6

AMALGAMATION

BASIC CONCEPTS AND STEPS TO SOLVE THE PROBLEMS

- Amalgamation means joining of two or more existing companies into one company, the joined companies lose their identity and form themselves into a new company.
- In absorption, an existing company takes over the business of another existing company. Thus, there is only one liquidation and that is of the merged company.
- A company which is merged into another company is called a transferor company or a vendor company.
- A company into which the vendor company is merged is called transferee company or vendee company or purchasing company.
- In amalgamation in the nature of merger there is genuine pooling of:
  - Assets and liabilities of the amalgamating companies,
  - Shareholders' interest, Also the business of the transferor company is intended to be carried on by the transferee company.
- In amalgamation in the nature of purchase, one company acquires the business of another company.
- Purchase Consideration can be defined as the aggregate of the shares and securities issued and the payment made in form of cash or other assets by the transferee company to the share holders of the transferor company.
- There are two main methods of accounting for amalgamation:
  - The pooling of interests method, and
  - The purchase method.
- Under pooling of interests method, the assets, liabilities and reserves of the transferor company will be taken over by transferee company at existing carrying amounts.
- Under purchase method, the assets and liabilities of the transferor company should be incorporated at their existing carrying amounts or the purchase consideration should be allocated to individual identifiable assets and liabilities on the basis of their fair values at the date of amalgamation.

Question 1

What are the conditions, which, according to AS 14 on Accounting for Amalgamations, must be satisfied for an amalgamation in the nature of merger? ***(May, 2001)***

Answer

According to AS 14 on Accounting for Amalgamations; the following conditions must be satisfied for an *amalgamation in the nature of merger:*

(i) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.

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

(vi) All reserves & surplus of the transferor company shall be preserved by the transferee company.

If any one of the condition is not satisfied in a process of amalgamation, it cannot be treated as amalgamation in the nature of merger.

Question 2

Distinguish between (i) the pooling of interests method and (ii) the purchase method of recording transactions relating to amalgamation. ***(May, 2002)***

Answer

The following are the points of distinction between (i) the pooling of interests method and (ii) the purchase method of recording transactions relating to amalgamation:

(i) The pooling of interests method is applied in case of an amalgamation in the nature of merger whereas purchase method is applied in the case of an amalgamation in the nature of purchase.

(ii) In the pooling of interests method all the reserves of the transferor company are also recorded by the transferee company in its books of account while in the purchase method the transferee company records in its books of account only the assets and liabilities taken over, the reserves, except the statutory reserves, of the transferor company are not aggregated with those of the transferee company.

(iii) Under the pooling of interests method, the difference between the consideration paid and the share capital of the transferor company is adjusted in the general reserve or other reserves of the transferee company. Under the purchase method, the difference between the consideration and net assets taken over is treated by the transferee company as goodwill or capital reserve.

(iv) Under the pooling of interests method, the statutory reserves are recorded by the transferee company like all other reserves without opening amalgamation adjustment account. In the purchase method, while incorporating statutory reserves the transferee company has to open amalgamation adjustment account debiting it with the amount of the statutory reserves being incorporated.

Question 3

The following are the Balance Sheets of Yes Ltd. and No Ltd. as on 31st October, 2011:

	Yes Ltd.	No Ltd.
	Rs.	Rs.
	(in crores)	(in crores)
Sources of funds:		
Share capital:		
Authorised	25	5
Issued and Subscribed :		
Equity Shares of Rs. 10 each fully paid	12	5
Reserves and surplus	88	10
Shareholders funds	100	15
Unsecured loan from Yes Ltd.	—	10
	100	25
Funds employed in :		
Fixed assets: Cost	70	30
Less: Depreciation	50	24
	20	6
Written down value		
Investments at cost:		

30 lakhs equity shares of Rs. 10 each of No Ltd.		*3*		
Long-term loan to No. Ltd.		*10*		
Current assets	*100*		*34*	
Less : Current liabilities	*33*	*67*	*15*	*19*
		100		*25*

On that day Yes Ltd. absorbed No Ltd. The members of No Ltd. are to get one equity share of Yes Ltd. issued at a premium of Rs. 2 per share for every five equity shares held by them in No Ltd. The necessary approvals are obtained.

You are asked to pass journal entries in the books of the two companies to give effect to the above. ***(November, 1999)***

Answer

Journal Entries in the books of No Ltd.

(Rupees in crores)

		Dr. Rs.	Cr. Rs.
Realisation Account	Dr.	64.00	
To Fixed Assets Account			30.00
To Current Assets Account			34.00
(Being the assets taken over by Yes Ltd. transferred to Realisation Account)			
Provision for depreciation Account	Dr.	24.00	
Current Liabilities Account	Dr.	15.00	
Unsecured Loan from Yes Ltd. Account	Dr.	10.00	
To Realisation Account			49.00
(Being the transfer of liabilities and provision to Realisation Account)			
Yes Ltd.	Dr.	1.2	
To Realisation Account			1.2
(Being the amount of consideration due from Yes Ltd. credited to Realisation Account)			

Equity Shareholders Account	Dr.	13.80	
To Realisation Account			13.80
(Being the the loss on realisation transferred to equity shareholders account)			
Equity Share Capital Account	Dr.	5.00	
Reserves and Surplus Account	Dr.	10.00	
To Equity Shareholders Account			15.00
(Being the amount of share capital, reserves and surplus credited to equity shareholders account)			
Equity Shareholders (Yes Ltd.) Account	Dr.	0.72	
To Yes Ltd.			0.72
(Being the 3/5th of the consideration due from Yes Ltd. adjusted against the amount due to Yes Ltd. for shares held by it)			
Equity shares of Yes Ltd.	Dr.	0.48	
To Yes Ltd.			0.48
(Being the receipt of 4 lakhs equity shares of Rs. 10 each at Rs. 12 per share for allotment to outside shareholders			
Equity Shareholders Account	Dr.	0.48	
To Equity Shares of Yes Ltd.			0.48
(Being the distribution of equity shares received from Yes Ltd. to shareholders)			

Journal Entries in the Books of Yes Ltd.

(Rupees in crores)

		Dr. *Rs.*	*Cr.* *Rs.*
Business Purchase Account	Dr.	1.2	
To Liquidator of No Ltd. Account			1.2
(Being the amount of purchase consideration agreed under approved scheme of amalgamation- W.N. 1)			

Fixed Assets	Dr.	6.00	
Current Assets	Dr.	34.00	
To Current Liabilities			15.00
To Unsecured Loan (from Yes Ltd.)			10.00
To Business Purchase Account			1.20
To Capital Reserve			13.80
(Being the assets and liabilities taken over and the surplus transferred to capital reserve)			
Liquidator of No Ltd.	Dr.	0.72	
Capital Reserve	Dr.	2.28	
To Investments in Equity Shares of No Ltd.			3.00
(Being the investments in the equity shares of No Ltd. cancelled and the resultant loss recorded)			
Liquidator of No Ltd.	Dr.	0.48	
To Equity Share Capital Account			0.40
To Securities Premium Account			0.08
(Being the allotment to outside shareholders of No Ltd. 4 lakhs equity shares of Rs. 10 each at a premium of Rs. 2 per share)			
Unsecured Loan (from Yes Ltd.)	Dr.	10.00	
To Loan to No. Ltd.			10.00
(Being the cancellation of unsecured loan given to No Ltd.)			

Working Note:

Purchase Consideration	*Rs. in crores*
$\frac{50\text{lakhs}}{5} \times$ Rs. 12	
i.e., 10 lakhs equity shares at Rs. 12 per share	1.20
Less: Belonging to Yes Ltd. $\left[\frac{3}{5} \times 1.20\right]$	0.72
Payable to other equity shareholders	0.48

Number of equity shars of Rs. 10 each to be issued $\left[\frac{48\text{lakhs}}{12}\right]$ = 4 lakhs

Question 4

Super Express Ltd. and Fast Express Ltd. were in competing business. They decided to form a new company named Super Fast Express Ltd. The summarized balance sheets of both the companies were as under:

Super Express Ltd.
Balance Sheet as at 31st December, 2012

	Rs.		Rs.
20,000 Equity shares of Rs. 100 each	20,00,000	Buildings	10,00,000
Provident fund	1,00,000	Machinery	4,00,000
Sundry creditors	60,000	Stock	3,00,000
Insurance reserve	1,00,000	Sundry debtors	2,40,000
		Cash at bank	2,20,000
		Cash in hand	1,00,000
	22,60,000		22,60,000

Fast Express Ltd.
Balance Sheet as at 31st December, 2012

	Rs.		Rs.
10,000 Equity shares of Rs. 100 each	10,00,000	Goodwill	1,00,000
Employees profit sharing account	60,000	Buildings	6,00,000
Sundry creditors	40,000	Machinery	5,00,000
Reserve account	1,00,000	Stock	40,000
Surplus	1,00,000	Sundry debtors	40,000
		Cash at bank	10,000
		Cash in hand	10,000
	13,00,000		13,00,000

The assets and liabilities of both the companies were taken over by the new company at their book values. The companies were allotted equity shares of Rs. 100 each in lieu of purchase consideration.

Prepare opening balance sheet of Super Fast Express Ltd. ***(May 2000)***

Answer

Balance Sheet of Super Fast Express Ltd
as at 1st Jan., 2013

		Particulars	Notes	Rs.
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	30,00,000

	b	Reserves and Surplus	2	3,60,000
2		**Non-current liabilities**		
	a	Long-term provisions	3	1,00,000
3		**Current liabilities**		
	a	Trade Payables		1,00,000
		Total		**35,60,000**
		Assets		
1		**Non-current assets**		
	a	Fixed assets		
		Tangible assets	4	25,00,000
		Intangible assets	5	1,00,000
2		**Current assets**		
		Inventories		3,40,000
		Trade receivables		2,80,000
		Cash and cash equivalents	6	3,40,000
		Total		**35,60,000**

Notes to accounts

		Rs.
1	**Share Capital**	
	Equity share capital	
	Issued, subscribed and paid up	
	30,000 Equity shares of Rs. 100 each	30,00,000
	Total	**30,00,000**
2	**Reserves and Surplus**	
	Reserve account	1,00,000
	Surplus	1,00,000
	Insurance reserve	1,00,000
	Employees profit sharing account	60,000
	Total	**3,60,000**
3	**Long-term provisions**	
	Provident fund	1,00,000
	Total	**1,00,000**

4	**Tangible assets**		
	Buildings		16,00,000
	Machinery		9,00,000
		Total	**25,00,000**
5	**Intangible assets**		
	Goodwill		1,00,000
		Total	**1,00,000**
6	**Cash and cash equivalents**		
	Balances with banks		2,30,000
	Cash on hand		1,10,000
		Total	**3,40,000**

The above solution is based on pooling of interests method.

Alternative solution under the purchase method is given below :

Balance Sheet of Super Fast Express Ltd.
as at 1st Jan., 2013

		Particulars	Notes	Rs.
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	32,00,000
	b	Reserves and Surplus	2	60,000
2		**Non-current liabilities**		
	a	Long-term provisions	3	1,00,000
3		**Current liabilities**		
	a	Trade Payables		1,00,000
		Total		**34,60,000**
		Assets		
1		**Non-current assets**		
	a	Fixed assets		
		Tangible assets	4	25,00,000
		Intangible assets	5	0
2		**Current assets**		
		Inventories		3,40,000

Trade receivables		2,80,000
Cash and cash equivalents	6	3,40,000
Total		**34,60,000**

Notes to accounts

			Rs.
1	**Share Capital**		
	Equity share capital		
	Issued, subscribed and paid up		
	32,000 Equity shares of Rs. 100 each		32,00,000
	Total		**32,00,000**
2	**Reserves and Surplus**		
	Employees profit sharing account		60,000
	Total		**60,000**
3	**Long-term provisions**		
	Provident fund		1,00,000
	Total		**1,00,000**
4	**Tangible assets**		
	Buildings		16,00,000
	Machinery		9,00,000
	Total		**25,00,000**
5	**Intangible assets**		
	Goodwill	1,00,000	
	Less: Adjustment under scheme of amalgamation	(1,00,000)	0
	Total		**0**
6	**Cash and cash equivalents**		
	Balances with banks		2,30,000
	Cash on hand		1,10,000
	Total		**3,40,000**

Working Notes :

Calculation of Purchase Consideration

	Super Express Ltd.	*Fast Express Ltd.*
Total assets on 31.12.2012 (excluding goodwill)	22,60,000	12,00,000
Less: Provident fund	1,00,000	–

Employees profit sharing account	–	60,000
Sundry creditors	60,000	40,000
Net assets taken over	21,00,000	11,00,000

Question 5

The following were the summarized Balance Sheets of P Ltd. and V Ltd. as at 31st March, 2012:

Liabilities	*P Ltd.*	*V Ltd.*
	(Rs. in lakhs)	*(Rs. in lakhs)*
Equity Share Capital (Fully paid shares of Rs. 10 each)	*15,000*	*6,000*
Securities Premium	*3,000*	*–*
Foreign Project Reserve	*–*	*310*
General Reserve	*9,500*	*3,200*
Profit and Loss Account	*2,870*	*825*
12% Debentures	*–*	*1,000*
Bills Payable	*120*	
Sundry Creditors	*1,080*	*463*
Sundry Provisions	*1,830*	*702*
	33,400	*12,500*

Assets	*P Ltd.*	*V Ltd.*
	(Rs. in lakhs)	*(Rs. in lakhs)*
Land and Buildings	*6,000*	*–*
Plant and Machinery	*14,000*	*5,000*
Furniture, Fixtures and Fittings	*2,304*	*1,700*
Stock	*7,862*	*4,041*
Debtors	*2,120*	*1,020*
Cash at Bank	*1,114*	*609*
Bills Receivable	*—*	*80*
Cost of Issue of Debentures	*—*	*50*
	33,400	*12,500*

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

On 1st April 2012, P Ltd. took over V Ltd in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business P Ltd. would allot three fully paid equity shares of Rs. 10 each at par for every two shares held in V Ltd. It was also agreed that 12% debentures in V Ltd. would be converted into 13% debentures in P Ltd. of the same amount and denomination.

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

You are required to :

(i) Pass journal entries in the books of P Ltd. and

(ii) Prepare P Ltd.'s Balance Sheet immediately after the merger. ***(November, 1999)***

Answer

Books of P Ltd.

Journal Entries

		Dr. (Rs. in Lacs)	Cr. (Rs. in Lacs)
Business Purchase A/c	Dr.	9,000	
To Liquidator of V Ltd.			9,000
(Being business of V Ltd. taken over for consideration settled as per agreement)			
Plant and Machinery	Dr.	5,000	
Furniture & Fittings	Dr.	1,700	
Stock	Dr.	4,041	
Debtors	Dr.	1,020	
Cash at Bank	Dr.	609	
Bills Receivable	Dr.	80	
To Foreign Project Reserve			310
To General Reserve (3,200 - 3,000)			200
To Profit and Loss A/c (825 - 50)			775
To 12% Debentures			1,000

To Sundry Creditors			463
To Sundry Provisions			702
To Business Purchase			9,000
(Being assets & liabilities taken over from V Ltd.)			
Liquidator of V Ltd. A/c	Dr.	9,000	
To Equity Share Capital A/c			9,000
(Purchase consideration discharged in the form of equity shares)			
General Reserve A/c	Dr.	1	
To Bank A/c			1
(Liquidation expenses paid by P Ltd.)			
12% Debentures A/c	Dr.	1,000	
To 13% Debentures A/c			1,000
(12% debentures discharged by issue of 13% debentures)			
Bills Payable A/c	Dr.	80	
To Bills Receivable A/c			80
(Cancellation of mutual owing on account of bills)			

Balance Sheet of P Ltd. as at 1st April, 2012 (after merger)

		Particulars	Notes	Rs. (in lakhs)
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	24,000
	b	Reserves and Surplus	2	16,654
2		**Non-current liabilities**		
	a	Long-term borrowings	3	1,000
3		**Current liabilities**		
	a	Trade Payables (1,543 + 40)		1,583
	b	Short-term provisions		2,532
		Total		**45,769**

		Assets		
1		**Non-current assets**		
	a	Fixed assets		
		Tangible assets	4	29,004
2		**Current assets**		
	a	Inventories		11,903
	b	Trade receivables		3,140
	c	Cash and cash equivalents		1,722
		Total		**45,769**

Notes to accounts

	Rs.
1. Share Capital	
Equity share capital	
Authorised, issued, subscribed and paid up	
24 crores equity shares of Rs. 10 each (Of the above shares, 9 crores shares have been issued for consideration other than cash)	24,000
Total	**24,000**
2. Reserves and Surplus	
General Reserve	9,699
Securities Premium	3,000
Foreign Project Reserve	310
Surplus (Profit and Loss Account)	3,645
Total	**16,654**
3. Long-term borrowings	
Secured	
13% Debentures	1,000
4. Tangible assets	
Land & Buildings	6,000
Plant & Machinery	19,000
Furniture & Fittings	4,004
Total	**29,004**

Working Notes :

1. Computation of purchase consideration

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

Purchase consideration = Rs. 6,000 lacs × $\frac{3}{2}$ = Rs. 9,000 lacs.

Note : The question is silent regarding the treatment of fictitious assets and therefore they are not transferred to the amalgamated company. Thus the cost of issue of debentures shown in the balance sheet of the V Ltd. company is not transferred to the P Ltd. company.

Question 6

The following are the summarised Balance Sheets of X Ltd. and Y Ltd :

	X Ltd.	*Y Ltd.*
	Rs.	*Rs.*
Liabilities :		
Share Capital	*1,00,000*	*50,000*
Profit & Loss A/c	*10,000*	–
Creditors	*25,000*	*5,000*
Loan X Ltd.	—	*15,000*
	1,35,000	*70,000*
Assets :		
Sundry Assets	*1,20,000*	*60,000*
Loan Y Ltd.	*15,000*	–
Profit & Loss A/c	—	*10,000*
	1,35,000	*70,000*

A new company XY Ltd. is formed to acquire the sundry assets and creditors of X Ltd. and Y Ltd. and for this purpose, the sundry assets of X Ltd. are revalued at Rs. 1,00,000. The debt due to X Ltd. is also to be discharged in shares of XY Ltd.

Show the Ledger Accounts to close the books of X Ltd. ***(May, 2000)***

Answer

Books of X Ltd.
Realisation Account

	Rs.		*Rs.*
To Sundry Assets	1,20,000	By Creditors	25,000

		By XY Ltd. (Purchase consideration)	75,000
		By Shareholders (Loss on realisation)	20,000
	1,20,000		1,20,000

Shareholders Account

	Rs.		*Rs.*
To Realisation Account (Loss)	20,000	By Share Capital	1,00,000
To Shares in XY Ltd.	90,000	By Profit and Loss Account	10,000
	1,10,000		1,10,000

Loan Y Ltd.

	Rs.		*Rs.*
To Balance b/d	15,000	By Shares in XY Ltd.	15,000

Shares in XY Ltd.

	Rs.		*Rs.*
To XY Ltd.	75,000	By Shareholders	90,000
To Loan Y Ltd.	15,000		
	90,000		90,000

XY Ltd.

	Rs.		Rs.
To Realisation Account	75,000	By Shares in XY Ltd.	75,000

Question 7

The financial position of two companies Hari Ltd. and Vayu Ltd. as on 31st March, 2012 was as under:

Assets	*Hari Ltd. (Rs.)*	*Vayu Ltd. (Rs.)*
Goodwill	*50,000*	*25,000*
Building	*3,00,000*	*1,00,000*
Machinery	*5,00,000*	*1,50,000*
Stock	*2,50,000*	*1,75,000*
Debtors	*2,00,000*	*1,00,000*

Cash at Bank	*50,000*	*20,000*
Preliminary Expenses	*30,000*	*10,000*
	13,80,000	*5,80,000*

Liabilities

Share Capital:	*Hari Ltd. (Rs.)*	*Vayu Ltd. (Rs.)*
Equity Shares of Rs. 10 each	*10,00,000*	*3,00,000*
9% Preference Shares of Rs. 100 each	*1,00,000*	*–*
10% Preference Shares of Rs. 100 each	*–*	*1,00,000*
General Reserve	*1,00,000*	*80,000*
Retirement Gratuity fund	*50,000*	*20,000*
Sundry Creditors	*1,30,000*	*80,000*
	13,80,000	*5,80,000*

Hari Ltd. absorbs Vayu Ltd. on the following terms:

(a) 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of Hari Ltd.

(b) Goodwill of Vayu Ltd. is valued at Rs. 50,000, Buildings are valued at Rs. 1,50,000 and the Machinery at Rs. 1,60,000.

(c) Stock to be taken over at 10% less value and Reserve for Bad and Doubtful Debts to be created @ 7.5%.

(d) Equity Shareholders of Vayu Ltd. will be issued Equity Shares @ 5% premium.

Prepare necessary Ledger Accounts to close the books of Vayu Ltd. and show the acquisition entries in the books of Hari Ltd. Also draft the Balance Sheet after absorption as at 31st March, 2012. ***(May, 2001)***

Answer

In the Books of Vayu Ltd.
Realisation Account

		Rs.			Rs.
To	Sundry Assets (5,80,000 – 10,000)	5,70,000	By	Gratuity Fund	20,000
To	Preference Shareholders		By	Sundry Creditors	80,000
	(Premium on Redemption)	10,000	By	Hari Ltd.	

To	Equity Shareholders			(Purchase Consideration)	5,30,000
	(Profit on Realisation)	50,000			
		6,30,000			6,30,000

Equity Shareholders Account

		Rs.			*Rs.*
To	Preliminary Expenses	10,000	By	Share Capital	3,00,000
To	Equity Shares of Hari Ltd.	4,20,000	By	General Reserve	80,000
			By	Realisation Account (Profit on Realisation)	50,000
		4,30,000			4,30,000

Preference Shareholders Account

		Rs.			*Rs.*
To	9% Preference Shares of Hari Ltd.	1,10,000	By	Preference Share Capital	1,00,000
			By	Realisation Account (Premium on Redemption of Preference Shares)	10,000
		1,10,000			1,10,000

Hari Ltd. Account

		Rs.			*Rs.*
To	Realisation Account	5,30,000	By	9% Preference Shares	1,10,000
			By	Equity Shares	4,20,000
		5,30,000			5,30,000

In the Books of Hari Ltd.
Journal Entries

		Dr.	*Cr.*
		Rs.	*Rs.*
Goodwill Account	Dr.	50,000	
Building Account	Dr.	1,50,000	
Machinery Account	Dr.	1,60,000	

Stock Account	Dr.	1,57,500	
Debtors Account	Dr.	1,00,000	
Bank Account	Dr.	20,000	
To Gratuity Fund Account			20,000
To Sundry Creditors Account			80,000
To Provision for Doubtful Debts Account			7,500
To Liquidators of Vayu Ltd. Account			5,30,000
(Being Assets and Liabilities taken over as per agreed valuation).			
Liquidators of Vayu Ltd. A/c	Dr.	5,30,000	
To 9% Preference Share Capital A/c			1,10,000
To Equity Share Capital A/c			4,00,000
To Securities Premium A/c			20,000
(Being Purchase Consideration satisfied as above).			

Balance Sheet of Hari Ltd. (after absorption)
as at 31st March, 2012

		Particulars	Notes	Rs.
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	16,10,000
	b	Reserves and Surplus	2	1,20,000
2		**Non-current liabilities**		
	a	Long-term provisions	3	70,000
3		**Current liabilities**		
	a	Trade Payables		2,10,000
		Total		**20,10,000**
		Assets		
1		**Non-current assets**		
	a	Fixed assets		
		Tangible assets	4	11,10,000
		Intangible assets	5	1,00,000

2		**Current assets**		
	a	Inventories		4,07,500
	b	Trade receivables	6	2,92,500
	c	Cash and cash equivalents		70,000
	d	Other current assets (Preliminary expenses)		30,000
		Total		**20,10,000**

Notes to accounts

1	**Share Capital**		
	Equity share capital		
	140,000 Equity Shares of Rs. 10 each fully paid (Out of above 40,000 Equity Shares were issued in consideration other than for cash)		14,00,000
	Preference share capital		
	2,100 9% Preference Shares of Rs.100 each (Out of above 1,100 Preference Shares were issued in consideration other than for cash)		2,10,000
	Total		**16,10,000**
2	**Reserves and Surplus**		
	Securities Premium		20,000
	General Reserve		1,00,000
	Total		**1,20,000**
3	**Long-term provisions**		
	Gratuity fund		70,000
	Total		**70,000**
4	**Tangible assets**		
	Buildings		450,000
	Machinery		660,000
	Total		**11,10,000**
5	**Intangible assets**		
	Goodwill		1,00,000
	Total		**1,00,000**

6	**Trade receivables**		
	Trade receivables	3,00,000	
	Less: Provision for Doubtful Debt	(7,500)	**2,92,500**

Working Notes:

Purchase Consideration:	
Goodwill	50,000
Building	1,50,000
Machinery	1,60,000
Stock	1,57,500
Debtors	92,500
Cash at Bank	20,000
	6,30,000
Less: Liabilities	
Gratuity	20,000
Sundry Creditors	80,000
Net Assets	5,30,000
To be satisfied as under:	
10% Preference Shareholders of Vayu Ltd.	1,00,000
Add: 10% Premium	10,000
1,100 9% Preference Shares of Hari Ltd.	1,10,000
Equity Shareholders of Vayu Ltd.	
to be satisfied by issue of 40,000	
Equity Shares of Hari Ltd. at 5% Premium	4,20,000
Total	5,30,000

Question 8

The following is the summarized Balance Sheet of A Ltd. as at 31st March, 2012:

Liabilities	*Rs.*	*Assets*	*Rs.*
8,000 equity shares of Rs.100 each	*8,00,000*	*Building*	*3,40,000*
10% debentures	*4,00,000*	*Machinery*	*6,40,000*
Loan from A	*1,60,000*	*Stock*	*2,20,000*
Creditors	*3,20,000*	*Debtors*	*2,60,000*
General Reserve	*80,000*	*Bank*	*1,36,000*
		Goodwill	*1,30,000*
		Misc. Expenses	*34,000*
	17,60,000		*17,60,000*

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

(1) B Ltd. would take over all Assets, except bank balance at their book values less 10%. Goodwill is to be valued at 4 year's purchase of superprofits, assuming that the normal rate of return be 8% on the combined amount of share capital and general reserve.

(2) B Ltd. is to take over creditors at book value.

(3) The purchase consideration is to be paid in cash to the extent of Rs.6,00,000 and the balance in fully paid equity shares of Rs.100 each at Rs.125 per share.

The average profit is Rs.1,24,400. The liquidation expenses amounted to Rs.16,000. B Ltd. sold prior to 31st March, 2012 goods costing Rs.1,20,000 to A Ltd. for Rs.1,60,000. Rs.1,00,000 worth of goods are still in stock of A Ltd. on 31st March, 2012. Creditors of A Ltd. include Rs.40,000 still due to B Ltd.

Show the necessary Ledger Accounts to close the books of A Ltd. and prepare the Balance Sheet of B Ltd. as at 1st April, 2012 after the takeover. ***(November, 2001)***

Answer

Books of A Limited

Realisation Account

		Rs.			Rs.
To	Building	3,40,000	By	Creditors	3,20,000
To	Machinery	6,40,000	By	B Ltd.	12,10,000
To	Stock	2,20,000	By	Equity Shareholders (Loss)	76,000
To	Debtors	2,60,000			
To	Goodwill	1,30,000			
To	Bank (Exp.)	16,000			
		16,06,000			16,06,000

Bank Account

To	Balance b/d	1,36,000	By	Realisation (Exp.)	16,000
To	B Ltd.	6,00,000	By	10% debentures	4,00,000
			By	Loan from A	1,60,000
			By	Equity shareholders	1,60,000
		7,36,000			7,36,000

10% Debentures Account

To	Bank	4,00,000	By	Balance b/d	4,00,000
		4,00,000			4,00,000

Loan from A Account

To	Bank	1,60,000	By	Balance b/d	1,60,000
		1,60,000			1,60,000

Misc. Expenses Account

To	Balance b/d	34,000	By	Equity shareholders	34,000
		34,000			34,000

General Reserve Account

To	Equity shareholders	80,000	By	Balance b/d	80,000
		80,000			80,000

B Ltd. Account

To	Realisation A/c	12,10,000	By	Bank	6,00,000
			By	Equity share in B Ltd.(4,880 shares at Rs.125 each)	6,10,000
		12,10,000			12,10,000

Equity Shares in B Ltd. Account

To	B Ltd.	6,10,000	By	Equity shareholders	6,10,000
		6,10,000			6,10,000

Equity Share Holders Account

To	Realisation	76,000	By	Equity share capital	8,00,000
To	Misc. Expenses	34,000	By	General reserve	80,000
To	Equity shares in B Ltd.	6,10,000			
To	Bank	1,60,000			
		8,80,000			8,80,000

B Ltd

Balance Sheet as on 1st April, 2012 (An extract)*

		Particulars	Notes	Rs.
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	4,88,000
	b	Reserves and Surplus	2	1,07,000
2		**Current liabilities**		
	a	Trade Payables	3	2,80,000

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

			Note	Rs.
	b	Bank overdraft		6,00,000
		Total		**14,75,000**
		Assets		
1		**Non-current assets**		
	a	Fixed assets		
		Tangible assets	4	8,82,000
		Intangible assets	5	2,16,000
2		**Current assets**		
	a	Inventories	6	1,83,000
	b	Trade receivables	7	1,94,000
				14,75,000

Notes to accounts

			Rs.
1	**Share Capital**		
	Equity share capital		
	4,880 Equity shares of Rs.100 each (Shares have been issued for consideration other than cash)		4,88,000
	Total		**4,88,000**
2	**Reserves and Surplus (an extract)**		
	Securities Premium		1,22,000
	Profit and loss account	…..	
	Less: Unrealised profit	(15,000)	…..
	Total		**…..**
3	**Trade payables**		
	Opening balance	3,20,000	
	Less: Intercompany transaction cancelled upon amalgamation	(40,000)	**2,80,000**
4	**Tangible assets**		
	Buildings		3,06,000
	Machinery		5,76,000
	Total		**8,82,000**

5	**Intangible assets**		
	Goodwill		2,16,000
	Total		**2,16,000**
6	**Inventories**		
	Opening balance	1,98,000	
	Less: Cancellation of profit upon amalgamation	(15,000)	**1,83,000**
7	**Trade receivables**		
	Opening balance	2,60,000	
	Less: Intercompany transaction cancelled upon amalgamation	(40,000)	
	Less: Provision for bad debts	(26,000)	**1,94,000**

Working Notes:

1. Valuation of Goodwill		*Rs.*
Average profit		1,24,400
Less: 8% of Rs.8,80,000		70,400
Super profit		54,000
Value of Goodwill = 54,000 x 4		2,16,000
2. Net Assets for purchase consideration		
Goodwill as valued in W.N.1		2,16,000
Building		3,06,000
Machinery		5,76,000
Stock		1,98,000
Debtors		2,60,000
Total Assets		15,56,000
Less: Creditors	3,20,000	
Provision for bad debts	26,000	3,46,000
Net Assets		12,10,000

Out of this Rs.6,00,000 is to be paid in cash and remaining i.e., (12,10,000 – 6,00,000) Rs. 6,10,000 in shares of Rs.125/-. Thus, the number of shares to be allotted 6,10,000/125 = 4,880 shares.

3. Unrealised Profit on Stock Rs.

	Rs.
The stock of A Ltd. includes goods worth Rs.1,00,000 which was sold by B Ltd. on profit. Unrealized profit on this stock will be $\frac{40,000}{1,60,000} \times 1,00,000$	25,000
As B Ltd purchased assets of A Ltd. at a price 10% less than the book value, 10% need to be adjusted from the stock i.e., 10% of Rs.1,00,000.	(10,000)
Amount of unrealized profit	15,000

Question 9

The following is the summarized Balance Sheet of 'A' Ltd. as on 31.3.2012:

Liabilities	*Rs.*	*Assets*	*Rs.*
14,000 Equity shares of Rs.100 each fully paid	*14,00,000*	*Sundry assets*	*18,00,000*
General reserve	*10,000*	*Discount on issue of debentures*	*10,000*
10% Debentures	*2,00,000*	*Preliminary expenses*	*30,000*
Sundry creditors	*2,00,000*	*P & L A/c*	*60,000*
Bank overdraft	*50,000*		
Bills payable	*40,000*		
	19,00,000		*19,00,000*

'R' Ltd. agreed to take over the business of 'A' Ltd. Calculate purchase consideration under Net Assets method on the basis of the following:

The market value of 75% of the sundry assets is estimated to be 12% more than the book value and that of the remaining 25% at 8% less than the book value. The liabilities are taken over at book values. There is an unrecorded liability of Rs.25,000. ***(November, 2002)***

Answer

Calculation of Purchase Consideration under Net Assets Method

Sundry assets		*Rs.*
$18,00,000 \times \frac{75}{100} \times \frac{112}{100} =$	15,12,000	
$18,00,000 \times \frac{25}{100} \times \frac{92}{100} =$	4,14,000	19,26,000

Less:	*Liabilities:*		
	10% Debentures	2,00,000	
	Sundry creditors	2,00,000	
	Bank overdraft	50,000	
	Bills payable	40,000	
	Unrecorded liability	25,000	5,15,000
Purchase consideration			14,11,000

Question 10

Following is the summarized Balance Sheet of X Co. Ltd. as at 31st March, 2012:

Balance Sheet as at 31st March, 2012

Liabilities	*Rs.*	*Assets*	*Rs.*
Equity share capital (Rs. 100 each)	*15,00,000*	*Land and building*	*10,00,000*
11% Pref. share capital	*5,00,000*	*Plant and machinery*	*7,00,000*
General reserve	*3,00,000*	*Furniture and fittings*	*2,00,000*
Sundry creditors	*2,00,000*	*Stock in trade*	*3,00,000*
		Sundry debtors	*2,00,000*
		Cash in hand and at bank	*1,00,000*
	25,00,000		*25,00,000*

Y Co. Ltd. agreed to take over X Co. Ltd. on the following terms:

(i) Each equity share in X Co. Ltd. for the purpose of absorption is to be valued at Rs. 80.

(ii) Equity shares will be issued by Y Co. Ltd. by valuing its each equity share of Rs. 100 each at Rs. 120 per share.

(iii) 11% Preference shareholders of X Co. Ltd. will be given 11% redeemable debentures of Y Co. Ltd. at equivalent value.

(iv) All the Assets and Liabilities of X Co. Ltd. will be recorded at the same value in the books of Y Co. Ltd.

(a) Calculate Purchase consideration.

(b) Pass Journal entries in the books of Y Co. Ltd. for absorbing X Co. Ltd.

(November, 2006)

Answer

Computation of Purchase Consideration

	Rs.
Value of 15,000 equity shares @ Rs.80 per share = Rs.12,00,000	
Shares to be issued by Y Co. Ltd. (Rs,12,00,000/120 per share = 10,000 shares @ Rs.120 each)	12,00,000
11% Preference shareholders to be issued equivalent 11% Redeemable Debentures by Y Co. Ltd.	5,00,000
Total Purchase consideration	17,00,000

Journal Entries in the books of Y Co. Ltd.

		Rs.	Rs.
Business Purchase A/c	Dr.	17,00,000	
To Liquidator of X Co. Ltd.			17,00,000
(Being the amount payable to X Co. Ltd's liquidator)			
Land & Building A/c	Dr.	10,00,000	
Plant & Machinery A/c	Dr.	7,00,000	
Furniture & Fittings A/c	Dr.	2,00,000	
Stock in Trade A/c	Dr.	3,00,000	
Sundry Debtors A/c	Dr.	2,00,000	
Cash & Bank A/c	Dr.	1,00,000	
To Sundry Creditors			2,00,000
To Capital Reserve (Balancing figure)			6,00,000
To Business Purchase			17,00,000
(Being the value of assets and liabilities taken over from X Co. Ltd.)			
Liquidators of X Co. Ltd. Account	Dr.	17,00,000	
To Equity Share Capital			10,00,000
To Securities Premium Account			2,00,000
To 11% Debentures			5,00,000
(Being purchase consideration discharged)			

Question 11

Summarised Balance Sheets as on 31st March, 2012

Liabilities	Gee Ltd. ₹	Pee Ltd ₹	Assets	Gee Ltd. ₹	Pee Ltd. ₹
Equity share capital	25,00,000	15,00,000	Buildings	12,50,000	7,75,000
(₹ 10 per share)			Plant and machinery	16,25,000	8,50,000
14% Preference share capital	11,00,000	8,50,000	Furniture and fixtures	2,87,500	1,75,000
(₹ 100 each)	-	-	Investments	3,50,000	2,50,000
General reserve	2,50,000	2,50,000	Stock	6,25,000	4,75,000
Export profit reserve	1,50,000	1,00,000	Debtors	4,00,000	4,60,000
Investment allowance reserve	-	50,000	Bills receivables	50,000	55,000
Profit and loss account	3,75,000	1,25,000	Cash at bank	3,62,500	2,60,000
15% Debentures (₹ 100 each)	2,50,000	1,75,000			
Trade creditors	1,50,000	75,000			
Bills payables	75,000	1,00,000			
Other current liabilities	1,00,000	75,000			
	49,50,000	33,00,000		49,50,000	33,00,000

All the bills receivables of Pee Ltd. were having Gee Ltd.'s acceptances.

Gee Ltd. takes over Pee Ltd. on 1st April, 2012. The purchase consideration is discharged as follows:

(i) Issued 1,65,000 equity shares of ₹ 10 each at par to the equity shareholders of Pee Ltd.

(ii) Issued 15% preference shares of ₹ 100 each to discharge the preference shareholders of Pee Ltd. at 10% premium.

(iii) The debentures of Pee Ltd. will be converted into equivalent number of debentures of Gee Ltd.

(iv) The statutory reserves of Pee Ltd. are to be maintained for two more years.

(v) Expenses of amalgamation amounting to ₹ 10,000 will be borne by Gee Ltd.

Show the opening Journal entries and the opening balance sheet of Gee Ltd. as at 1st April, 2012 after amalgamation, on the assumption that the amalgamation is in the nature of the merger. ***(November, 2010)***

Answer

In the books of Gee Ltd.

Journal Entries

Particulars		*Debit* ₹	*Credit* ₹
Business purchase A/c (W.N.1)	Dr.	25,85,000	
To Liquidator of Pee Ltd.			25,85,000
(Being business of Pee Ltd. taken over)			
Building A/c	Dr.	7,75,000	
Plant and machinery A/c	Dr.	8,50,000	
Furniture and fixtures A/c	Dr.	1,75,000	
Investments A/c	Dr.	2,50,000	
Stock A/c	Dr.	4,75,000	
Debtors A/c	Dr.	4,60,000	
Bills receivables A/c	Dr.	55,000	
Cash at bank A/c	Dr.	2,60,000	
To General reserve A/c (W.N.2) (2,50,000-2,35,000)			15,000
To Export profit reserve A/c			1,00,000
To Investment allowance reserve A/c			50,000
To Profit and loss A/c			1,25,000
To 15% Debentures A/c (₹ 100 each)			1,75,000
To Trade creditors A/c			75,000
To Bills payables A/c			1,00,000
To Other current liabilities A/c			75,000
To Business purchase A/c			25,85,000
(Being assets and liabilities taken over)			
Liquidator of Pee Ltd.	Dr.	25,85,000	
To Equity share capital A/c			16,50,000
To 15% Preference share capital A/c			9,35,000
(Being purchase consideration discharged)			

General Reserve A/c	Dr.	10,000	
To Cash at bank			10,000
(Being expenses of amalgamation paid)			
15% Debentures in Pee Ltd. A/c	Dr.	1,75,000	
To 15% Debentures A/c			1,75,000
(Being debentures in Pee Ltd. discharged by issuing own 15% debentures)			
Bills payables A/c	Dr.	55,000	
To Bill receivables A/c			55,000
(Cancellation of mutual owing on account of bills of exchange)			

Opening Balance Sheet of Gee Ltd. (after absorption)
as on 1st April, 2012

		Particulars	Notes	Rs.
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	61,85,000
	b	Reserves and Surplus	2	10,55,000
2		**Non-current liabilities**		
	a	Long-term borrowings	3	4,25,000
3		**Current liabilities**		
	a	Trade Payables	4	3,45,000
	b	Other current liabilities	5	1,75,000
		Total		**81,85,000**
		Assets		
1		**Non-current assets**		
	a	Fixed assets		
		Tangible assets	6	49,62,500
	b	Investments	7	6,00,000
2		**Current assets**		
	a	Inventories	8	11,00,000
	b	Trade receivables	9	9,10,000
	c	Cash and cash equivalents	10	6,12,500
		Total		**81,85,000**

Notes to accounts

			Rs.
1	**Share Capital**		
	Equity share capital		
	415,000 Equity shares of Rs. 10 each (Out of above, 165,000 shares were issued for consideration other than cash)		41,50,000
	Preference share capital		
	9,350 15% Preference Shares of Rs.100 each (Out of above, 9,350 shares were issued for consideration other than cash)		9,35,000
	11,000 14% Preference Shares of Rs.100 each		11,00,000
	Total		**61,85,000**
2	**Reserves and Surplus**		
	General Reserve		
	Opening balance	2,50,000	
	Add: Adjustment under scheme of amalgamation	15,000	
	Less: Amalgamation expense paid	(10,000)	2,55,000
	Export profit reserve		
	Opening balance	1,50,000	
	Add: Adjustment under scheme of amalgamation	1,00,000	2,50,000
	Investment allowance reserve		50,000
	Profit and loss account		
	Opening balance	3,75,000	
	Add: Adjustment under scheme of amalgamation	1,25,000	5,00,000
	Total		**10,55,000**
3	**Long-term borrowings**		
	Secured		
	15% Debentures (2,50,000+1,75,000)	2,50,000	
	Add: Adjustment under scheme of amalgamation	1,75,000	4,25,000
	Total		**4,25,000**
4	**Trade payables**		
	Creditors: Opening balance	1,50,000	
	Add: Adjustment under scheme of amalgamation	75,000	2,25,000
	Bills Payables: Opening balance	75,000	

	Add: Adjustment under scheme of amalgamation	1,00,000	
	Less: Cancellation of mutual owning upon amalgamation	(55,000)	1,20,000
			3,45,000
5	**Other current liabilities**		
	Opening balance	1,00,000	
	Add: Adjustment under scheme of amalgamation	75,000	**1,75,000**
6	**Tangible assets**		
	Buildings- Opening balance	12,50,000	
	Add: Adjustment under scheme of amalgamation	7,75,000	20,25,000
	Plant and machinery- Opening balance	16,25,000	
	Add: Adjustment under scheme of amalgamation	8,50,000	24,75,000
	Furniture and fixtures- Opening balance	2,87,500	
	Add: Adjustment under scheme of amalgamation	1,75,000	4,62,500
	Total		**49,62,500**
7	**Investments (350,000 + 250,000)**		
	Opening balance	3,50,000	
	Add: Adjustment under scheme of amalgamation	2,50,000	**6,00,000**
8	**Inventories**		
	Opening balance	6,25,000	
	Add: Adjustment under scheme of amalgamation	4,75,000	**11,00,000**
9	**Trade receivables**		
	Debtors: Opening balance	4,00,000	
	Add: Adjustment under scheme of amalgamation	4,60,000	8,60,000
	Bills Payables: Opening balance	50,000	
	Add: Adjustment under scheme of amalgamation	55,000	
	Less: Cancellation of mutual owning upon amalgamation	(55,000)	50,000
	Total		**9,10,000**
10	**Cash and cash equivalents**		
	Opening balance	3,62,500	
	Add: Adjustment under scheme of amalgamation	2,60,000	
	Less: Amalgamation expense paid	(10,000)	**6,12,500**

Working Notes:

1. **Calculation of purchase consideration**

	₹
Equity shareholders of Pee Ltd. (1,65,000 x ₹ 10)	16,50,000
Preference shareholders of Pee Ltd. (8,50,000 x 110%)	9,35,000
Purchase consideration would be	25,85,000

2. **Amount to be adjusted from general reserve**

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

Thus, General reserve will be adjusted as follows:

	₹
Purchase consideration	25,85,000
Less: Share capital issued (₹ 15,00,000 + ₹ 8,50,000)	(23,50,000)
Amount to be adjusted from general reserve	2,35,000