		49,500	
Debtors	22,500		16,000		38,500	
Bank	6,000	3,28,000	2,000	1,36,000	8,000	4,64,000
Less : Liabilities						
15% Debentures	40,000				40,000	
Sundry Creditors	30,000		16,000		46,000	
Employees Provident Fund	6,000	76,000		16,000	8,000	92,000
Net Assets Before Goodwill		2,52,000		1,20,000		3,72,000
Add : Goodwill (10% of Net Assets)		25,200		12,000		37,200
Purchase Consideration		2,77,200		1,32,000		4,09,200
No. of Shares (N.V.		25,200		12,000		37,200
Security Premium	2,52,000 + 25,200	2,77,200	1,20,000 +12,000	1,32,000	3,72,000 +37,200	4,09,200

P.C. Satisfied as Under	Nisha Ltd	Usha Ltd
25,200 Eq. Shares of Ujala Ltd. at Rs. 11 each		
12,000 Eq. Shares of Ujala Ltd. at Rs. 11 each	2,77,200	1,32,000

In the Books of Nisha Ltd. and Usha Ltd.
Realisation A/c

	Nisha Ltd. Rs	Usha Ltd. Rs		Nisha Ltd. Rs	Usha Ltd. Rs
To Sundry Assets :			By Sundry Liabilities		
Land & Building	70,000		15% Debentures	40,000	-
Plant & Machinery	2,20,000	1,00,000	Sundry Creditors	30,000	16,000
Stock	35,000	18,000	Employee's Provident Fund	6,000	
Debtors	25,000	16,000	By Usha Ltd. (P.C.)	2,77,200	1,32,000
Bank	6,000	2,000	By Equity Shareholders (Realisation Loan)	2,800	
To Equity Share holders (Realisation Profit)	-	12,000			
	3,56,000	**1,48,000**		**3,56,000**	**1,48,000**

Ujala Ltd. A/c

	Nisha Ltd. Rs	Usha Ltd. Rs		Nisha Ltd. Rs	Usha Ltd. Rs
To Realisation A/c (P.C.)	2,77,000	1,32,000	By Eq. Shares in Ujala Ltd.	2,77,200	1,32,000
	2,77,200	**1,32,000**		**2,77,200**	**1,32,000**

Equity Shareholders A/c

	Nisha Ltd. Rs	Usha Ltd. Rs		Nisha Ltd. Rs	Usha Ltd. Rs
To Advertisement Expenses		5,000	By Eq. Share Capital	2,00,000	1,20,000
To Realisation A/c (Loan)	2,800		By Reserve Fund	76,000	5,000
To Equity Shares in Ujala Ltd.	2,77,200	1,32,000	By P & L A/c	4,000	12,000
			By Realisation A/c (Profit)		
	2,80,000	1,37,000		2,80,000	1,37,000

Balance Sheet of Ujala Ltd.
As on 31.12.2004

Liabililties	Rs	Assets	Rs
Share Capital Authorised		**Fixed Assets**	
2,00,000 Equity Shares of		Goodwill	37,200
Rs. 10 each	20,00,000	Land & Building	70,000
		Plant & Machinery	2,98,000
Issued, Subscribed &		Investments	Nil
Paid up 37,200 Equity		**Current Assets,**	
Shares of Rs. 10 each	3,72,000	**Loans and Advances**	
Reserve & Surplus :		Stock	49,500
Securities Premium	37,200	Debtors	38,500
Secured Loans		Bank	8,000
15% Debentures	40,000	Miscellaneous	
Unsecured Loan	Nil	Expenditure	Nil
Current Liabilities and Provisions			
Sundry Creditors	46,000		
Employee's Provident			
Fund	6,000		
	5,01,200		**5,01,200**

10.2 KEY TERMS :

Amalgamation: Means coming together of two or more Ltd. companies. It includes Absorption as well as external reconstruction.

Purchase consideration: It is sale price of the business of transferor company agreed Between transferor and transferee company. Pooling of Interest: It means amalgamation in the nature of merger.

Statutory Reserve: Any reserve which is required to be maintained in the future for specified Number of years as per the law.

Transferee Company: The company which takes over the business of another company.

Transferor Company: The company which sales its business to another company. This company goes into liquidation.

Swap Ratio: It is the ratio in which the shares of two companies are exchanged. It is based on intrinsic value of shares of both the companies.

10.3 EXERCISES:

10.3.1 OBJECTIVE TYPE QUESTIONS

1. Which of the following statements is true with amalgamation?
a. Amalgamation signifies the merging of two or more companies into one.
b. Two or more companies form a new company.
c. Refers to an arrangement, whereby a previously unprofitable of weak Company, is reconstructed.
d. Both (a) and (b) above
e. All of the above (a),(b)and (c) above.

2. Reconstruction refers to an arrangement, whereby:
a. A Previously unprofitable or weak company is reconstructed by certain measures
b. It is a blend of two or more undertakings into one undertaking
c. Reconstruction includes absorption
d. In reconstruction the assets and liabilities are not valued
e. None of the above.

3. The assets Which is not taken under the net assets method of calculation purchase consideration is
a. Furniture
b. Preliminary expenses
c. Stock
d. Cash
e. Debtors

4. Pooling of Interest Method of
a. Valuation of Inventory
b. Calculation of purchase consideration
c. Accounting of amalgamation
d. Method of valuing good will
e. Method of valuing shares

5. In which of the following methods the purchase consideration is calculated on the basis of the agreed value of the shares of the transferor company?
a. Lump sum Method
b. Net assets Method
c. Net Payment Method
d. Intrinsic value Method
e. Purchase Method

6. The Adjustment entry passes to eliminate the inter-company Owings is

a. Debit Amalgamation Adjustment a/c, Credit Statutory reserve account
b. Debit sundry Creditors a/c,Credit Sundry Debtors a/c
c. Debit sundry Creditors a/c, Credit Statutory reserve a/c
d. Debit Amalgamation adjustment a/c, Credit sundry debtors
e. Debit sundry debtors, Credit Sundry Creditors

7.Under purchase Method, any excess of the amount of purchase consideration over the acquired assets of the transferor company should be recognized as-
a. Statuory Reserve
b. Amalgamation Adjustment
c. Equity shares
d. Good will

8.When there is goodwill arising in amalgamation in the financial statement of the transferee company such good will should be amortized to income and such amortization period should not exceed.
a. 12 years
b. 10 years
c. 5 Years
d. 7 years
e. 6 years

9. If there is a provision against an asset, such an asset is transferred to the Realization account at-
a. Gross figure
b. Net figure
c. Historical Values
d. Current market value
e. Net realizable value.

10. Slink Ltd. is acquired and absorbed by pink Ltd. Plink agrees to pay the following to slink for the acquisition.

a. Discharge of slink Limited's 20,000 10% debentures by issue of 15,000 12% debentures.
b. Two Equity shares of Rs. 20 for each equity share of slink. Slinks total issued shares are 5,000.
c. Cost of acquisition amountedto Rs. 14,000. This will be borne by pink Ltd.
d. Cash @ Rs.5 per debenture additionally to Slink's debenture holders and Rs. 4 per share to its equity holders.

The purchase consideration payable by plink Ltd. to Slink Ltd.is:

a. Rs.20,38,000
b. Rs.20,34,000
c. Rs.20,35,000
d. Rs.20,37,000
e. Rs.20,32,000

Based on the following information answer the questions 11 to 17.
Balance sheet as at 31st March 2009

Liabilities	X Ltd	Y Ltd.	Assets	X Ltd.	Y. Ltd
Equity Capital of Rs.10 each	2,00000	1,20000	Fixed assets	3,60000	1,40000
General Reserve	36000	10000	Current assets	40000	60000
Statutory Reserve	10000	8000			
Profit & Loss A/c	4000	2000			
Debentures	80000	40000			
Creditors	70000	20000			
	400000	**200000**		**400000**	**200000**

X Ltd. takes over Y Ltd., the purchase consideration is discharged by "X" as follows:

a. Issue 32000 shares of Rs. 5 each in X Ltd. (Face value Rs. 5) at a premium of Re.1/- share
b. Debentures of Y Ltd. will be absorbed in X Ltd. on the same terms and conditions.
c. Fixed assets of Y Ltd. are revalued at Rs. 160000.
d. Statutory reserve required to be maintained for next five years.

11. The Method of calculation of purchase consideration is

a. Net Assets Method
b. Net Payment Method
c. Lump-sum Method
d. Exchange of shares Method

12. Purchase consideration of Y Ltd is

a. Rs 32,000
b. Rs. 1,92,000
c. Rs. 1,60,000
d. Rs. 2,00,000

13. After all adjustments the balance in general reserve accounts is Rs.

a. Rs. 46,000
b. Rs.36,000
c. Rs. 26,000
d. Rs. 16,000

14. The total Equity share capital of X Ltd after Merger is

a. Rs.3,60,000
b. Rs.5,00,000
c. Rs.2,00,000
d. Rs.3,92,000

15.The total of balance sheet of X Ltd after merger is

a. Rs. 3,00,000
b. Rs. 4,00,000
c. Rs. 6,10,000
d. Rs. 6,00,000

16. The total value of fixed assets shown in the balance sheets after merger is

a. Rs.3,60,000
b. Rs.5,00,000
c. Rs.5,10,000
d. Rs.4,00,000

17. The Capital reserve / Goodwill that will appeared in the balance sheet X Ltd is

a. Capital reserve Rs. 42,000
b. Capital Reserve Rs. 32,000
c. Goodwill Rs. 42,000
d. Goodwill Rs. 32,000

Based on the following information answer the questions from 18 to 26. The following is the summarized balance sheet of Anila Products Ltd. as at 31st March 2009

Liabilities	Rs.	Assets	Rs.
20,000 equity shares of Rs. 10 each	2,00,000	Good will	50,000
5000 of preference shares Rs.10 each	50000	Free hold Property	1,25,000
Securities Premium	20000	Plant and Machinery	25,000
10% Debentures	50,000	Furniture	30000
General Reserve	45,000	Motor vehicle	20,000
Profit and Loss a/c	15,000	Stock	25,000
Creditors	5,000	Debtors	15,000
		Bank	75,000
		Cash	20,000
	3,85,000		**3,85,000**

On the above date Binita Ltd. absorbed Anila Ltd. by taking over all fixed assets (tangible & intangible) at 10% above book value and stock and debtors at 10% below book value, creditors at book value.

The purchase consideration was discharged by issue of 10% preference shares of same denomination and value and issue of 10000 Equity shares of Rs. 10 each at Rs. 15 each and balance in cash.

18. The Method of calculation of purchase consideration is

d. Net Assets Method
e. Net Payment Method
f. Lump-sum Method
g. Exchange of shares Method

19. Purchase consideration of Anila Ltd is

a. Rs 4,01,000
b. Rs. 3,85,000
c. Rs. 3,91,500
d. Rs. 3,51,000

20. After all adjustments the balance in general reserve accounts is Rs.

e. Rs. 46,000
f. Rs.36,000
g. Rs. 45,000
h. Rs. 16,000

21. The total Equity share capital of Binita Ltd after Merger is

a. Rs.3,60,000
b. Rs.3,50,000
c. Rs.2,00,000
d. Rs.3,92,000

23. The revalued amount of fixed assets after absoptions is

a. Rs.3,60,000
b. Rs.2,50,000
c. Rs.2,75,000
d. Rs.4,00,000

24. The revalued amount of current assets after absoptions is

a. Rs.1,35,000
b. Rs.1,31,000
c. Rs.2,75,000
d. Rs.1,21,500

25. The cash payment to be made by Binita Ltd to Anila Ltd is

a. Rs. 75,000
b. Rs. 76,000
c. Rs. 78,000
d. Rs. 79,000

26. The Capital reserve / Goodwill (arising out of absorpation)that will appear in the balance sheet Binita Ltd is

a. Capital reserve Rs. 42,000
b. Capital Reserve Rs. 55,000
c. Goodwill Rs. 42,000
d. Goodwill Rs. 55,000

10.3.2 PRACTICAL PROBLEMS

Exercises: 1

The following Balance Sheet are given as on 31st March, 2008:

Liabilities	**Lock Ltd**	**Key Ltd.**	**Assets**	**Lock Ltd.**	**Key Ltd.**
Share Capital			Fixed Assets	25000	15000
Shares of Rs.100 each			Investments	5000	----
Fully paid	20000	10000	Current Assets	20000	5000
Reserves	10000	8000			
Other liabilities	20000	2000			
	50000	20000		50000	20000

The following further information is given –

a) Investments of Lock Ltd. include Rs. 3000 representing shares in Key Ltd. having a face value of Rs.2000

b) Key Limited issued bonus shares on 1st April, 2008 in the ratio of one share for every two held out of Reserves and Surplus.

c) It was agreed that Lock Ltd. will take over the business of Key Ltd. on the basis of the latter's Balance Sheet, the consideration taking the form of allotment of shares in Key Ltd

d) The value of shares in Lock Ltd. was considered to be Rs. 150 and the shares in Key Ltd. were valued at Rs.100 after the issue of the bonus shares. The allotment of shares is to be made on the basis of these values.

e) Liabilities of Key Ltd. includes Rs.1000 due to Lock Ltd. for purchases from it on which Lock Ltd. made profit of 25% of the cost. The goods of Rs. 500 out of the said purchases Remained in stock on the date of the above Balance Sheet.

Make the closing ledger in the Books of Key Ltd. and the opening journal entries in the Books Of Lock Ltd. and prepare the Balance Sheet as at 1st April, 2008 after the takeover.

Exercises: 2

Balance Sheet of Nitin Ltd as on 31st March, 2009.

Liabilities	**Rs**	**Assets**	**Rs**
Authorised Share Capital		Good will	68000
100000 Equity shares		Land & Building	200000
Of Rs. 10/-	1000000	Furniture	100000
Issued Capital		Investment	120000
30000 Equity Shares of Rs 10 each fully paid.	300000	Stock	140000
Securities Premium	100000	Debtor	139000
General reserve	220000	Bills Receivable	69000
Foreign Project Reserve	10000	Bank	26000
10% Debentures	100000	Preliminery Expenses	16000
Provision for Tax	50000		
Trade Liabilities	98000		
	878000		**878000**

Nutan Ltd agreed to take over assets (except investment) of Nitin Ltd. on the following conditions:

1. Debentures will be discharged at 8 % premium by issue of 12 % debentures at 4 % discount
2. Issue of 3 equity shares at Rs. 10/- at a price of Rs. 16 per share for every 2 shares of Nitin Ltd.
3. Payment of cash Rs 2 per equity share of Nitin Ltd.
4. Payment of absorption expenses Rs. 10000

Nitin Ltd. sold off the investments at 100000 and 60% at shares received from Nutan Ltd. at 15 each and paid of Income Tax Liability at Rs. 52800 and trade Liabilities at 10% discount

Nutan Ltd. revalued Land and building at Rs. 400000 and furniture at Rs. 80000 and debtors subject to 5% Provision.

Give Necessary ledger accounts of in the books of Nitin Ltd. and journal entries in the books of Nutan Ltd.

Exercises: 3

The following are the Balance Sheets as on 31.03.2009. of X Co. Ltd & Y.Co.Ltd.

Liabilities	X.Co. Ltd Rs	Y.Co. Ltd. Rs	Assets	X.Co Ltd. Rs	Y.Co. Ltd. Rs
Equity Share Capital (Rs. 100 Each)	100000	60000	Land & Building	30000	
Debentures	20000		Plant & Machinery	110000	50000
Reserve Fund	34000		Stock	16000	8000
Dividend Equalization Fund	4000		Debtors	14000	9000
Employees Provident Fund	3000		Cash	3000	1000
Sundry Creditors	10000	8000			
Profit & Loss A/c	2000				
Total	**173000**	**68000**	**Total**	**173000**	**68000**

The two companies agree to amalgamate and form a new company called Z Ltd., Which takes over the assets and liabilities of both the companies. The Authorized capital Z Ltd. is Rs. 10,00,000 consisting of 1,00,000 Equity shares of Rs.10 each.

The Assets of X Co. Ltd. are taken over at a reduced valuation of 10% with the exception of Land and Building which are accepted at book value.

Both companies are to receive 5% of the net valuation of their respective business as Goodwill. The entire purchase price is to be paid by Z Co. Ltd., in its fully paid shares. Is Return for Debentures in X Co. Ltd., Debentures of the same amount and denomination are to be issued by Z Co. Ltd.

Close the books of X Co. Ltd., and Y Co. Ltd. and show the opening Balance Sheet of Z Co. Ltd under purchase method in vertical form.

(T.Y.B.Com. April, 1997)

