Accounting For Corporate Restructuring

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Purchase Consideration:

Consideration means anything payable in cash, equity shares, preference shares or debentures/securities to the members i.e. **Equity & preference shareholders** of the transferor company by the transferee company & therefore, any payment to debenture holders or for liquidation expenses will not be included in consideration. This definition is general in nature & applicable to both types of amalgamations.

Types of Amalgamation:

An Amalgamation may be either:

(a) An Amalgamation in Nature of Merger or
(b) An Amalgamation in Nature of Purchase

Treatment of Goodwill:

Any excess of the amount of the consideration over the value of the net asset of the transferor company acquired by the transferee company should be recognised in the transferee company's financial statement as goodwill. If the amount of the consideration is lower than the value of the net assets acquired, the difference should be treated as capital reserve. The goodwill should be amortised over a period not exceeding 5 years unless a somewhat longer period can be adjusted.

ACCOUNTING TREATMENT IN THE BOOKS OF SELLING CO.

I

Sr No	Particulars	Dr.	Cr.
A	***Transfer of Balance Sheet items:***		
1.	***Trsf. of Equity share Capital & Reserves***		
	Equity Share Capital A/c Dr.		
	Reserve A/c Dr.		
	To Equity Shareholder A/c		
2	***Trsf. of Pref, share capital***		
	Pref, Share Capital A/c Dr.		
	To Pref, Shareholder A/c		
3	***Trsf. of Liabilities***		
	Liabilities A/c Dr.		
	To Realisation A/c		
4	***Trsf. of Assets***		
	Realisation A/c Dr.		
	To Assets A/c		
	(Cash & Bank is transferred to Realisation only if it is T/O by Purchasing Co)		
5	***Trsf. of Misc. Exp***		
	Realisation A/c Dr.		
	To Misc. Exp A/c		
B	***P.C. Due:***		
	Purchasing Co. A/c Dr.		
	To Realisation A/c		

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C	***P.C. Realise:***		
	Equity Share of Purchasing Co. A/C Dr.		
	Pref. Share of Purchasing Co. A/C Dr.		
	Debenture of Purchasing Co. A/C Dr.		
	Cash / Bank A/C Dr.		
	To Purchasing Co. A/c		
D	***Realisation of assets not T/O by Purchasing Co.:***		
	Cash / Bank A/C Dr.		
	To Realisation A/c		
E	***Payment of Liabilities not T/O by Purchasing Co.:***		
	Realisation A/c Dr.		
	To Cash / Bank A/C		
F	***Realisation Expenses:***		
	Realisation A/c Dr.		
	To Cash / Bank A/C		
G	***Payment to Pref. Shareholders:***		
	Pref. Share holder A/c Dr		
	To Cash / Bank A/C		
	To Pref. Share of Purchasing Co. A/C		
	(Difference in Pref. share holder account is transferred to Realisation A/c)		
H	***Transfer of Realisation Profit :***		
	Realisation A/c Dr.		
	To Equity Share holder A/C		
I	***Payment to Equity Share holders:***		
	Equity Share holder A/C Dr.		
	To Cash / Bank A/C		
	To Equity. Share of Purchasing Co. A/C		
	To Pref. Share of Purchasing Co. A/C		

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ACCOUNTING TREATMENT IN THE BOOKS OF PURCHASING CO.

Sr No	Particulars		Dr.	Cr.
1.	***P.C. Due:***			
	Business Purchasing A/c	Dr.		
	To Liquidator of Purchasing Co, A/c			
2	***Incorporation of Assets & Liabilities :***			
	Fixed Asset A/c	Dr.		
	Sundry Debtors A/c	Dr.		
	Stock A/c	Dr.		
	Bank A/c	Dr.		
	Goodwill (if any)	Dr.		
	To 10% Debenture A/c			
	To Current liabilities A/c			
	To Liquidators of Selling Co. Ltd.			
	To Capital Reserve A/c (if any)			
3	***PC Discharge:***			
	Liquidators of B Ltd.	Dr.		
	To Bank A/c			
	To share capital A/c			
	To share premium A/c			
4	***Cancellation of Inter Co. Debt:***			
	Creditors A/c	Dr.		
	To Debtors A/c			
5	***Cancellation of Inter Co. Bill:***			
	Bills Payable A/c	Dr.		
	To Bills Receivable A/c			
6	***Cancellation of unrealized profit:*** ***(Sale by Purhasing Co. to Selling Co)***			
	P & L. A/c	Dr.		
	To Stock A/c			
7	***Cancellation of unrealized profit:*** ***(Sale by Selling Co. to Purhasing Co)***			
	Goodwill or Capital Reserve A/c	Dr.		
	To Stock A/c			
8	***Incorporation of Statutory Reserve:***			
	Amalgamation Adjustment A/C	Dr.		
	To Statutory Reserve A/c			

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AMALGAMATION IN NATURE OF MERGER:

CONDITIONS FOR AMALGAMATION IN NATURE OF MERGER:

1. **All** assets and liabilities of transferor company transfer to transferee company.
2. At least **90%** of equity share capital holder of transferor company become shareholder in Transferee company.
3. Consideration is discharge by equity shares except fractional shares.
4. **No adjustment** made to the book value of transferor company in the books of transferee company.
5. Transferee company intends to carry on the business of transferor company.

	IF ALL 5 CONDITIONS ARE SATISFIED	IF ONE OR MORE CONDITION IS NOT SATISFIED
	Amalgamation in nature of merger	**Amalgamation in nature of purchase**
Method of Accounting	Pooling of interest	Purchase
Identity of Reserves	Preserved	Not preserved except for identity of Statutory Reserve
Difference between P.C. and N.A. Taken over	Adjusted in the reserve in transferee company	P.C. > N.A. = Goodwill P.C. < N.A. = Capital Reserve
Transfer Value of N.A.	At book value	At Revised Agreed Value

Pooling of Interest Method (Amalgamation in nature of Merger):

1. Assets & Liabilities to be incorporated at book value.
2. Reserve & Surplus of Company is to be incorporated.
3. If **PC > paid up share capital** (Equity + Preference), difference is to be adjusted against:
   - Free reserve of selling company
   - Secondly against free reserve of public company
   - Lastly, debit P & L A/c.
4. If **PC < paid up share capital** then difference is to be credited to Reserve.

◆ INTER COMPANY HOLDINGS IN THE CASE OF ABSORPTION :

There are three situations possible

a) When purchasing company holds shares in selling company.
b) When selling company holds shares in purchasing company.
c) Both holds shares in each other (i.e. Cross Holdings)

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CASE A

WHEN PURCHASING COMPANY HOLDS SHARES IN SELLING COMPANY.

(1) Calculation of Purchase Consideration:

Since purchasing company is already the owner (shareholders) of selling company to the extent of shares holding, it is required to make the payment only to **Outside shareholders**.

(a) Net Payment Method:

It is the total of all the payment made to the payment made to **outside shareholders**.

(b) Net Assets Method:

Under this method payment would be made to the extent to Net assets belonging to outsiders. It would be calculated as follows:

	Revised Value of Net Assets taken over	x
(-)	Revised value of liability taken over	x
	Net Assets taken over	x
(-)	Net Assets belongs to Purchasing Co.	x
	P.C. for outsiders	x

(2) Accounting in the Books of Selling Company:

Only one change taken place i.e. while transferring B/S. Share capital held by purchasing company is not payable and therefore it is credited to **Realisation A/c**. Balance share capital is to be transfer to **Equity share holders A/c.**

Equity Share capital A/c
    To Equity Share holders A/c. **(Outsiders)**
    To Realisation A/c. **(Purchasing company)**

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(3) Accounting in the Books of Purchasing Company:

1) While calculation goodwill or Capital reserve we should compare total cost of acquisition with net Assets taken over.

Total Cost of Acquisition = PC for outsider + Investment in selling company at book value.

2) While passing the entry for Net Assets Turnover investment in selling company should be written off at book value because it is no longer require. Entry will be:

Fixed Assets A/c	Dr.
Investment A/c	Dr.
Sundry Assets A/c	Dr.
Goodwill A/c **(if any)**	Dr.
To Sundry Liability	
To Business purchase	
To Capital Reserve **(if any)**	
To Investment in selling company **(book value)**	

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CASE B

WHEN SELLING COMPANY HOLDS SHARES IN PURCHASING COMPANY.

(1) Calculation of Purchase Consideration Amount:

(a) Net Payment Method

(i) Apply the given exchange rates and find out the total shares to be issued to liquidators

(ii) Actual shares issued = Total shares to be issued – shares already held by selling. Co. in purchasing co.

(iii) P.C. = Actual shares to be issued **X** Issue price.

(b) Net Assets Method.

(i) Find out value per share of Purchasing Co. (either given or ascertain intrinsic value per share)

(ii) Find out Revised value of Net Assets of Selling Co.

i.e. Revised value of Net assets taken over	x
(-) Revised value of Net liability taken over	x
Net Assets	**x**

(iii) Find out total shares to be issued $= \dfrac{\text{Net Assets of Selling Co.}}{\text{Value per shares of Purchasing Co.}}$

(iv) Actual Shares to be issued = Total shares to be issued – Shares already by Selling Co. in Purchasing Co.

(v) P.C. = Actual shares to be issued **X** Issue price.

(2) Accounting in the Books of Selling Company:

Investment of selling Co. will not transfer to purchasing Co. (investment in shares of Purchasing Co). It will be shown in opening balance in equity shares in **Equity Shares of Purchasing Co. A/c**. Thereafter it will be immediately **revalue** with reference to issued price of new shares to be received. Any profit or loss on revaluation should be transfer to Realisation A/c.

(3) Accounting in the Books of Purchasing Company:

No special treatment is to be given. However, while passing the entry of Net Assets taken over **exclude** investment of shares in purchasing company.

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CASE C - CROSS HOLDING

WHEN PURCHASING COMPANY HOLDS SHARES IN SELLING COMPANY & SELLING COMPANY HOLDS THE SHARES IN PURCHASING COMPANY

(1) Calculation of Purchasing Consideration:

(a) Net Payment Method:

For calculation of PC under this method technique in case A and case B should be combined.

(i) Apply given exchange ratio to outsider shareholder and find out total shares to be issued to outsider

(ii) From the total shares for outsiders less shares already held by Selling Co.

(iii) P.C. = Actual shares to be issued **X** Issue price.

(b) Net Assets Method:

Revised value of assets (including inter company investment)

(i) Find out value per share of Purchasing Co. using simultaneously equation.
(ii) Find out revised value of Net Assets of Selling Co. including inter company investment.
(iii) Find out net assets for outsiders
(i.e. Total Net assets – Net assets owned by Purchasing Co.)

(iv) Find out total shares for outsiders.
(i.e. Net assets for outsider ÷ Value per shares of Purchasing Co.

(v) Actual shares to be issued = Total shares for outsiders – Shares already held by Selling co. in Purchasing Co..

(vi) P.C. = Actual shares to be issue **X** Issue price.

(2) Accounting treatment in Selling Company:

Equity share capital of Selling Co.owned by Purchasing Co. should be transfer to Realisation A/c and balance equity shares capital will go to Equity shareholder A/c **[Case A]**

Investment in purchasing Co. should not be transfer to Realisation A/c and should be shown opening balance in **"Equity shares in Purchasing Co A/c"** and it should be revalued with reference to issue price of new shares to be issued and profit or loss on revaluation should be transfer to Realisation A/c. **[Case B]**

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(3) Accounting in the books of Purchasing Company:

While calculating Goodwill or Capital Reserve we should compare total Cost of Acquisition with Net Assets Takeover (excluding inter company invests of selling company) **[Case A – B]**

While passing the entry for Net Assets taken over investment in Selling Co. should be written off at the book value and care should be taken that net assets taken over **does not** include investments in Purchasing Co. held by Selling Co.

INTER COMPANY HOLDINGS IN CASE OF AMALGAMATION OF COMPANIES.

In case of amalgamation of companies, purchasing company is absolute a new company. It had never assets or liabilities before amalgamation. Hence, there can't be any inter company investment between purchasing company & selling company. Inter company investment is possible only among the selling company. There are two possibilities.

1. Selling company holding shares in second selling (S_2) company or vice-versa.
2. Both the selling companies holding shares of each other.

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CASE 1

WHEN S_1 CO. HOLDING SHARES IN S_2 CO.

Steps:

1) Calculation of PC of S_2 in the usual manner.

2) Close books of S_2 in the usual manner

3) Calculation of PC of S_1 excluding inter company investments, this investment will realise in the form of shares and cash received from liquidator of S_2 Co.

4) Close books of S_1 Company. Investment in S_2 Company should be transferred to Realisation A/c debit side, just like other assets, then it will realise in the form of shares in purchasing company and cash from liquidators of S_2 Company. Entry for this will be:

Shares in purchasing company	Dr.
Cash/Bank	Dr.
To Realisation	

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CASE 2
WHEN S_1 CO HOLDS SHARES IN S_2 CO. AND S_2 CO. HOLDS SHARES IN S_1 CO.

(1) Calculation of Purchasing Consideration:

Whether PC calculated as per Net Assets method or Net Payment method. It would be always calculated for **outsider shareholder**.

(2) Accounting in the books of selling company:

Inter company investment credited to **Realisation A/c** in usual manner. Equity share capital should be partly recorded in Equity Share holders A/c and balance held by other Selling Company should be transfer to other Realisation A/c because not payable.

(3) Accounting in the books of purchasing company:

While passing entry for Net Assets take over **exclude** inter company investments.

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Inter Company Investments in case of Amalgamation in Nature of Merger:

(1) Purchasing Co. having investment in Selling Company:

(i) Ascertain difference between

Paid up Share Capital ~ { PC – Outsiders interest
+
Investment by Purchase Company in Selling Co. }

(ii) Adjust the difference against reserves (as above)

(2) Selling Company having investment in Purchasing Company:

(i) Ascertain difference between

Paid up Share Capital ~ { PC
+
Investment held by Selling Company in P. Co. }

(ii) Adjust the difference against reserves (as above)

(3) Cross Holding:

(i) Ascertain difference between

Paid up Share Capital ~ { PC
+
Investment by P. Co. in Selling Company.
Investment by Selling Company in P. Co. }

(ii) Adjust the difference against reserves (as above)

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DEMERGER / HIVING OFF / SPIN OFF:

(A) Sale of business:

(i) **Amount Due**:
Purchasing Co. A/c (Consideration) A/c Dr.
Liability A/c Dr.
To Assets A/c
To Capital Reserve A/c

(ii) **Receipt of Consideration:**
Bank / Share in P. Co. A/c Dr.
To Purchasing. Co. A/c

(B) Transfer of business (Payment to members directly):

(i) **Net Assets turnover:**
(Assuming that consideration is greater than Net Assets)
Purchasing Co. A/c (Consideration) A/c Dr.
Liability A/c Dr.
To Assets A/c
To Members A/c

(ii) **Cancellation of receivable:**
Members A/c Dr.
Reserve A/c Dr.
Reconstruction A/c Dr.
To P. Co. A/c

(iii) Balance in members A/c represent capital profit and transfer to CR.

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Buy Back of Shares:

Maximum Shares to be bought back:

(i) **Share outstanding test**
25% of Paid up shares

(ii) **Reserve test**
Share holders fund
Buy back Price
Share holders Fund = Capital + Free Reserves

(iii) **Debt – Equity ratio test**
After buy back Co. has to main a debt ratio of 2 : 1.

Least of No. of shares arrived from the above three tests

(a) **On purchase of shares**

Share bought back A/c	Dr.
To Bank A/c	

(b) **Cancellation of shares bought back**

Share Capital A/c	Dr.
Reserves A/c	Dr.
To Share bought back A/c	

(c) **Transferring reserves**

Reserves A/c	Dr.
To CRR A/c	

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PRACTICAL QUESTIONS

Q.1 Alpha Ltd. acquire the Beta ltd. The B/S of Alpha ltd. & Beta Ltd. as on 31st March, 2008 are given below:

(Rs. in lakhs)

Liabilities	Alpha Ltd. Rs.	Beta Ltd. Rs.	Assets	Alpha Ltd. Rs.	Beta Ltd. Rs.
Equity share Capital of Rs. 100 each	1,000	800	Fixed Assets	1,200	1,000
15% Pref Share capital of Rs.100 each	400	300	Current Assets	880	565
Revaluation Res.	100	80			
General Reserve	200	150			
P & L Account	80	60			
12% Deb of Rs.100	96	80			
Current Liabilities	204	95			
Total	**2,080**	**1,565**	**Total**	**2,080**	**1,565**

Other Information:

1. Preference shareholders of Beta ltd. Receive Two, 15% Preference shares of Rs.100 each of Alpha Ltd ltd against each share.
2. ALPHA Ltd. has issued 2 equity shares for each equity share of Beta ltd. Prepare

   (A) Calculate PC.
   (B) Assume Amalgamation in nature of Purchase.
     (i) Journal entries in the books of Beta Ltd.
     (ii) Journal entries in the books of Alpha Ltd.
   (C) Assume Amalgamation in nature of Merger.
     Balance Sheet of Alpha Ltd.

Answer – 1:

(A) Calculation of PC:

(a) Payment to Pref. Shareholder

15 % Pref. Share (3 x 2) x 100	600

(b) Payment to Equity. Shareholder

Equity Share (8 x 2) x 100	1600
	2200

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(B) <u>Amalgamation in the nature of Purchase:</u>

(i) Journal Entries in the books of Beta Ltd

Sr. No.	Particulars		L. F.	Dr. Rs.	Cr. Rs.
1.	Equity Share Capital A/c	Dr.		800	
	To Equity Share holders A/c				800
2.	Pref. Share Capital A/c	Dr.		300	
	To Pref. Share holders A/c				300
3.	Revaluation Reserve A/c	Dr.		80	
	General Reserve A/c	Dr.		150	
	P & L A/c	Dr.		60	
	To Equity Share holder A/c				290
4.	12 % Debenture A/c	Dr.		80	
	Current Liability A/c	Dr.		95	
	To Realisation A/c				175
5.	Realisation A/c	Dr.		1565	
	To Fixed Assets A/c				1000
	To Current Liabilities A/c				565
6.	Alpha Ltd A/c	Dr.		2200	
	To Realisation A/c				2200
7.	Equity Shares of Alpha Ltd A/c	Dr.		1600	
	Pref. Shares of Alpha Ltd A/c	Dr.		600	
	To Alpha A/c				2200
8.	Pref. Shares holder A/c	Dr.		600	
	To Pref. Shares of Alpha Ltd A/c				600
9.	Realisation A/c	Dr.		300	
	To Pref. Shares holder A/c				300
10.	Realisation A/c	Dr.		510	
	To Equity Shares holders A/c				510
11.	Equity. Shares holder A/c	Dr.		1600	
	To Equity Shares of Alpha Ltd A/c				1600

(ii) <u>Journal Entries in the books of Alpha Ltd</u>

Sr. No.	Particulars		L.F.	Dr. Rs.	Cr. Rs.
1.	Business Purchase A/c	Dr.		2200	
	To Liquidator of Beta Ltd. A/c				2200

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2.	Fixed Assets A/c Dr. Current Assets A/c Dr. Goodwill A/c [W.N. 1] Dr. To Current liability A/c To 12 % Debenture A/c To Business Purchase A/c		1000 565 810	 95 80 2200
3.	Liquidator of Beta Ltd. A/c Dr. To Equity Share Capital A/c To Pref. Share Capital A/c		2200	 1600 600

Working Note:

1) Calculation of Goodwill or Capital Reserve:

Particulars	Rs.
Fixed Assets	1000
Current Assets	565
(-) 12 % debenture	(80)
(-) Current Liabilities	(95)
Net Assets Takeover	1390
Purchase Consideration	2200
Goodwill	**810**

(C) Amalgamation in Nature of Merger:

Particulars	Rs.
Equity Share Capital	800
Pref. Share Capital	300
	1100
Purchase Consideration	2200
Excess Payment	**1100**
To be adjusted against	
Free Reserve of Beta ltd – General Reserve	(150)
P & L	(60)
Free Reserve of Beta ltd – General Reserve	(200)
P & L	(80)
P & L (Dr)	**610**

Balance Sheet of Alpha Ltd.

(in '000 Rs.)

Liabilities	Rs.	Assets	Rs.
Share capital		Fixed assets	2200
Equity shares of Rs.10 each	2,600	Current Assets	1445
Preference shares Capital	1,000	Profit and Loss account	610
Revenue Reserve	180		
12 % Debenture	176		
Current liabilities	299		
	4255		4255

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Q.2 The following B/S of Grower & Botham Ltd. as at 31/12/08 are given to you:

	Grower Ltd.	Botham Ltd.
Assets:	Rs.	Rs.
Fixed assets	15,00,000	75,000
Sundry Debtors	4,35,000	2,25,000
Stock	7,20,000	3,15,000
1,500 Shares in Botham Ltd.	2,25,000	--
4,500 Shares in Grower Ltd.	--	7,50,000
Bank Balances	2,10,000	1,35,000
	30,90,000	**15,00,000**
Liabilities:		
Share Capital:		
In fully paid up Eq. Sh of Rs.100 each	22,50,000	7,50,000
General Reserve	2,00,000	1,50,000
P & L A/c	3,40,000	15,000
12% Debentures	--	4,50,000
Current Liabilities	3,00,000	1,35,000
	30,90,000	**15,00,000**

Botham Ltd. traded in raw materials which were required by Grower Ltd. for manufacture of its products. Stock of Grower Ltd. Includes Rs.1,50,000 for purchases made from Botham Ltd. which company made a profit of 20% on selling price. Grower Ltd. owed Rs.60,000 to Botham Ltd. in this respect. It was decided that Grower Ltd. should absorb Botham Ltd. On the basis of the intrinsic value of the shares of the two companies. Before absorption, Grower Ltd. declared a dividend of 12%.

Show the journal entries which Grower Ltd. should pass to record the acquisition & also prepare its Balance Sheet immediately thereafter.

Answer – 2:

In the books of Grower Ltd.
Journal entries

Sr. No.	Particulars		L. F.	Dr. Rs.	Cr. Rs.
1.	P/L A/c	Dr.		2,70,000	
	To Bank				2,70,000
2.	Business Purchases A/c	Dr.		77,780	
	To liquidation of Botham Ltd.				77,780
3.	Fixed Assets A/c	Dr.		75,000	
	Debtors A/c	Dr.		2,25,000	
	Stock A/c	Dr.		3,15,000	
	Bank A/c	Dr.		1,89,000	
	Goodwill A/c	Dr.		83,780	
	To 12% Deb.				4,50,000
	To CL				1,35,000
	To Business Purchases				77,780
	To Investment (written off at cost)				2,25,000
4.	Liquidator of Botham Ltd. A/c	Dr.		77,780	
	To Equity Share Capital				71,800
	To Securities Premium				5,938
	To cash				42

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5.	Creditors A/c Dr. To Debtors		60,000	 60,000
6.	Goodwill A/c Dr. To stock (20% of 1,50,000)		30,000	 30,000

Working Notes:

1) Calculation of PC / Intrinsic Value:

Particulars	Grower Rs.	Botham Rs.	Total Rs.
Assets:			
Fixed Assets	15,00,000	75,000	15,75,000
Debtors.	4,35,000	2,25,000	6,60,000
Stock	7,20,000	3,15,000	10,35,000
Bank	-	1,89,000	1,89,000
(A)	26,55,000	8,04,000	34,59,000
Liabilities:			
Bank Overdraft	60,000	-	60,000
Current Liabilities	3,00,000	1,35,000	4,35,000
12% Debentures	-	4,50,000	45,00,000
(B)	3,60,000	5,85,000	9,45,000
(Before Inv.) Net Asset (A – B)	22,95,000	2,19,000	25,14,000
NA after Inv.	24,36,250	7,06,250	
÷ No. of shares	22,500	7,500	
Intrinsic value	108.28	94.17	

2) Calculation of Revised P & L & cash bal. (after Div.):

It is assume that Dividend has been paid.

Particulars	Grower Ltd. (Rs.)		Botham Ltd. (Rs.)	
	P & L	**Bank**	**P & L**	**Bank**
Bal. given	3,40,000	21,000	15,000	1,35,000
(-) Div paid	(2,70,000)	(27,000)	54,000	54,000
By arower	70,000	(60,000)	69,000	1,89,000

3) Calculation of Net Assets of Grower is X & Botham is Y:

Let us assume that Net Assets of Grower is X & Botham is Y.

$$\left.\begin{aligned} X &= 22{,}95{,}000 + 0.2Y \\ Y &= 2{,}19{,}000 + 0.2\,X \end{aligned}\right\} \text{20\% inv. held in each other}$$

X = 22,95,000 + 0.2 (2,19,000 + 0.2x)
X = 22,95,000 + 43,800 + 0.4x
0.96x = 23,38,800
X = 23,38,800 / 0.96
X = 24,36,250 (Grower)
Y = 2,19,000 + 0.2x
= 2,19,000 + 0.2 (24,36,250)
= 2,19,000 + 4,87,250
Y = 7,06,250 (Botham)

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4) **Calculation of Purchase Consideration:**

Net Assets Takeover	Rs. 7,06,250
Net Assets belongs to Pr co. (20%)	Rs. (1,41,250)
Net Assets belongs to O/S	Rs. 5,65,000
Issue price	Rs. 108.27
Total shares to be issued	5,218.44
(-) shares already held by Botham Ltd.	(4,500)
Actual shares to be issued	718.44
Face Value (718 x 100)	Rs. 71,800
Securities Premium(718 x 8.27)	Rs. 5,938
Cash (108.27 @ 44%)	Rs. 42
Total PC	Rs. 77,780

5) **Calculation of Goodwill or Capital Reserve:**

Net Asset (before Investment)		Rs. 2,19,000
Cost of Investment PC	Rs. 77,780	
Investment	Rs.2,25,000	Rs. (3,02,780)
Goodwill		Rs. 83,780

In the books of Grower Ltd.
Balance Sheet as on 31/12/08

Liabilities	Amount Rs.	Assets	Amount Rs.
Issued, Subscribed and Paid up Share Capital:		**Fixed Assets:**	
		Goodwill (83,780 + 30,000)	1,13,780
23,218 Equity Shares of Rs. 100 each	23,21,800	Fixed Assets	15,75,000
(Of the above 718 shares were issued for acquisition of business)		**Investments:**	
		Current Assets, Loans &	
Reserves and Surplus:	2,00,000	**Advances:**	6,00,000
General Res	5,938	Debtors (6,60,000 – 60,000)	10,05,000
Securities Premium	70,000	Stock (10,35,000 – 30,000)	1,88,958
Profit & Loss A/c		Cash & bank	
Secured Loans:	4,50,000		
12% Debentures			
Unsecured Loans:			
Current Liabilities & Provisions:			
Bank Overdraft	60,000		
Creditors (4,35,000 – 60,000)	3,75,000		
	34,82,738		34,82,738

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Q.3 Maxi Mini Ltd. has 2 divisions - Maxi & Mini. The B/S as at 31st Oct., 08 was as under:

(Rs. In Crores)

	Maxi Div Rs.	Mini Div Rs.	Total Rs.
Fixed Assets:			
Cost	600	300	900
Depreciation	500	100	600
W.D.V.	100	200	300
Net Current assets:			
Current Assets	400	300	700
Less: Current liabilities	100	100	200
	300	200	500
Total	**400**	**400**	**800**
Financed by:			
Loan funds	-	100	100
Own Funds:			
Equity Capital (Fully paid up Rs.10 SH)			50
Reserves & Surplus			650
	?	?	700
Total	**400**	**400**	**800**

It is decided to form a new company Mini Ltd. to take over the assets & liabilities of Mini Division. Accordingly Mini Ltd. was incorporated to take over at B/S figures the assets & Liabilities of that division. Mini Ltd. is to allot 5 crores equity shares of Rs.10 each in the company to the members of Maxi Mini Ltd. in full settlement of the consideration. The members of Maxi Mini Ltd. are therefore to become members of Mini Ltd. as well without having to make any further investment.

You are asked to pass journal entries in relation to the above in the books of Maxi Mini Ltd. & Mini Ltd. also show the Balance Sheet of the 2 companies as on the morning of 1st Nov.,08 showing corresponding previous year's figures.

Answer – 3:

Journal of Maxi Mini Ltd.

		Dr.	***Cr.***
		Rs.	***Rs.***
Current liabilities A/c	Dr.	100	
Loan fund (secured) A/c	Dr.	100	
Provision for depreciation A/c	Dr.	100	
Loss on reconstruction (Balancing figure)	Dr.	300	
To Fixed assets A/c			300
To Current assets A/c			300
(Being the assets and liabilities of Mini division taken out of the books on transfer of the division to Mini Ltd., the consideration being allotment to the members of the company of one equity share of Rs. 10 each of that company at par for every share held in the company vide scheme of reorganisation.)			

(Rs. in crores)

Note : Any other alternatives set of entires, with the same net effect on various accounts, may be given by the students.

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Journal of Mini Ltd.

(Rs. in crores)

		Dr. Rs.	Cr. Rs.
Fixed assets (300-100) A/c	Dr.	200	
Current assets A/c	Dr.	300	
To Current liabilities A/c			100
To Secured loan funds A/c			100
To Equity share capital A/c			50
To Capital reserve			250
(Being the assets and liabilities of Mini division of Maxi Mini Ltd. taken over and allotment of 5 crores equity shares of Rs. 10 each at par as fully paid up to the members of Maxi Mini Ltd.)			

Maxi Mini Ltd.

Balance Sheet as at 1st November, 2008

(Rs. in crores)

	Schedule	After reconstruction		Before reconstruction	
I. SOURCES OF FUNDS					
(1) Shareholder's funds :					
(a) Capital		50		50	
(b) Reserves and Surplus	(A)	350		650	
			400		700
(2) Loan funds :					
Secured loans			–		100
TOTAL			400		800
II. APPLICATION OF FUNDS					
(1) Fixed assets :					
(a) Gross block		600		900	
(b) *Less:* Depreciation		500		600	
(c) Net block			100		300
(2) Investments			–		–
(3) Current assets		400		700	
Less: Current liabilities		100		200	
Net current assets			300		500
TOTAL			400		800

Schedule to Balance Sheet

	After reconstruction	*Before reconstruction*
(A) Reserves and Surplus	650	650
Less: Loss on reconstruction	300	–
	350	650

Note to Accounts: Consequent on reconstruction of the company and transfer of Mini division to newly incorporated company Mini Ltd., the members of the company have been allotted 5 crores equity shares of Rs. 10 each at par of Mini Ltd.

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Mini Ltd.

Balance Sheet as at 1st November, 2008

(Rs. in crores)

	Schedule		
I. SOURCES OF FUNDS			
(1) Shareholder's funds :			
(a) Capital	(A)	50	
(b) Reserves and Surplus		250	
			300
(2) Loan funds :			
Secured loans			100
TOTAL			400
II. APPLICATION OF FUNDS			
(1) Fixed assets			200
(2) Investments			–
(3) Current assets		300	
Less: Current liabilities		100	
Net current assets			200
TOTAL			400

Schedules to Balance Sheet

(Rs. in crores)

(A) Share Capital :	
Issued and paid up :	
5 cr. Equity shares of Rs. 10 each fully paid up	50
All the above shares have been issued for consideration other than cash, to the members of Maxi Mini Ltd., on take over of Mini division from Maxi Mini Ltd.	

Q.4 Variety Ltd has a subsidiary VR Ltd. holding 76% of the latter's paid up capital. The balance of shares in VR Ltd is held by a foreign collaborating company. A memorandum of understanding has been entered into with the foreign company providing for the following:

a) The shares held by the foreign company will be sold to Variety Ltd. The price per share will be calculated by capitalizing the yield at 15%. Yield, for this purpose, would mean 40% of the average of pre-tax profits for the last 3 years which were Rs.30 lakhs, 40 lakhs and 65 lakhs.
b) The actual cost of the shares to the foreign company was Rs.2,40,000 only. The profit that would accrue to them would be taxable at an average rate of 30%. The tax payable will be deducted from the proceeds and Variety Ltd will pay it to the Government.
c) Out of the net consideration, 50% would be remitted to the foreign company immediately and the balance will be an unsecured loan repayable after one year.

Variety Ltd decided to absorb VR Ltd. simultaneously. It decided to write down fixed assets of VR Ltd. by 5%. The Balance Sheet figures included a sum of Rs.1,50,000 due by VR Ltd. to Variety Ltd.

The entire arrangement was approved by all concerned for being given effect to on 1.4.2008.

The summarized Balance Sheet as at 31.3.2008 immediately before the implementation of the scheme was as follows:

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Particulars	Variety Ltd. Rs.	VR Ltd. Rs.
Shares of Rs.10 each	80,00,000	20,00,000
Reserves and Surplus	1,60,00,000	60,00,000
Secured Loans	40,00,000	--
Current Liabilities	60,00,000	20,00,000
Total	3,40,00,000	1,00,00,000
Fixed Assets	1,20,00,000	35,00,000
Investments in VR Ltd.	7,40,000	--
Sundry Debtors	70,00,000	10,00,000
Inventories	60,00,000	50,00,000
Cash and Bank	82,60,000	5,00,000
Total	3,40,00,000	1,00,00,000

You are required to show the Balance Sheet of Variety Ltd as it would appear after the arrangement is part through on 1.4.2008.

Answer – 4:

In the books of Variety Ltd.
Balance Shhet as on 31-3-08.

Liabilities		Amount Rs.	Assets		Amount Rs.
Issued, subscribed & paid Up Share Capital:			**Fixed Assets:**		
			Fixed Assets		1,53,25,000
8,00,000 share of Rs. 10 each fully paid		80,00,000	(120 lakhs + 33.25 lakhs)		
			Investments:		
Reserves & Surplus:			**Current Assets, Loans and Advances:**		
Capital Reserve		42,05,000	Debtors		78,50,000
Reserves		1,60,00,000	(80 lakhs – 1.5 lakhs)		1,10,00,000
Secured Loans:			Inventories		
Secured Loan		40,00,000	Cash & bank		
Unsecured Loans:				87,60,000	
Unsecured Loan		10,44,000		(-) 7,92,000	
Current Liabilities & Provisions:				(-) 10,44,000	69,24,000
Current Liabilities	80,00,000				
(-) Inter co. debt	(1,50,000)	78,50,000			
		4,10,99,000			4,10,99,000

Working Notes:

1) **Calculation of payment made to Foreign Collaborator:**

	Rs.
Avg. profit (30+40+65/3)	45 lakhs
Yield (40% of 45lakh)	18 lakhs
Capitalization (18 x 100/15)	120 lakhs
24% shares of 120lakh	28.8 lakhs

28.8 lakhs

Paid to government

S.P.	28,80,000
(-) cost	(2,40,000)
Profit	26,40,000
Tax @ 30%	7,92,000
	18,48,000

Balance

(28.8 – 7.92) = 20,88,000

50% Paid
10.44 lakhs

50% Unsec. loan
10.44 lakhs

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2) **Calculation of Goodwill or Capital Reserve:**

Particulars		Amount Rs.
Net Assets Takenover:		
Fixed assets (95%)		33,25,000
Sundry debtors		10,00,000
Inventories		50,00,000
Cash & bank		5,00,000
		98,25,000
(-) Current Liabilities		(20,00,000)
Net Assets Takenover		78,25,000
(-) Cost of Acquisition:		
Purchase Consideration	28,80,000	
+ Cost of Investment	36,20,000	7,40,000
Capital Reserve		42,05,000

Q.5 X Ltd. absorbs Y Ltd. by issue of 6 shares of Rs.10 each at a premium of 10% for every 5 shares of Y Ltd. For purpose of absorption, it was agreed that trade investments held by Y Ltd. will realise their book value and goodwill of Y Ltd. will be Rs.20,000.
The Balance Sheet of the two companies are as under:

Liabilities	X Ltd. Rs.	Y Ltd. Rs.	Assets	X Ltd. Rs	Y Ltd. Rs
Share capital in equity			Investments:		
shares of Rs.10 each	4,00,000	3,00,000	Trade	30,000	20.000
Reserve	2,40,000	1,50,000	Shares in X Ltd.		
Trade Creditors	40,000	30,000	5,000 shares at cost		60,000
			Other assets	6.50,000	4,00,000
	6,80,000	4,80,000		6,80,000	4,80,000

Prepare the ledger accounts in the books of Y Ltd. and journal entries in X Ltd. after absorption of Y Ltd. (All workings are to form part of your answer).

Answer – 5:

In the books of Y Ltd.

Realization A/c

Particulars	Amount Rs.	Particulars	Amount Rs.
To Investment A/c	20,000	By Creditors A/c	30,000
To Equity Share Capital of X Ltd. A/c	5,000	By Y Ltd. A/c (W.N. - 1) (P.C. Due)	3,14,000
To other assets A/c	4,00,000	By Equity Shares A/c	54,000
	4,25,000		4,25,000

Equity Shareholders A/c

Particulars	Amount Rs.	Particulars	Amount Rs.
To Realization A/c	54,000	By Equity Share Capital A/c	3,00,000
To Equity Shares of X Ltd. A/c	3,96,000	By Reserves A/c	1,50,000
	4,50,000		4,50,000

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Equity Share Capital of X Ltd.

Particulars	Amount Rs.	Particulars	Amount Rs.
To Investment in shares of X Ltd. A/c	60,000	By Realization A/c [5,000 x 1 (11 – 10)]	5,000
To X Ltd. A/c	3,41,000	By Equity Shares A/c	3,96,000
	4,01,000		4,01,000

X Ltd.

Particulars	Amount Rs.	Particulars	Amount Rs.
To Realization A/c	3,41,000	By Equity Shares of Y Ltd. A/c	3,41,000
	3,41,000		3,41,000

In the books of X Ltd.
Journal entries

Sr. No.	Particulars		L. F.	Dr. Rs.	Cr. Rs.
1.	Business Purchase A/c	Dr.		3,41,000	
	To Liquidator of Y Ltd. A/c				3,41,000
2.	Investment (Trade) A/c	Dr.		20,000	
	Other assets A/c	Dr.		4,00,000	
	To creditors A/c				30,000
	To Business Purchases A/c				3,41,000
	To Capital Reserve A/c				49,000
3.	Liquidator of Y Ltd. A/c	Dr.		3,41,000	
	To Equity Share Capital A/c				3,10,000
	To Securities Premium A/c				31,000

Working Note:

1) **Calculation of PC:**

Y Ltd.	X Ltd.	
5	6	
30,000	?	
		= 36,000 Shares
(-) sh. already held by Y Ltd.		(5,000) Shares
		31,000 Shares

		Rs.
Face Value (31,000 x Rs. 10)	=	3,10,000
Premium (31,000 x Rs. 1)	=	31,000
Purchase Consideration		3,41,000

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Q.6 System Ltd. and HRD Ltd. decided to amalgamate as on 01.04.2008. Their Balance Sheets as on 31.03.2008 were as follows: (Rs. in '000)

Particulars	System Ltd.	HRD Ltd.
Source of Funds:		
Equity share capital (Rs. 10 each)	150	140
9% preference share capital (Rs. 100 each)	30	20
Investment allowance reserve	5	2
Profit and Loss Account	10	6
10 % Debentures	50	30
Sundry Creditors	25	15
Tax provision	7	4
Equity Dividend Proposed	30	28
Total	307	245
Application of Funds:		
Building	60	50
Plant and Machinery	80	70
Investments	40	25
Sundry Debtors	45	35
Stock	36	40
Cash and Bank	40	25
Preliminary Expenses	6	-
Total	307	245

From the following information, you are to prepare the draft Balance Sheet as on 01.04.2008 of a new company, Intranet Ltd., which was formed to take over the business of both the companies and took over all the assets and liabilities:

(a) 50 % Debentures are to be converted into Equity Shares of the New Company.
(b) Out of the investments, 20% are non-trade investments.
(c) Fixed Assets of Systems Ltd. were valued at 10% above cost and that of HRD Ltd. at5% above cost.
(d) 10 % of sundry Debtors were doubtful for both the companies. Stocks to be carried at cost.
(e) Preference shareholders were discharged by issuing equal number of 9% preference shares at par.
(f) Equity shareholders of both the transferor companies are to be discharged by issuing Equity shares of Rs. 10 each of the new company at a premium of Rs. 5 per share.

Amalgamation is in the nature of purchase. **(New Final - Nov. 2008)**

Answer – 6:

M/s Intranet Ltd. Draft Balance Sheet as at 1.4.2008

Liabilities	Rs.	Assets	Rs.
Equity share capital 27,799 Equity shares of Rs.10 each, fully paid up (25,133 + 2,666) [W.N.2]	2,77,990	Building (Rs. 66,000+Rs. 52,500))	1,18,500
		Plant and machinery (Rs. 88,000+Rs. 73,500)	1,61,500
9% Preference share capital (Share of Rs.100each) [W.N.2]	50,000	Investments (Rs. 40,000+ Rs. 25,000)	65,000
Securities premium (1,25,665 + 13,330) [W.N.2]	1,38,995	Stock (Rs. 36,000+ Rs. 40,000)	76,000
Investment allowance reserve (Rs. 5,000+ Rs. 2,000)	7,000	Sundry debtors 90% of (Rs.45,000+ Rs. 35,000)	72,000
10% Debentures (50% of Rs. 80,000)	40,000	Cash and Bank (Rs.40,000+ Rs.25,000-Rs.15)	64,985

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Sundry creditors (Rs. 25,000+ Rs. 15,000) Tax provision (Rs. 7,000+ Rs. 4,000)	40,000 11,000	Amalgamation adjustment account	7,000
	5,64,985		5,64,985

Working Notes:

(1) Calculation of value of equity shares issued to transferor companies:

		System Ltd. Rs.		HRD Ltd. Rs.
Assets taken over:				
Building		66,000		52,500
Plant and machinery		88,000		73,500
Investments (trade and non-trade)		40,000		25,000
Stock		36,000		40,000
Sundry Debtors		40,500		31,500
Cash & Bank		40,000		25,000
		3,10,500		2,47,500
Less: Liabilities:				
10% Debentures	50,000		30,000	
Sundry Creditors	25,000		15,000	
Tax Provision	7,000	82,000	4,000	49,000
		2,28,500		1,98,500
Less: Preference Share Capital		30,000		20,000
		1,98,500		1,78,500

(2) Number of shares issued to eq. shareholders, debenture holders and preference shareholders:

	System Ltd.	HRD Ltd.	Total
Equity shares issued @ Rs. 15 per share (including Rs.5 premium)			
1,98,500 divided by 15	13,233 shares[1]		
1,78,500 divided by 15		11,900 shares	25,133 shares
Equity share capital @ Rs.10	Rs. 1,32,330	Rs. 1,19,000	Rs. 2,51,330
Securities premium @ Rs.5	Rs. 66,165	Rs. 59,500	Rs. 1,25,665
	Rs. 1,98,495	Rs. 1,78,500	Rs. 3,76,995
50% of Debentures are converted into equity shares @ Rs. 15 per share			
25,000 divided by 15	1,666 shares2		
15,000 divided by 15		1,000 shares	2,666 shares
Equity share capital @ Rs.10	Rs. 16,660	Rs. 10,000	Rs. 26,660
Security premium® Rs.5	Rs. 8,330	Rs. 5,000	Rs. 13,330
	Rs. 24,990	Rs. 15,000	Rs. 39,990
9% Preference share capital issued	Rs. 30,000	Rs. 20,000	Rs. 50,000

[1] **Cash paid for fraction of shares = Rs. 1,98,500 less Rs. 1,98,495 = Rs. 5**

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Q.7 Agni Ltd. and Bayu Ltd, both engaged in similar merchanting activities since 2006, decide to amalgamate their businesses. A holding company, Chandrama Ltd, would be formed on 1st January, 2008 to acquire the entire shares in both the companies.

From the information given below you are required to prepare:

(a) A statement of purchase consideration, supported by requisite working notes,

(b) Balance Sheet of Chandrama Ltd. after the transactions have been completed.

(i) The terms of the offer were:

- Rs. 100, 15 per cent debentures for every Rs. 100 of net assets owned by each company on 31st December, 2007.
- Rs. 100 equity shares based on two years purchase of profit before taxation. The profit is to be determined by taking weighted average profits of 2006 and 2007, weights being 1 and 2 respectively.

(ii) It was agreed that the accounts of Bayu Ltd. for the two years ended 31st December, 2007 be adjusted, where necessary, to conform to the accounting policies followed by Agni Ltd.

(iii) The Pre-tax profits, including investment income, of the two companies were as follows:

	2006 Rs.	2007 Rs.
Agni Ltd.	16,38,000	18,36,000
Bayu Ltd.	17,88,300	25,74,000

(iv) Agni Ltd. values its stock on FIFO basis while Bayu Ltd. used a different basis. To bring Bayu Ltd.'s values in line with those of Agni Ltd, value of its stock will require to be reduced by Rs. 36,000 at the end of2006 and Rs. 1,02,000 at the end of2007.

(v) Both the companies use straight line method of depreciation.

(vi) Bayu Ltd. deducts 1 per cent from trade debtors as a general provision against doubtful debts,

(vii) Prepaid expenses in Bayu Ltd, include advertisement expenditure carried forward of Rs. 1,80,000 in 2006 and Rs.90,000 in 2007, being part of initial advertising in 2006, which is being written off over three years. Similar expenditure in Agni Ltd, has been fully written off in 2006.

(viii) To bring Director's remuneration on to a comparative basis, the profits of Bayu Ltd, are to be reduced by Rs. 1,20,000 in 2006 and Rs. 1,80,000 in 2007 and the net assets are also to be adjusted accordingly.

Balance Sheets as at 31st December, 2006 and 2007 were as follows:

Agni Ltd.

Liabilities	2006 Rs.	2007 Rs.	Assets	2006 Rs.	2007 Rs.
Share capital			Fixed assets:		
issued and subscribed:			Furniture and		
12,000 shares of Rs.100			Fixtures:		
each, fully paid	12,00,000	12,00,000	at cost	6,90,000	6,90,000
Reserves and Surplus:			Less: depreciation	(69,000)	(1,38,000)
Capital reserve	-	2,10,000	Investments:		
Revenue reserve	7,98,300	16,74,000	Quoted investments		
			at market value	–	7,80,000
Current Liabilities and			Current assets:		
provisions:			Stock at cost	18,30,000	21,75,000
Sundry creditors	15,02,700	18,21,000	Sundry debtors	18,00,000	22,20,000
Provision for taxation	8,40,000	9,60,000	Prepaid expenses	30,000	42,000
			Cash at bank	60,000	96,000
	43,41,000	58,65,000		43,41,000	58,65,000

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Bayu Ltd.

Liabilities	2006 Rs.	2007 Rs.	Assets	2006 Rs.	2007 Rs.
Share capital:			Fixed assets:		
Issued and subscribed			Furniture and		
15,000 Equity shares of			fixture at cost	9,60,000	9,60,000
Rs.100 each, fully paid	15,00,000	15,00,000	Less: Depreciation	(1,44,000)	(2,88,000)
Reserves and surplus:			Investments:		
Revenue reserve	8,58,000	21,42,000	Quoted in vestments		
Current liabilities			(Market value		
			Rs.14,70,000)		
and provisions:				-	12,00,000
Sundry creditors	14,70,000	14,82,000	Current assets:		
Bank overdraft	-	5,10,000	Stock at cost	17,91,000	22,26,000
Provision for taxation	9,30,000	12,90,000	Sundry debtors		
			Less: provision	17,82,000	26,73,000
			Prepaid expenses	2,16,000	1,44,000
			Cash at bank	1,53,000	9,000
	47,58,000	69,24,000		47,58,000	69,24,000

(Old Final - June 2009)

Answer – 7:

(a) Statement of Purchase Consideration:

			Agni Ltd.			Bayu Ltd.
Year	**PBT(Rs)**	**Weight**	**Rs.**	**PBT(Rs)**	**Weight**	**Rs.**
2006	16,38,000	1	16,38,000	15,18,300*	1	15,18,300
2007	18,36,000	2	36,72,000	27,63,000*	2	55,26,000
Total Profit			53,10,000			70,44,300
Weighted average profit (Divided by 3)			17,70,000			23,48,100
(i) Two years' purchase of average profits			35,40,000			46,96,200
(ii) Net assets (Refer working notes 2 and 3)			30,84,000			35,43,000
			66,24,000			82,39,200

(iii) Discharge of purchase consideration:

82,362 Shares will be issued for goodwill amounting Rs. 82,36,200 (Rs.35,40,000 + Rs. 46,96,200)
66,270 15% Debentures will be issued for net assets amounting Rs. 66,27,000 (30,84,000 +35,43,000)

Total purchase consideration will amount to Rs. 1,48,63,200.
* **(Refer W.N. 1)**

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(b) Balance Sheet of Chandrama Ltd. as on 1st January, 2008

Liabilities	Rs.	Assets	Rs.
Share Capital- issued and subscribed 82,362 Equity shares of Rs.100 each, fully paid up (Issued for consideration other than cash)	82,36,200	Investments Shares in Agni Ltd. Shares in Bayu Ltd.	 66,24,000 82,39,200
Secured Loans 66,270 15% Debentures of Rs.100 each, fully paid	66,27,000		
	1,48,63,200		1,48,63,200

Working Notes:

(1) Statement of adjusted Net Profits of Bayu Ltd.:

	Year 2006 Rs.	Year 2006 Rs.	Year 2007 Rs.	Year 2007 Rs.
Net Profit as given		17,88,300	-	25,74,000
Add: Provision for Bad Debts - Note (a)	18,000		27,000	
Advertising	-		90,000	
Depreciation- Note (b)	48,000		48,000	
Appreciation in Investment	-		2,70,000	
Value of Opening Stock	-	66,000	36,000	4,71,000
		18,54,300		30,45,000
Less. Value of Closing Stock	36,000		1,02,000	
Advertising	1,80,000		-	
Directors' Remuneration	1,20,000	3,36,000	1,80,000	2,82,000
		15,18,300		27,63,000

Notes:

	Rs. Year 2006	Rs. Year 2007
(a) Sundry Debtors as per Balance sheet	17,82,000	26,73,000
Provision created		
1 % of (Rs. 17,82,000/. 99)	18,000	
1 % of (Rs. 26,73,000 / .99)		27,000

(b) Rate of depreciation under straight line method for Agni Ltd. and Bayu Ltd. can be computed as follows:
Agni Ltd. = Rs.(69,000 / 6,90,000) x 100= 10%.
Bayu Ltd. = Rs.(1,44,000/9,60,000) x 100= 15%
Difference of 5% in depreciation amount i.e. (5% of Rs.9,60,000 = Rs. 48,000) has been added back to ensure uniform accounting policies.

(2) Statement of Net Assets of Agni Ltd.:

	Rs.	Rs.
Total Assets		58,65,000
Less: Sundry Creditors	18,21,000	
Provision for Taxation	9,60,000	27,81,000
	-	30,84,000

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(3) **Statement of Adjusted Net Assets of Bayu Ltd.:**

	Rs.	Rs.
Furniture and Fixtures	9,60,000	
Less: Depreciation at 10% p.a. for two years	1,92,000	7,68,000
Quoted investments at market value		14,70,000
Stock (Rs.22,26,000 - Rs. 1,02,000)		21,24,000
Sundry Debtors after Reversal of Provision (Rs.26,73,000 + Rs.27,000)		27,00,000
Prepaid Expenses (Rs. 1,44,000 - 90,000)		54,000
Cash at Bank		9,000
		71,25,000
Less: Sundry Creditors	14,82,000	
Bank Overdraft	5,10,000	
Liability for Directors' Remuneration (1,20,000 + 1,80,000)	3,00,000	
Provision for Taxation	12,90,000	35,82,000
	-	35,43,000

Q.8 The following are the Balance Sheets of Andrew Ltd. and Barry Ltd., as at 31.12.2007:

Andrew Ltd.

(in Rs. '000s)

Liabilities	Amt. Rs.	Assets	Amt. Rs.
Share capital		Fixed assets	3,400
300,000 Equity shares of Rs. 10 each	3,000	Stock (pledged with secured loan creditors)	18,400
10,000 Preference shares of Rs. 100 each	1,000	Other Current assets	3,600
		Profit and Loss account	16,600
General reserve	400		
Secured loans (secured against pledge of stocks)	16,000		
Unsecured loans	8,600		
Current liabilities	13,000		
	42,000		42,000

Barry Ltd.

(in Rs. '000s)

Liabilities	Amt. Rs.	Assets	Amt. Rs.
Share capital		Fixed assets	6,800
1,00,000 Equity shares of Rs. 10 each	1,000	Current assets	9,600
General reserve	2,800		
Secured loans	8,000		
Current liabilities	4,600		
	16,400		16,400

Both the companies go into liquidation and Charlie Ltd., is formed to take over their businesses. The following information is given:

(a) All Current assets of two companies, except pledged stock are taken over by Charlie Ltd. The realisable value of all Current assets are 80% of book values in case of Andrew Ltd. and 70% for Barry Ltd. Fixed assets are taken over at book value.

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(b) The break up of Current liabilities is as follows:

	Andrew Ltd. Rs.	Barry Ltd. Rs.
Statutory liabilities (including Rs.22 lakh in case of Andrew Ltd. in case of a claim not having been admitted shown as contingent liability)	72,00,000	10,00,000
Liability to employees	30,00,000	18,00,000

The balance of Current liability is miscellaneous creditors.

(c) Secured loans include Rs. 16,00,000 accrued interest in case of Barry Ltd.

(d) 2,00,000 equity shares of Rs. 10 each are allotted by Charlie Ltd. at par against cash payment of entire face value to the shareholders of Andrew Ltd. and Barry Ltd. in the ratio of shares held by them in Andrew Ltd. and Barry Ltd.

(e) Preference shareholders are issued Equity shares worth Rs.2,00,000 in lieu of present holdings.

(f) Secured loan creditors agree to continue the balance amount of their loans to Charlie Ltd. after adjusting value of pledged security in case of Andrew Ltd. and after waiving 50% of interest due in the case of Barry Ltd.

(g) Unsecured loans are taken over by Charlie Ltd. at 25% of Loan amounts.

(h) Employees are issued fully paid Equity shares in Charlie Ltd. in full settlement of their dues.

(i) Statutory liabilities are taken over by Charlie Ltd. at full values and miscellaneous creditors are taken over at 80% of the book value.

Show the opening Balance Sheet of Charlie Ltd. Workings should be part of the answer.

(Old Final – Nov. 2008)

Answer – 8:

Balance sheet of Charlie Ltd. as at 31st December, 2007

(in Rs. '000s)

Liabilities	Rs.	Assets	Rs.
Share Capital Authorised Shares of Rs.10 each Issued, subscribed & Paid up: 7,00,000 equity shares of Rs.10 each, fully paid up (W.N. 5) (of the above 5,00,0000 shares have been issued for consideration other than cash)	7,000	Goodwill (W.N.4) Other Fixed Assets (3,400 + 6,800) Current Assets(2,880 + 6,720) Cash at Bank	9,470 10,200 9,600 2,000
Secured loans (1,280+ 7,200)	8,480		
Unsecured Loans (25% of 8,600)	2,150		
Current Liabilities (7,200 + 1,000 + 4,000 +1,440)	13,640		
	31,270		31,270

Working Notes:

(1) Value of miscellaneous creditors taken over by Charlie Ltd. (in Rs. '000s):

	Andrew Ltd. Rs.	Barry Ltd. Rs.
Given in balance sheet	13,000	4,600
Less: Statutory liabilities	5,000	1,000
Liability to employees	3,000	1,800
Miscellaneous creditors	5,000	1,800
80% thereof	4,000	1,440

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(2) Value of total liabilities taken over by Charlie Ltd.:

	Andrew Ltd. Rs.	Rs.	Barry Ltd. Rs.	Rs.
Current liabilities				
Statutory liabilities	7,200		1,000	
Liability to employees	3,000		1,800	
Miscellaneous creditors (W.N.1)	4,000	14,200	1,440	4,240
Secured loans				
Given in Balance sheet	16,000		8,000	
Interest waived	-		800	7,200
Value of Stock	14,720			
(80% of Rs. 184 lakhs)		1,280		
Unsecured Loans				
(25% of Rs. 86 lakhs)		2,150		-
		17,630		11,440

(3) Assets taken over by Charlie Ltd.:

	Andrew Ltd. Rs.	Barry Ltd. Rs.
Fixed Assets (Assumed on book value basis)	3,400	6,800
Current Assets 80% and 70% respectively of book value	2,880	6,720
	6,280	13,520

(4) Goodwill / Capital Reserve on amalgamation:

Liabilities taken over (W.N. 2)		17,630	11,440
Equity shares to be issued to Preference Shareholders		200	-
	A	17,830	11,440
Less, total assets taken over (W.N. 3)	B	6,280	13,520
	A-B	11,550	(2,080)
		Goodwill	Capital Reserve
Net Goodwill		9,470	

(5) Equity shares issued by Charlie Ltd.:

	Number
For Cash	200000
For consideration other than cash	
In Discharge of Liabilities to Employees	4,80,000
To Preference shareholders	20,000 5,00,000
	7,00,000
Value of shares	Rs.10 x 7,00,000= Rs. 70 Lakhs

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PRACTICE QUESTION

Q. The following are the summarised Balance Sheets of M Ltd. and N Ltd.:-

Liabilities	M Ltd.	N Ltd.	Assets	M Ltd.	N Ltd.
	Rs.	Rs.		Rs.	Rs.
Share Capital	40,000	20,000	Sundry Assets	42,000	33,000
Profit & Loss A/c	5,000		Shares in N Ltd.	20,000	
Creditors	15,000	6,000	Loan N Limited	8,000	
Loan-H Ltd.	10,000		Profit and Loss A/c.		1,000
Loan-M Ltd.		8,000			
	70,000	34,000		70,000	34,000

The whole of the shares of M Ltd. are held by H Ltd. and the entire share capital of N Ltd. is held by M Ltd.A New company MN Ltd. is formed to acquire the sundry assets and creditors of M Ltd. and N Ltd. For this purpose, the sundry assets of M Ltd. are revalued at Rs.30,000 and those of N Ltd. at Rs.20,000. The amount of the loan due H Ltd. is also to be discharged in shares in the new company; the debt to M Ltd. is also to be similarly discharged. Show the journal entries necessary to close the books of M Ltd. and N Ltd. Show the journal entries to close the books of M Ltd and N Ltd.

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