UNIT 4 : AMALGAMATION AND RECONSTRUCTION

(A) Write short notes on :

Question 1

Amalgamation and Absorption of companies—a comparison.(3 marks)(Intermediate–Nov. 1994)

Answer

In accounting parlance, amalgamation means merger of two or more companies into one new or existing company. Absorption, on the other hand, refers to acqusition of business of one company by another company. But it may be noted that the Companies Act, 1956 does not make any distinction between amalgamation and absorption. Infact, the Companies Act, 1956 does not properly define the terms amalgamation and absorption. But Sections 394 and 396 of the Act prescribe the procedure for amalgamation. The Income-tax Act, 1961, however, defines the term amalgamation to mean "the merger of one or more companies with another company or the merger of two or more companies to form one company". Therefore, it seems that legally there is no difference between amalgamation and absorption of companies. According to the Accounting Standard 14, "Accounting for Amalgamations", amalgamations fall into two broad categories. In the first category are those amalgamations where there is a genuine pooling not merely of the assets and liabilities of the two companies but also of the shareholders' interests and of the businesses of these companies. Such amalgamations are known as "amalgamation in the nature of merger". The second type of amalgamations are those which are in effect a mode by which one company acquires another company and as a consequence the shareholders of the company which is acquired normally do not continue to have a proportionate share in the equity of the combined company or the business of the company which is acquired is not intended to be continued. Such amalgamations are known as "amalgamation in the nature of purchase." Therefore, it can be said that amalgamations include absorption.

Question 2

Pooling of interests method of amalgamation. (5 marks)(Intermediate–May 1997

Answer

Pooling of interests method of accounting for amalgamation records amalgamation transactions as if the separate businesses of the amalgamating companies were intended to be continued by the transferee company. Accordingly, only the minimal changes are made in aggregating the individual financial statements of the amalgamating companies.

Under the pooling of interests methods the assets, liabilities and reserves of the transferor company will be taken over by the transferee company at existing carrying amounts unless any adjustment is required due to difference in accounting policies. As a result, the difference between the amount recorded as share capital issued (plus any additional consideration in the form of cash or other assets) by the transferee company and the amount of share capital of transferor company should be adjusted in reserves. At the time of amalgamation, if the transferor and the transferee companies have conflicting accounting policies, a uniform set of accounting policies is adopted following the amalgamation.

Question 3

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

(4 Marks) (Intermediate–May 2001 and PE-II – Nov. 2006)

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 liabilties 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 4

Distinguish between (i) the pooling of interests method and (ii) the purchase method of recording transactions relating to amalgamation. *(4 marks) (Intermediate–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.

(B) Practical Questions:

Question 1

The paid-up capital of Toy Ltd. amounted to Rs. 2,50,000 consisting of 25,000 equity shares of Rs. 10 each.

Due to losses incurred by the company continuously, the directors of the company prepared a scheme for reconstruction which was duly approved by the court. The terms of reconstruction were as under:

(i) In lieu of their present holdings, the shareholders are to receive:

(a) Fully paid equity shares equal to 2/5th of their holding.

(b) 5% preference shares fully paid-up to the extent of 20% of the above new equity shares.

(c) 3,000 6% second debentures of Rs. 10 each.

(ii) An issue of 2,500 5% first debentures of Rs. 10 each was made and fully subscribed in cash.

(iii) The assets were reduced as follows:

(a) Goodwill from Rs. 1,50,000 to Rs. 75,000.

(b) Machinery from Rs. 50,000 to Rs. 37,500.

(c) Leasehold premises from Rs. 75,000 to Rs. 62,500.

Show the journal entries to give effect to the above scheme of recontrsuction.

(10 marks) (Intermediate–Nov. 1995)

Answer

Journal Entires

		Rs.	Rs.
Share Capital A/c (old)	Dr.	2,50,000	
To Equity Share Capital A/c			
($\frac{2}{5}$ of Rs. 2,50,000)			1,00,000
To 5% Preference Share Capital A/c			

($\frac{20}{100}$ × Rs. 1,00,000)			20,000
To 6% Second Debntures A/c			30,000
To Capital Reduction A/c			1,00,000
(Conversion of 25,000 Equity Shares and balance being transferred to Capital Reduction A/c in accordance with the Scheme of internal reconstruction as per Special Resolution dated..........as confirmed by the Court Order dated........)			
Bank A/c	Dr.	25,000	
To 5% First Debenture A/c			25,000
(Issue of Rs. 25,000 5% First Debentures for cash as per scheme of internal reconstruction)			
Capital Reduction A/c	Dr.	1,00,000	
To Goodwill A/c			75,000
To Plant & Machinery A/c			12,500
To Leasehold premises A/c			12,500
(Sundry Assets written down as per scheme of internal reconstruction			

Question 2

Star and Moon had been carrying on business independently. They agreed to amalgamate and form a new company Neptune Ltd. with an authorised share capital of Rs. 2,00,000 divided into 40,000 equity shares of Rs. 5 each.

On 31st December, 1995, the respective Balance Sheets of Star and Moon were as follows :

	Star	*Moon*
	Rs.	*Rs.*
Fixed Assets	*3,17,500*	*1,82,500*
Current Assets	*1,63,500*	*83,875*
	4,81,000	*2,66,375*
Less: Current Liabilities	*2,98,500*	*90,125*
Representing Capital	*1,82,500*	*1,76,250*

Additional Information :

(a) Revalued figures of Fixed and Current Assets were as follows :

	Star	*Moon*
	Rs.	*Rs.*
Fixed Assets	*3,55,000*	*1,95,000*
Current Assets	*1,49,750*	*78,875*

(b) The debtors and creditors—include Rs. 21,675 owed by Star to Moon.

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

(i) 30,000 equity shares of Neptune Ltd., to Star and Moon in the porportion to the profitability of their respective business based on the average net profit during the last three years which were as follows :

	Star	*Moon*
1993 Profit	*2,24,788*	*1,36,950*
1994 (Loss)/Profit	*(1,250)*	*1,71,050*
1995 Profit	*1,88,962*	*1,79,500*

(ii) 15% debentures in Neptune Ltd., at par to provide an income equivalent to 8% return on capital employed in their respective business as on 31st December, 1995 after revaluation of assets.

You are requested to :

(1) Compute the amount of debentures and shares to be issued to Star and Moon.

(2) A Balance Sheet of Neptune Ltd., showing the position immediately after amalgamation.

(20 marks) (Intermediate–May 1996)

Answer

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

		Star Rs.	*Moon* Rs.
(i) *Average Net Profit*			
$\frac{2,24,788-1,250+1,88,962}{3}$	=	1,37,500	
$\frac{1,36,950-1,71,050+1,79,500}{3}$	=		1,62,500
(ii) *Equity Shares Issued*			
(a) Ratio of distribution			
Star : Moon			
1,375 : 1,625			
(b) Number			
Star : 13,750			
Moon : 16,250			
30,000			
(c) Amount			
13,750 shares of Rs. 5 each	=	68,750	
16,250 shares of Rs. 5 each	=		81,250
(iii) *Capital Employed (after revaluation of assets)*			
Fixed Assets		3,55,000	1,95,000
Current Assets		1,49,750	78,875

		5,04,750	2,73,875
Less: Current Liabilities		2,98,500	90,125
		2,06,250	1,83,750

(iv) *Debentures Issued*

8% Return on capital employed		16,500	14,700
15% Debentures to be issued to provide equivalent income :			
Star : 16,500 × $\frac{100}{15}$	=	1,10,000	
Moon : 14,700 × $\frac{100}{15}$	=		98,000

(2) Balance Sheet of Neptune Ltd.

As at 31st December, 1995

Liabilities	*Amount Rs.*	*Assets*	*Amount Rs.*
Share Capital:		Fixed Assets	5,50,000
Authorised		Current Assets	2,06,950
40,000 Equity Shares of Rs. 5 each	2,00,000		
Issued and Subscribed			
30,000 Equity Shares of Rs. 5 each (all the above shares are allotted as fully paid-up pursuant to a contract without payments being received in cash)	1,50,000		
Reserves and Surplus			
Capital Reserve	32,000		
Secured Loans			
15% Debentures	2,08,000		
Unsecured Loans	–		
Current Liabilities and Provisisons			
Current Liabilties	3,66,950		
Provisions	–		
	7,56,950		7,56,950

Working Notes :

		Star Rs.	Moon Rs.	Total Rs.
(1)	*Purchase Consideration*			
	Equity Shares Issued	68,750	81,250	1,50,000
	15% Debentures Issued	1,10,000	98,000	2,08,000
		1,78,750	1,79,250	3,58,000
(2)	*Capital Reserve*			
	(a) Net Assets Taken Over			
	Fixed Assets	3,55,000	1,95,000	5,50,000
	Current Assets	1,49,750	57,200*	2,06,950
		5,04,750	2,52,200	7,56,950
	Less : Current Liabilities	2,76,825**	90,125	3,66,950
		2,27,925	1,62,075	3,90,000
	(b) Purchase Consideration	1,78,750	1,79,250	3,58,000
	(c) Capital Reserve [(a) - (b)]	49,175		
	(d) Goodwill [(b) - (a)]		17,175	
	(e) Capital Reserve [Final Figure(c) - (d)]			32,000

* 78, 875 - 21,675

** 2,98,500 - 21,675

Question 3

The following are the Balance Sheets of Yes Ltd. and No Ltd. as on 31st October, 1999 :

	Yes Ltd. Rs. (in crores)	No Ltd. Rs. (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 entires in the books of the two companies to give effect to the above. *(16 marks) (Intermediate–Nov. 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 balance sheets of both the companies were as under :

Super Express Ltd.
Balance Sheet as at 31st December, 1999

	Rs.		Rs.
20,000 Equity shares of		*Buildings*	*10,00,000*
Rs. 100 each	*20,00,000*	*Machinery*	*4,00,000*
Provident fund	*1,00,000*	*Stock*	*3,00,000*
Sundry creditors	*60,000*	*Sundry debtors*	*2,40,000*
Insurance reserve	*1,00,000*	*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, 1999

	Rs.		Rs.
10,000 Equity shares of		*Goodwill*	*1,00,000*
Rs. 100 each	*10,00,000*	*Buildings*	*6,00,000*
Employees profit sharing		*Machinery*	*5,00,000*
account	*60,000*	*Stock*	*40,000*
Sundry creditors	*40,000*	*Sundry debtors*	*40,000*

Reserve account	*1,00,000*	*Cash at bank*	*10,000*
Surplus	*1,00,000*	*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. (8 marks) (Intermediate–May 2000)

Answer

Balance Sheet of Super Fast Express Ltd

as at 1st Jan., 2000

Liabilities	*Rs.*	*Assets*	*Rs.*
Share capital:		Goodwill	1,00,000
30,000 Equity shares of Rs. 100 each	30,00,000	Buildings	16,00,000
Reserve account	1,00,000	Machinery	9,00,000
Surplus	1,00,000	Stock	3,40,000
Insurance reserve	1,00,000	Sundry debtors	2,80,000
Employees profit sharing account	60,000	Cash at bank	2,30,000
Provident fund	1,00,000	Cash in hand	1,10,000
Sundry creditors	1,00,000		
	35,60,000		35,60,000

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., 2000

Liabilities	*Rs.*	*Assets*	*Rs.*
Share capital:		Buildings	16,00,000
32,000 Equity shares of		Machinery	9,00,000
Rs. 100 each	32,00,000	Stock	3,40,000
Provident fund	1,00,000	Sundry debtors	2,80,000
Employees profit sharing account	60,000	Cash at bank	2,30,000
Sundry creditors	1,00,000	Cash in hand	1,10,000
	34,60,000		34,60,000

Working Notes :

Calculation of Purchase Consideration

	Super Express Ltd.	Fast Express Ltd.
Total assets on 31.12.99 (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

Green Limited had decided to reconstruct the Balance Sheet since it has accumulated huge losses. The following is the Balance Sheet of the Company on 31.3.2000 before reconstruction :

Balance Sheet of Green Limited as at 31.3.2000

Liabilities	*Rs.*	*Assets*	*Rs.*
Share Capital:		*Fixed Assets:*	
Authorised:		*Goodwill*	*20,00,000*
1,50,000 Equity Shares of Rs. 50 each	*75,00,000*	*Building*	*10,00,000*
Subscribed and Paid up Capital:		*Plant*	*10,00,000*
50,000 Equity Shares of Rs. 50 each	*25,00,000*	*Computers*	*25,00,000*
1,00,000 Equity Shares of Rs. 50 each,		*Investments*	*Nil*
Rs. 40 per share paid up	*40,00,000*	*Current Assets*	*Nil*
Secured Loans:		*Profit and Loss A/c—Loss*	*20,00,000*
12% First Debentures	*5,00,000*		
12% Second Debentures	*10,00,000*		
Current Liabilities:			
Sundry Creditors	*5,00,000*		
	85,00,000		*85,00,000*

The following is the interest of Mr. X and Mr. Y in Green Limited:

	Mr. X	*Mr. Y*
	Rs.	*Rs.*
12% First Debentures	*3,00,000*	*2,00,000*
12% Second Debentures	*7,00,000*	*3,00,000*
Sundry Creditors	*2,00,000*	*1,00,000*
	12,00,000	*6,00,000*

Fully paid up Rs. 50 shares	*3,00,000*	*2,00,000*
Parly paid up shares (Rs. 40 paid up)	*5,00,000*	*5,00,000*

The following Scheme of Reconstruction is approved by all parties interested and also by the Court:

(a) Uncalled capital is to be called up in full and such shares and the other fully paid up shares be converted into equity shares of Rs. 20 each.

(b) Mr. X is to cancel Rs. 7,00,000 of his total debt (other than share amount) and to pay Rs. 2 lakhs to the company and to receive new 14% First Debentures for the balance amount.

(c) Mr. Y is to cancel Rs. 3,00,000 of his total debt (other than equity shares) and to accept new 14% First Debentures for the balance.

(d) The amount thus rendered available by the scheme shall be utilised in writing off of Goodwill, Profit and Loss A/c Loss and the balance to write off the value of computers.

You are required to draw the Journal Entires to record the same and also show the Balance Sheet of the reconstructed company. (10 marks) (Intermediate–Nov. 2000)

Answer

Green Limited

Journal Entries

		Dr.	Cr.
		Rs.	Rs.
Bank Account	Dr.	10,00,000	
To Equity Share Capital Account			10,00,000
(Balance of Rs. 10 per share on 1,00,000 equity shares called up as per reconstruction scheme)			
Equity Share Capital Account (Rs. 50)	Dr.	75,00,000	
To Equity Share Capital Account (Rs. 20)			30,00,000
To Capital Reduction Account			45,00,000
(Reduction of equity shares of Rs. 50 each to shares of Rs. 20 each as per reconstruction scheme)			
12% First Debentures Account	Dr.	3,00,000	
12% Second Debentures Account	Dr.	7,00,000	
Sundry Creditors Account	Dr.	2,00,000	
To X			12,00,000
(The total amount due to X, transferred to his account)			

Bank Account	Dr.	2,00,000	
To X			2,00,000
(The amount paid by X under the reconstruction scheme)			
12% First Debentures Account	Dr.	2,00,000	
12% Second Debentures Account	Dr.	3,00,000	
Sundry Creditors Account	Dr.	1,00,000	
To Y			6,00,000
(The total amount due to Y, transferred to his account)			
X	Dr.	14,00,000	
To 14% First Debentures Account			7,00,000
To Capital Reduction Account			7,00,000
(The cancellation of Rs. 7,00,000 out of total debt of Mr. X and issue of 14% first debentures for the balance amount as per reconstruction scheme)			
Capital Reduction Account	Dr.	55,00,000	
To Goodwill Account			20,00,000
To Profit and Loss Account			20,00,000
To Computers Account			15,00,000
(The balance amount of capital reduction account utilised in writing off goodwill, profit and loss accout, and computers—Working Note)			

Balance Sheet of Green Limited (and reduced)
as on 31st March, 2000

Liabilities	*Rs.*	*Assets*	*Rs.*
Share Capital:		Fixed Assets:	
Subscribed and Paid up Capital		Building	10,00,000
1,50,000 Equity shares of		Plant	10,00,000
Rs. 20 each	30,00,000	Computers	10,00,000

Secured Loans:		Current Assets:	
14% First Debentures	10,00,000	Cash and Bank Balance	12,00,000
Current Liabilities:			
Sundry Creditors	2,00,000		
	42,00,000		42,00,000

Working Note:

Capital Reduction Account

	Rs.		Rs.
To Goodwill A/c	20,00,000	By Equity Share Capital A/c	45,00,000
To P & L A/c	20,00,000	By X	7,00,000
To Computers (Bal. Fig.)	15,00,000	By Y	3,00,000
	55,00,000		55,00,000

Question 6

The following were the Balance Sheets of P Ltd. and V Ltd. as at 31st March, 2001 :

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 2001, 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.

(16 marks) (Intermediate–May 2001)

Answer

Books of P Ltd.
Journal Entries

		Dr.	*Cr.*
		(Rs. in Lacs)	*(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, 2001 (after merger)

Liabilities	*Rs. (in lakhs)*	*Assets*	*Rs. (in lakhs)*
Share Capital		Fixed Assets	
Authorised, issued and subscribed :		Land and buildings	6,000
24 crore equity shares of Rs. 10		Plant and Machinery	19,000
each, fully called and paid-up	24,000	Furniture, fixtures and fittings	4,004
(Of the above shares, 9 crore shares		Current Assets, Loans and Advances	
have been issued for consideration		(a) Current Assets	
other than cash)		Stock	11,903
Reserves and Surplus		Debtors	3,140
Securities Premium	3,000	Cash at Bank	1,722
Foreign Project Reserve	310	(b) Loan and advances	Nil
General Reserve	9,699		
Profit and Loss Account	3,645		
Secured Loan			
13% Debentures	1,000		

Current Liabilities and provisions			
(a)	Current Liabilities		
	Bills Payable	40	
	Sundry Creditors	1,543	
(b)	Provisions		
	Sundry Provisions	2,532	
		45,769	45,769

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 7

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

	X Ltd. Rs.	Y Ltd. 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. *(8 marks) (Intermediate–Nov. 2001)*

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 8

The following is the Balance Sheet of Rocky Ltd. as at March 31, 2002:

Liabilities	*Rs. in lacs*
Fully paid equity shares of Rs. 10 each	*500*
Capital Reserve	*6*
12% Debentures	*400*
Debenture Interest Outstanding	*48*
Trade Creditors	*165*
Directors' Remuneration Outstanding	*10*

Other Outstanding Expenses	*11*
Provisions	*33*
	1,173
Assets	
Goodwill	*15*
Land and Building	*184*
Plant and Machinery	*286*
Furniture and Fixtures	*41*
Stock	*142*
Debtors	*80*
Cash at Bank	*27*
Discount on Issue of Debentures	*8*
Profits and Loss Account	*390*
	1,173

The following scheme of internal reconstruction was framed, approved by the Court, all the concerned parties and implemented:

(i) All the equity shares be converted into the same number of fully-paid equity shares of Rs. 2.50 each.

(ii) Directors agree to forego their outstanding remuneration.

(iii) The debentureholders also agree to forego outstanding interest in return of their 12% debentures being converted into 13% debentures.

(iv) The existing shareholders agree to subscribe for cash, fully paid equity shares of Rs. 2.50 each for Rs. 125 lacs.

(v) Trade creditors are given the option of either to accept fully-paid equity shares of Rs. 2.50 each for the amount due to them or to accept 80% of the amount due in cash. Creditors for Rs. 65 lacs accept equity shares whereas those for Rs. 100 lacs accept Rs. 80 lacs in cash in full settlement.

(vi) The Assets are revalued as under :

	Rs. in lacs
Land and building	*230*
Plant and Machinery	*220*
Stock	*120*
Debtors	*76*

Pass Journal Entries for all the above mentioned transactions and draft the company's Balance Sheet immediately after the reconstruction. *(20 marks) (Intermediate–May 2002)*

Answer

Journal Entries

		Rs. in lacs	
		Dr.	*Cr.*
Equity Share Capital (Rs. 10 each) A/c	Dr.	500	
To Equity Share Capital (Rs. 2.50 each) A/c			125
To Reconstruction A/c			375
(Conversion of all the equity shares into the same number of fully paid equity shares of Rs. 2.50 each as per scheme of reconstruction)			
Director's Remuneration Outstanding A/c	Dr.	10	
To Reconstruction A/c			10
(Outstanding remuneration foregone by the directors as per scheme of reconstruction)			
12% Debentures A/c	Dr.	400	
Debenture Interest Outstanding A/c	Dr.	48	
To 13% Debentures A/c			400
To Reconstruction A/c			48
(Conversion of 12% debentures into 13% debentures, Debentureholders forgoing outstanding debenture interest)			
Bank	Dr.	125	
To Equity Share Application A/c			125
(Application money received for equity shares)			
Equity Share Application A/c	Dr.	125	
To Equity Share Capital (Rs. 2.50 each) A/c			125
(Application money transferred to share cpital)			
Trade Creditors	Dr.	165	
To Equity Share Capital (Rs. 2.50 each) A/c			65
To Bank A/c			80
To Reconstruction A/c			20
(Trade creditors for Rs. 64 lakhs accepting shares for full amount and those for Rs. 100 lakhs accepting cash equal to 80% of claim in full settlement)			
Capital Reserve	Dr.	6	
To Reconstruction A/c			6
(Capital Reserve being used for purpose of reconstruction)			

Land and Building	Dr.	46	
To Reconstruction A/c			46
(Appreciation made in the value of land and building as per scheme of reconstruction)			
Reconstruction A/c	Dr.	505	
To Goodwill			15
To Plant and Machinery			66
To Stock			22
To Debtors			4
To Discount on issue of Debentures			8
To Profit and Loss Account			390
(Writing off losses and reduction in the values of assets as per scheme of reconstruction—W.N. 1)			

Balance Sheet of Rocky Ltd. (and Reduced) as on 31st March, 2002

Liabilities		*Rs. in lacs*
1,26,000 Fully paid equity shares of Rs. 2.50 each (W.N. 2)		315
(26,000 shares have been issued for consideration other than cash)		
13% Debentures		400
Outstanding Expenses		11
Provisions		33
		759
Assets	*Rs. in lack*	*Rs. in lacs*
Goodwill	15	
Less : Amount written off under scheme of reconstruction dated...........	15	Nil
Land and Building	184	
Add : Amount of appreciation made under scheme of reconstruction dated..........	46	230
Plant and Machinery	286	
Less: Amount written off under scheme of reconstruction dated.........	66	220
Furniture and Fixtures		41
Stock		120
Debtors	80	

Less: Provision for Bad Debts	4	76
Cash at bank		72
		759

Note : Goodwill has been written off under reconstruction scheme in the solution given above.

Working Notes:

1.

(Rs. in lacs)

Reconstruction Account

		Rs.			*Rs.*
To	Goodwill	15	By	Equity Share Capital A/c	375
To	Plant and Machinery	66	By	Director's Remuneration Outstanding A/c	10
To	Stock	22	By	Debenture Interest Outstanding A/c	48
To	Debtors	4	By	Trade Creditors	20
To	Discount on issue of		By	Capital Reserve	6
	Debentures	8	By	Land and Building	46
To	Profit and Loss A/c	390			
		505			505

2. Equity share capital as on 31st March, 2002 (after reconstruction)

	Rs.
Equity Share Capital (Rs. 2.50 each)	125
Add: Fresh issue	125
Add: Equity shares issued to creditors	65
	315

3. Cash at bank as on 31st March, 2002 (after reconstruction)

Cash at bank (before reconstruction)	27
Add: Proceeds from issue of equity shares	125
	152
Less: Payment made to creditors	80
	72

Question 9

The financial position of two companies Hari Ltd. and Vayu Ltd. as on 31st March, 2002 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, 2002. *(16 marks) (PE-II–Nov. 2002)*

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. *Rs.*	*Cr.* *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 takenover 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, 2002

Liabilities	Rs.	Assets		Rs.
Share Capital :		*Fixed Assets*:		
2,100 9% Preference Shares of Rs.100 each	2,10,000	Goodwill		1,00,000
1,40,000 Equity Shares of Rs. 10 each fully paid	14,00,000	Building		4,50,000
		Machinery		6,60,000
(1,100 Preference Shares and 40,000 Equity Shares were issued in consideration other than for cash)		*Current Assets*:		
		Stock		4,07,500
Reserve and Surplus:		Debtors	3,00,000	
Securities Premium	20,000	Less: Provision for bad debts	7,500	2,92,500
General Reserve	1,00,000	Cash and Bank		70,000
Current Liabilities:		*Miscellaneous Expenses to the extent not written off*		
Gratuity Fund	70,000			
Sundry Creditors	2,10,000	Preliminary expenses		30,000
	20,10,000			20,10,000

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 10

The Balance Sheet of Y Limited as on 31st March, 2003 was as follows:

Liabilities	*Amount (Rs.)*	*Assets*	*Amount (Rs.)*
5,00,000 Equity Shares of Rs. 10 each fully paid	*50,00,000*	*Goodwill*	*10,00,000*
		Patent	*5,00,000*
9% 20,000 Preference shares of Rs. 100 each fully paid	*20,00,000*	*Land and Building*	*30,00,000*
		Plant and Machinery	*10,00,000*
10% First debentures	*6,00,000*	*Furniture and Fixtures*	*2,00,000*
10% Second debentures	*10,00,000*	*Computers*	*3,00,000*
Debentures interest outstanding	*1,60,000*	*Trade Investment*	*5,00,000*
Trade creditors	*5,00,000*	*Debtors*	*5,00,000*
Directors' loan	*1,00,000*	*Stock*	*10,00,000*
Bank O/D	*1,00,000*	*Discount on issue of debentures*	*1,00,000*
Outstanding liabilities	*40,000*		
Provision for Tax	*1,00,000*	*Profit and Loss Account (Loss)*	*15,00,000*
	96,00,000		*96,00,000*

Note: *Preference dividend is in arrears for last three years.*

A holds 10% first debentures for Rs. 4,00,000 and 10% second debentures for Rs. 6,00,000. He is also creditors for Rs. 1,00,000. B holds 10% first debentures for Rs. 2,00,000 and 10% second debentures for Rs. 4,00,000 and is also creditors for Rs. 50,000.

The following scheme of reconstruction has been agreed upon and duly approved by the court.

(i) All the equity shares be converted into fully paid equity shares of Rs. 5 each.

(ii) The preference shares be reduced to Rs. 50 each and the preference shareholders agree to forego their arrears of preference dividends in consideration of which 9% preference shares are to be converted into 10% preference shares.

(iii) Mr. 'A' is to cancel Rs. 6,00,000 of his total debt including interest on debentures and to pay Rs. 1 lakh to the company and to receive new 12% debentures for the Balance amount.

(iv) Mr. 'B' is to cancel Rs. 3,00,000 of his total debt including interest on debentures and to accept new 12% debentures for the balance amount.

(v) Trade creditors (other than A and B) agreed to forego 50% of their claim.

(vi) Directors to accept settlement of their loans as to 60% thereof by allotment of equity shares and balance being waived.

(vii) There were capital commitments totalling Rs. 3,00,000. These contracts are to be cancelled on payment of 5% of the contract price as a penalty.

(viii) The Directors refund Rs. 1,10,000 of the fees previously received by them.

(ix) Reconstruction expenses paid Rs. 10,000.

(x) The taxation liability of the company is settled at Rs. 80,000 and the same is paid immediately.

(xi) The assets are revalued as under:

	Rs.
Land and Building	28,00,000
Plant and Machinery	4,00,000
Stock	7,00,000
Debtors	3,00,000
Computers	1,80,000
Furniture and Fixtures	1,00,000
Trade Investment	4,00,000

Pass Journal entries for all the above mentioned transactions including amounts to be written off of Goodwill, Patents, Loss in Profit & Loss Account and Discount on issue of debentures. Prepare Bank Account and working of allocation of Interest on Debentures between A and B.

(16 marks) (PE-II–Nov. 2003)

Answer

Journal Entries in the Books of Y Ltd.

		Dr. *Rs.*	*Cr.* *Rs.*
(i)	Equity Share Capital (Rs. 10 each) A/c	Dr. 50,00,000	
	To Equity Share Capital (Rs. 5 each) A/c		25,00,000
	To Reconstruction A/c		25,00,000
	(Being conversion of 5,00,000 equity shares of Rs. 10 each fully paid into same number of fully paid equity shares of Rs. 5 each as per scheme of reconstruction.)		
(ii)	9% Preference Share Capital (Rs.100 each) A/c	Dr. 20,00,000	
	To 10% Preference Share Capital (Rs.50 each) A/c		10,00,000
	To Reconstruction A/c		10,00,000
	(Being conversion of 9% preference share of Rs. 100 each into same number of 10% preference share of Rs. 50 each and claims of preference dividends settled as per scheme of reconstruction.)		
(iii)	10% First Debentures A/c	Dr. 4,00,000	
	10% Second Debentures A/c	Dr. 6,00,000	
	Trade Creditors A/c	Dr. 1,00,000	
	Interest on Debentures Outstanding A/c	Dr. 1,00,000	
	Bank A/c	Dr. 1,00,000	
	To 12% New Debentures A/c		7,00,000
	To Reconstruction A/c		6,00,000
	(Being Rs. 6,00,000 due to A (including creditors) cancelled and 12% new debentures allotted for balance amount as per scheme of reconstruction.)		
(iv)	10% First Debentures A/c	Dr. 2,00,000	
	10% Second Debentures A/c	Dr. 4,00,000	
	Trade Creditors A/c	Dr. 50,000	
	Interest on Debentures Outstanding A/c	Dr. 60,000	
	To 12% New Debentures A/c		4,10,000
	To Reconstruction A/c		3,00,000
	(Being Rs. 3,00,000 due to B (including creditors) cancelled and 12% new debentures allotted for balance amount as per scheme of reconstruction.)		

(v)	Trade Creditors A/c	Dr. 1,75,000	
	To Reconstruction A/c		1,75,000
	(Being remaining creditors sacrificed 50% of their claim.)		
(vi)	Directors' Loan A/c	Dr. 1,00,000	
	To Equity Share Capital (Rs. 5) A/c		60,000
	To Reconstruction A/c		40,000
	(Being Directors' loan claim settled by issuing 12,000 equity shares of Rs. 5 each as per scheme of reconstruction.)		
(vii)	Reconstruction A/c	Dr. 15,000	
	To Bank A/c		15,000
	(Being payment made for cancellation of capital commitments.)		
(viii)	Bank A/c	Dr. 1,10,000	
	To Reconstruction A/c		1,10,000
	(Being refund of fees by directors credited to reconstruction A/c.)		
(ix)	Reconstruction A/c	Dr. 10,000	
	To Bank A/c		10,000
	(Being payment of reconstruction expenses.)		
(x)	Provision for Tax A/c	Dr. 1,00,000	
	To Bank A/c		80,000
	To Reconstruction A/c		20,000
	(Being payment of tax for 80% of liability in full settlement.)		
(xi)	Reconstruction A/c	Dr. 47,20,000	
	To Goodwill A/c		10,00,000
	To Patent A/c		5,00,000
	To Profit and Loss A/c		15,00,000
	To Discount on issue of Debentures A/c		1,00,000
	To Land and Building A/c		2,00,000
	To Plant and Machinery A/c		6,00,000
	To Furniture & Fixture A/c		1,00,000
	To Computers A/c		1,20,000
	To Trade Investment A/c		1,00,000
	To Stock A/c		3,00,000
	To Debtors A/c		2,00,000
	(Being writing off of losses and reduction in the value of assets as per scheme of reconstruction.)		

Working Notes:

(1) Outstanding interest on debentures have been allocated between A and B as follows:

			Rs.
A's Share			
10% First Debentures	4,00,000		
10% Second Debentures	6,00,000	10,00,000	
10% on Rs. 10,00,000 i.e.			1,00,000
B's Share			
10% First Debentures	2,00,000		
10% Second Debentures	4,00,000	6,00,000	
10% on Rs. 6,00,000 i.e.			60,000
		Total	1,60,000

(2) Bank Account

		Rs.			Rs.
To	A (reconstruction)	1,00,000	By	Balance b/d	1,00,000
To	Reconstruction A/c (paid by directors)	1,10,000	By	Reconstruction A/c (capital commitment penalty paid)	15,000
			By	Reconstruction A/c (reconstruction expenses paid)	10,000
			By	Provision for tax A/c(tax paid)	80,000
			By	Balance c/d	5,000
		2,10,000			2,10,000

Question 11

Following are the Balance Sheet of companies as at 31.12.2003:

Liabilities	*D Ltd.*	*V Ltd.*	*Assets*	*D Ltd.*	*V Ltd.*
	Rs.	*Rs.*		*Rs.*	*Rs.*
Equity share capital (Rs. 100)	*8,00,000*	*6,00,000*	*Goodwill*	*6,00,000*	*–*
			Fixed Assets	*5,00,000*	*8,00,000*
General Reserve	*4,00,000*	*3,00,000*	*Investments*	*2,00,000*	*4,00,000*
Investment Allowance Reserve	*–*	*4,00,000*	*Current Assets*	*4,00,000*	*3,00,000*
Sundry Creditors	*5,00,000*	*2,00,000*			
	17,00,000	*15,00,000*		*17,00,000*	*15,00,000*

D Ltd. took over V Ltd. on the basis of the respective shares value, adjusting wherever necessary, the book values of assets and liabilities on the basis of the following information:

(i) Investment Allowance Reserve was in respect of addition made to fixed assets by V Ltd. in the year 1997-2002 on which income tax relief has been obtained. In terms of the Income Tax Act, 1961, the company has to carry forward till 2006 reserve of Rs. 2,00,000 for utilization.

(ii) Investments of V Ltd. included 1,000 shares in D Ltd. acquired at cost of Rs. 150 per share. The other investments of V Ltd. have a market value of Rs. 1,92,500.

(iii) The market value of investments of D Ltd. are to be taken at Rs. 1,00,000.

(iv) Goodwill of D Ltd. and V Ltd. are to be taken at Rs. 5,00,000 and Rs. 1,00,000 respectively.

(v) Fixed assets of D Ltd. and V Ltd. are valued at Rs. 6,00,000 and Rs. 8,50,000 respectively.

(vi) Current assets of D Ltd. included Rs. 80,000 of stock in trade received from V Ltd. at cost plus 25%.

The above scheme has been duly adopted. Pass necessary Journal Entries in the books of D Ltd. and prepare Balance Sheet of D Ltd. after taking over the business of V Ltd. Fractional share to be settled in cash, rest in shares of D Ltd. Calculation shall be made to the nearest multiple of a rupee. (16 marks) (PE-II May 2004)

Answer

Journal Entries in the Books of D Ltd.

		Dr. Amount Rs.	Cr. Amount Rs.
Business Purchase Account	Dr.	12,42,500	
To Liquidator of V Ltd.			12,42,500
(For purchase consideration due)			
Investments Account	Dr.	1,92,500	
Goodwill Account (Balancing figure)	Dr.	1,00,000	
Fixed Assets Account	Dr.	8,50,000	
Current Assets Account	Dr.	3,00,000	
To Sundry Creditors Account			2,00,000
To Business Purchase Account			12,42,500
(For assets and liabilities taken over at agreed value)			

Liquidator of V Ltd.	Dr.	12,42,500	
To Equity Share Capital Account (Rs. 100)			9,03,600
To Securities Premium Account (Rs. 37.50)			3,38,850
To Cash Account			50
(For purchase consideration discharged)			
Goodwill Account	Dr.	16,000	
To Current Assets (Stock) Account			16,000
(For elimination of unrealized profit on unsold stock)			
Amalgamation Adjustment Account	Dr.	2,00,000	
To Investment Allowance Reserve Account			2,00,000
(For incorporation of statutory reserve)			

Balance Sheet of D Ltd.

as on 31st December, 2003

Liabilities	*Amount Rs.*	*Assets*	*Amount Rs.*
Equity Share Capital: 17,036 shares of Rs. 100 each (out of which 9036 shares are issued in favour of vendor for consideration other than cash)	17,03,600	Fixed Assets (5,00,000 + 8,50,000)	13,50,000
		Goodwill (6,00,000 + 1,00,000 + 16,000)	7,16,000
General Reserve	4,00,000	Investments (2,00,000 + 1,92,500)	3,92,500
Securities Premium	3,38,850	Current Assets	
Investment Allowance Reserve	2,00,000	(7,00,000 – 50 – 16,000)	6,83,950
Sundry Creditors	7,00,000	Amalgamation Adjustment Account	2,00,000
	33,42,450		33,42,450

Working Notes:

1. Calculation of net asset value of shares

	D Ltd. *Rs.*	*V Ltd.* *Rs.*
Goodwill	5,00,000	1,00,000
Fixed Assets	6,00,000	8,50,000
Investments	1,00,000	3,30,000*

Current Assets	4,00,000	3,00,000
	16,00,000	15,80,000
Less: Sundry Creditors	5,00,000	2,00,000
Net assets	11,00,000	13,80,000
Number of shares	8,000	6,000
Value per equity share	137.50	230

*Investments of V Ltd. are calculated as follows:	*Rs.*
Shares in D Ltd. (1,000 × 137.50)	1,37,500
Market value of remaining investments (given)	1,92,500
	3,30,000

2. Calculation of Purchase Consideration

	Rs.
Net assets of V Ltd.	13,80,000
Value of Shares of D Ltd.	137.50
Number of shares to be issued in D Ltd. to V Ltd. (13,80,000 ÷ 137.50)	10,036.36
Less: Shares already held by V Ltd.	1,000
Additional shares to be issued	9,036.36
Total value of shares to be issued (9036 × 137.50)	12,42,450
Cash payment for fractional share (.36 × 137.50)	50
	12,42,500

Question 12

Exe Limited was wound up on 31.3.2004 and its Balance Sheet as on that date was given below:

Balance Sheet of Exe Limited as on 31.3.2004

Liabilities	*Rs.*	*Assets*			*Rs.*
Share capital:		*Fixed assets*			*9,64,000*
1,20,000 Equity shares of Rs. 10 each	*12,00,000*	*Current assets:* *Stock*		*7,75,000*	
Reserves and surplus:		*Sundry debtors*	*1,60,000*		
Profit prior to incorporation	*42,000*	*Less: Provision for bad and doubtful debts*	*8,000*	*1,52,000*	

Contingency reserve	*2,70,000*	*Bills receivable*	*30,000*	
Profit and loss A/c	*2,52,000*	*Cash at bank*	*3,29,000*	*12,86,000*
Current liabilities:				
Bills payable	*40,000*			
Sundry creditors	*2,26,000*			
Provisions:				
Provision for income tax	*2,20,000*			
	22,50,000			*22,50,000*

Wye *Limited took over the following assets at values shown as under:*

Fixed assets Rs. 12,80,000, Stock Rs. 7,70,000 and Bills Receivable Rs. 30,000.

Purchase consideration was settled by Wye Limited as under:

Rs. 5,10,000 of the consideration was satisfied by the allotment of fully paid 10% Preference shares of Rs. 100 each. The balance was settled by issuing equity shares of Rs. 10 each at Rs. 8 per share paid up.

Sundry debtors realised Rs. 1,50,000. Bills payable was settled for Rs. 38,000. Income tax authorities fixed the taxation liability at Rs. 2,22,000.

Creditors were finally settled with the cash remaining after meeting liquidation expenses amounting to Rs. 8,000.

You are required to:

(i) Calculate the number of equity shares and preference shares to be allotted by Wye Limited in discharge of purchase consideration.

(ii) Prepare the Realisation account, Cash/Bank account, Equity shareholders account and Wye Limited account in the books of Exe Limited.

(iii) Pass journal entries in the books of Wye Limited. *(16 marks) (PE-II May 2005)*

Answer

(i) Purchase consideration

	Rs.
Fixed assets	12,80,000
Stock	7,70,000
Bills receivable	30,000
Purchase consideration	20,80,000

Amount discharged by issue of preference shares	= Rs. 5,10,000
No. of preference shares to be allotted	$= \frac{\text{Rs. }5,10,000}{100} = 5,100$ shares
Amount discharged by allotment of equity shares	= Rs. 20,80,000 – Rs. 5,10,000
	= Rs. 15,70,000
Paid up value of equity share	= Rs. 8
Hence, number of equity shares to be issued	$= \frac{\text{Rs.}15,70,000}{8}$
	= 1,96,250 shares

(ii) Realisation Account

In the books of Exe Ltd.

Dr.		*Rs.*			*Cr.* *Rs.*
To	Fixed assets	9,64,000	By	Provision for bad and doubtful debts	8,000
To	Stock	7,75,000	By	Bills payable	40,000
To	Sundry debtors	1,60,000	By	Sundry creditors	2,26,000
To	Bills receivable	30,000	By	Provision for taxation	2,20,000
To	Bank account:		By	Wye Ltd. account	
	Liquidation expenses	8,000		(Purchase consideration)	20,80,000
	Bills payable	38,000	By	Bank account: Sundry debtors	1,50,000
	Tax liability	2,22,000			
	Sundry creditors	2,11,000			
To	Equity shareholders				
	(profit transferred)	3,16,000			
		27,24,000			27,24,000

Cash/Bank Account

Dr.		*Rs.*			*Cr.* *Rs.*
To	Balance b/d	3,29,000	By	Realisation account:	
To	Realisation account:			Liquidation expenses	8,000
	Sundry debtors	1,50,000		Bills payable	38,000
				Tax liability	2,22,000
				Sundry creditors (Balancing figure)	2,11,000
		4,79,000			4,79,000

Equity Shareholders Account

Dr.		Rs.			Cr. Rs.
To	10% Preference shares in Wye Ltd.	5,10,000	By	Equity share capital account	12,00,000
			By	Profit prior to incorporation	42,000
To	Equity shares in Wye Ltd.	15,70,000	By	Contingency reserve	2,70,000
			By	Profit and loss account	2,52,000
			By	Realisation account (Profit)	3,16,000
		20,80,000			20,80,000

Wye Limited Account

Dr.		Rs.			Cr. Rs.
To	Realisation account	20,80,000	By	10% Preference shares in Wye Ltd.	5,10,000
			By	Equity shares in Wye Ltd.	15,70,000
		20,80,000			20,80,000

(iii)

Journal Entries
in the books of Wye Ltd.

Particulars		*Dr. Amount Rs.*	*Cr. Amount Rs.*
Business purchase account	Dr.	20,80,000	
To Liquidator of Exe Ltd. account			20,80,000
(Being the amount of purchase consideration payable to liquidator of Exe Ltd. for assets taken over)			
Fixed assets account	Dr.	12,80,000	
Stock account	Dr.	7,70,000	
Bills receivable account	Dr.	30,000	
To Business purchase account			20,80,000
(Being assets taken over)			
Liquidator of the Exe Ltd. account	Dr.	20,80,000	
To 10% Preference share capital account			5,10,000
To Equity share capital account			15,70,000
(Being the allotment of 10% fully paid up preference shares and equity shares of Rs 10 each, Rs. 8 each paid up as per agreement for discharge of purchase consideration)			

Question 13

Following is the Balance Sheet as at March 31, 2005:

(Rs. '000)

Liabilities	*Max Ltd.*	*Mini Ltd.*	*Assets*	*Max Ltd.*	*Mini Ltd.*
Share capital:			*Goodwill*	*20*	*–*
Equity shares of Rs. 100 each	*1,500*	*1,000*	*Other fixed assets*	*1,500*	*760*
9% Preference shares of Rs. 100 each	*500*	*400*	*Debtors*	*651*	*440*
			Stock	*393*	*680*
General reserve	*180*	*170*	*Cash at bank*	*26*	*130*
Profit and loss account	*–*	*15*	*Own debenture (Nominal value Rs. 2,00,000)*	*192*	
12% Debentures of Rs. 100 each	*600*	*200*			
Sundry creditors	*415*	*225*	*Discount on issue of debentures*	*2*	
			Profit and loss account	*411*	
	3,195	*2,010*		*3,195*	*2,010*

On 1.4.2005, Max Ltd. adopted the following scheme of reconstruction:

(i) *Each equity share shall be sub-divided into 10 equity shares of Rs. 10 each fully paid up. 50% of the equity share capital would be surrendered to the Company.*

(ii) *Preference dividends are in arrear for 3 years. Preference shareholders agreed to waive 90% of the dividend claim and accept payment for the balance.*

(iii) *Own debentures of Rs. 80,000 were sold at Rs. 98 cum-interest and remaining own debentures were cancelled.*

(iv) *Debentureholders of Rs. 2,80,000 agreed to accept one machinery of book value of Rs. 3,00,000 in full settlement.*

(v) *Creditors, debtors and stocks were valued at Rs. 3,50,000, Rs. 5,90,000 and Rs. 3,60,000 respectively. The goodwill, discount on issue of debentures and Profit and Loss (Dr.) are to be written off.*

(vi) *The Company paid Rs. 15,000 as penalty to avoid capital commitments of Rs. 3,00,000.*

On 2.4.2005 a scheme of absorption was adopted. Max Ltd. would take over Mini Ltd. The purchase consideration was fixed as below:

(a) *Equity shareholders of Mini Ltd. will be given 50 equity shares of Rs. 10 each fully paid up, in exchange for every 5 shares held in Mini Ltd.*

(b) Issue of 9% preference shares of Rs. 100 each in the ratio of 4 preference shares of Max Ltd. for every 5 preference shares held in Mini Ltd.

(c) Issue of one 12% debenture of Rs. 100 each of Max Ltd. for every 12% debentures in Mini Ltd.

You are required to give Journal entries in the books of Max Ltd. and draw the resultant Balance Sheet as at 2nd April, 2005. (20 Marks) (PE-II – Nov. 2005)

Answer

In the Books of Max Ltd.

	Particulars		*Dr. Amount Rs.*	*Cr. Amount Rs.*
01.04.2005				
	Equity share capital A/c	Dr.	15,00,000	
	To Equity share capital A/c			15,00,000
	(Being sub-division of one share of Rs. 100 each into 10 shares of Rs. 10 each)			
	Equity share capital A/c	Dr.	7,50,000	
	To Capital reduction A/c			7,50,000
	(Being reduction of capital by 50%)			
	Capital reduction A/c	Dr.	13,500	
	To Bank A/c			13,500
	(Being payment in cash of 10% of arrear of preference dividend)			
	Bank A/c	Dr.	78,400	
	To Own debentures A/c			76,800
	To Capital reduction A/c			1,600
	(Being profit on sale of own debentures transferred to capital reduction A/c)			
	12% Debentures A/c	Dr.	1,20,000	
	To Own debentures A/c			1,15,200
	To Capital reduction A/c			4,800
	(Being profit on cancellation of own debentures transferred to capital reduction A/c)			

	12% Debentures A/c	Dr.	2,80,000	
	Capital reduction A/c	Dr.	20,000	
	To Machinery A/c			3,00,000
	(Being machinery taken up by debentureholders for Rs. 2,80,000)			
	Creditors A/c	Dr.	65,000	
	Capital reduction A/c	Dr.	29,000	
	To Debtors A/c			61,000
	To Stock A/c			33,000
	(Being assets and liabilities revalued)			
	Capital reduction A/c	Dr.	4,33,000	
	To Goodwill A/c			20,000
	To Discount on debentures A/c			2,000
	To Profit and Loss A/c			4,11,000
	(Being the balance of capital reduction transferred to capital reserve account)			
	Capital reduction A/c	Dr.	15,000	
	To Bank A/c			15,000
	(Being penalty paid for avoidance of capital commitments)			
	Capital reduction A/c	Dr.	2,45,900	
	To Capital reserve A/c			2,45,900
	(Being penalty paid for avoidance of capital commitments)			
02.04.2005	Business Purchase A/c	Dr.	13,20,000	
	To Liquidators of Mini Ltd.			13,20,000
	(Being the purchase consideration payable to Mini Ltd.)			
	Fixed Assets A/c	Dr.	7,60,000	
	Stock A/c	Dr.	6,80,000	
	Debtors A/c	Dr.	4,40,000	
	Cash at Bank A/c	Dr.	1,30,000	
	To Sundry Creditors A/c			2,25,000
	To 12% Debentures A/c of Mini Ltd.			2,00,000

To Profit and Loss A/c			15,000
To General reserve A/c Rs. (1,70,000 + 80,000*)			2,50,000
To Business purchase A/c			13,20,000
(Being the take over of all assets and liabilities of Mini Ltd. by Max Ltd.)			
Liquidators of Mini Ltd. A/c	Dr.	13,20,000	
To Equity Share Capital			10,00,000
To 9% Preference share capital			3,20,000
(Being the purchase consideration discharged)			
12% Debentures of Mini Ltd. A/c	Dr.	2,00,000	
To 12% Debentures A/c			2,00,000
(Being Max Ltd. issued their 12% Debentures in against of every Debentures of Mini Ltd.)			

Balance Sheet of Max Ltd. as at 2.4.2005

Liabilities	*Rs.*	*Assets*	*Rs.*
Share Capital:		Fixed Assets	19,60,000
Equity Share Capital	17,50,000	Stock	10,40,000
9% Preference share capital	8,20,000	Debtors	10,30,000
Profit and Loss A/c	15,000	Cash in hand/Bank	2,05,900
General Reserve	4,30,000		
Capital Reserve	2,45,900		
12% Debentures	4,00,000		
Sundry Creditors	5,75,000		
	42,35,900		42,35,900

Working Notes:

1. Purchase Consideration

Equity share capital $10{,}000 \times \frac{50}{5} \times \text{Rs.}10$ = 10,00,000

9% Preference share capital $4{,}000 \times \frac{4}{5} \times \text{Rs.}100$ = 3,20,000

Rs. 13,20,000

* Rs. 80,000 is the balancing figure adjusted to general reserve A/c as per AS 14 "Accounting for Amalgamation".

2. General Reserve

	Rs.
Share Capital of Mini Ltd. (Equity + Preference)	14,00,000
Less: Share Capital issued by Max Ltd.	13,20,000
General reserve (resulted due to absorption)	80,000
Add: General reserve of Mini Ltd.	1,70,000
General reserve of Max Ltd.	1,80,000
	4,30,000

Question 14

The following is the Balance Sheet of A Ltd. as at 31st March, 2006:

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, 2006 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, 2006. 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, 2006 after the takeover.

(20 Marks) (PE-II – Nov. 2006)

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, 2006 (An extract)*

Liabilities	*Rs.*	*Assets*		*Rs.*
4880 Equity shares of Rs.100 each	4,88,000	Goodwill		2,16,000
(Shares have been issued for consideration other than cash)		Building		3,06,000
Securities Premium	1,22,000	Machine		5,76,000
Profit and Loss A/c	…..			
Less: unrealized profit 15,000				
Creditors (3,20,000 - 40,000)	2,80,000	Stock (1,98,000 -15,000)		1,83,000
Bank Overdraft	6,00,000	Debtors (2,60,000 – 40,000)	2,20,000	
		Less: Provision for bad debts	26,000	1,94,000

* 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.

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 = 54000 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.
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 15

The following is the Balance sheet of Weak Ltd. as on 31.3.2006:

Liabilities	*Rs.*	*Assets*	*Rs.*
Equity shares of Rs.100 each	*1,00,00,000*	*Fixed assets*	*1,25,00,000*
12% cumulative preference shares of Rs.100 each	*50,00,000*	*Investments (Market value Rs.9,50,000)*	*10,00,000*
10% debentures of Rs.100 each	*40,00,000*	*Current assets*	*1,00,00,000*
Sundry creditors	*50,00,000*	*P & L A/c*	*4,00,000*
Provision for taxation	*1,00,000*	*Preliminary expenses*	*2,00,000*
	2,41,00,000		*2,41,00,000*

The following scheme of reorganization is sanctioned:

(i) All the existing equity shares are reduced to Rs.40 each.

(ii) All preference shares are reduced to Rs.60 each.

(iii) The rate of interest on debentures is increased to 12%. The debentureholders surrender their existing debentures of Rs.100 each and exchange the same for fresh debentures of Rs.70 each for every debenture held by them.

(iv) One of the creditors of the company to whom the company owes Rs.20,00,000 decides to forgo 40% of his claim. He is allotted 30,000 equity shares of Rs.40 each in full satisfaction of his claim.

(v) Fixed assets are to be written down by 30%.

(vi) Current assets are to be revalued at Rs.45,00,000.

(vii) The taxation liability of the company is settled at Rs.1,50,000.

(viiii) Investments to be brought to their market value.

(ix) It is decided to write off the fictitious assets.

Pass Journal entries and show the Balance sheet of the company after giving effect to the above. *(16 Marks) (PE-II – May 2007)*

Answer

Journal Entries in the books of Weak Ltd.

			Rs.	*Rs.*
(i)	Equity share capital (Rs.100) A/c	Dr.	1,00,00,000	
	To Equity Share Capital (Rs.40) A/c			40,00,000
	To Capital Reduction A/c			60,00,000
	(Being conversion of equity share capital of Rs.100 each into Rs.40 each as per reconstruction scheme)			

(ii)	12% Cumulative Preference Share capital (Rs.100) A/c Dr.		50,00,000	
	To 12% Cumulative Preference Share Capital (Rs.60) A/c			30,00,000
	To Capital Reduction A/c			20,00,000
	(Being conversion of 12% cumulative preference share capital of Rs.100 each into Rs.60 each as per reconstruction scheme)			
(iii)	10% Debentures A/c	Dr.	40,00,000	
	To 12% Debentures A/c			28,00,000
	To Capital Reduction A/c			12,00,000
	(Being 12% debentures issued to 10% debenture-holders for 70% of their claims. The balance transferred to capital reduction account as per reconstruction scheme)			
(iv)	Sundry Creditors A/c	Dr.	20,00,000	
	To Equity Share Capital A/c			12,00,000
	To Capital Reduction A/c			8,00,000
	(Being a creditor of Rs.20,00,000 agreed to surrender his claim by 40% and was allotted 30,000 equity shares of Rs.40 each in full settlement of his dues as per reconstruction scheme)			
(v)	Provision for Taxation A/c	Dr.	1,00,000	
	Capital Reduction A/c	Dr.	50,000	
	To Liability for Taxation A/c			1,50,000
	(Being conversion of the provision for taxation into liability for taxation for settlement of the amount due)			
(vi)	Capital Reduction A/c	Dr.	99,50,000	
	To P & L A/c			4,00,000
	To Preliminary Expenses A/c			2,00,000
	To Fixed Assets A/c			37,50,000
	To Current Assets A/c			55,00,000
	To Investments A/c			50,000
	To Capital Reserve A/c			50,000
	(Being amount of Capital Reduction utilized in writing off P & L A/c (Dr.) Balance, Preliminary Expenses, Fixed Assets, Current Assets, Investments and the Balance transferred to Capital Reserve)			

(vii)	Liability for Taxation A/c	Dr.	1,50,000	
	To Current Assets (Bank A/c)			1,50,000
	(Being the payment of tax liability)			

Balance Sheet of Weak Ltd. (and reduced) as on 31.3.2006

Liabilities	*Rs.*	*Assets*	*Rs.*
Issued, subscribed and paid up capital: 1,30,000 equity shares of Rs.40 each	52,00,000	Fixed Assets (1,25,00,000 – 37,50,000)	87,50,000
12% Cumulative Preference Shares of Rs. 60 each	30,00,000	Investments (10,00,000 – 50,000)	9,50,000
Reserves & Surplus: Capital Reserve	50,000	Current Assets (45,00,000 – 1,50,000)	43,50,000
Secured Loan: 12% Debentures	28,00,000		
Current Liabilities and Provisions:			
Sundry Creditors: (50,00,000 – 20,00,000)	30,00,000		
	1,40,50,000		1,40,50,000

Working Note:

Capital Reduction Account

	Rs.		*Rs.*
To Liability for taxation A/c	50,000	By Equity share capital	60,00,000
To P & L A/c	4,00,000	By 12% Cumulative preference share capital	20,00,000
To Preliminary expenses	2,00,000	By 10% Debentures	12,00,000
To Fixed assets	37,50,000	By Sundry creditors	8,00,000
To Current assets	55,00,000		
To Investment	50,000		
To Capital Reserve (balancing figure)	50,000		
	1,00,00,000		1,00,00,000

Question 16

(a) *The following particulars relate to a Limited Company which has gone into voluntary liquidation. You are required to prepare the Liquidator's Statement of Account allowing for his remuneration @ 2½% on all assets realized excluding call money received and 2% on the amount paid to unsecured creditors including preferential creditors.*

Share capital issued:

10,000 Preference shares of Rs.100 each fully paid up.

50,000 Equity shares of Rs.10 each fully paid up.

30,000 Equity shares of Rs.10 each, Rs.8 paid up.

Assets realized Rs.20,00,000 excluding the amount realized by sale of securities held by partly secured creditors.

	Rs.
Preferential creditors	*50,000*
Unsecured creditors	*18,00,000*
Partly secured creditors (Assets realized Rs.3,20,000)	*3,50,000*
Debentureholders having floating charge on all assets of the company	*6,00,000*
Expenses of liquidation	*10,000*

A call of Rs.2 per share on the partly paid equity shares was duly received except in case of one shareholder owning 1,000 shares.

Also calculate the percentage of amount paid to the unsecured creditors to the total unsecured creditors.

(b) *The following is the Balance Sheet of 'A' Ltd. as on 31.3.2007:*

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.

(10+6 = 16 Marks) (PE-II – Nov. 2007)

Answer

(a) (i) Liquidator's Final Statement of Account

		Rs.				Rs.
To	Assets Realised	20,00,000	By	Liquidator's remuneration		
To	Receipt of call money on 29,000 equity shares @ 2 per share	58,000		2.5% on 23,20,000*	58,000	
				2% on 50,000	1,000	
				2% on 13,12,745 (W.N.3)	26,255	85,255
			By	Liquidation Expenses		10,000
			By	Debenture holders having a floating charge on all assets		6,00,000
			By	Preferential creditors		50,000
			By	Unsecured creditors		13,12,745
		20,58,000				20,58,000

(ii) Percentage of amount paid to unsecured creditors to total unsecured creditors

$$= \frac{13,12,745}{18,30,000} \times 100 = 71.73\%$$

Working Notes:

1. Unsecured portion in partly secured creditors=Rs.3,50,000-Rs.3,20,000

   = Rs.30,000

2. Total unsecured creditors = 18,00,000 + 30,000 (W.N.1)

   = Rs.18,30,000

3. Liquidator's remuneration on payment to unsecured creditors

   Cash available for unsecured creditors after all payments including payment to preferential creditors & liquidator's remuneration on it = Rs.13,39,000

   Liquidator's remuneration on unsecured creditors = $\frac{2}{102} \times 13,39,000 = \text{Rs.}26,255$

   or on Rs. 13,12,754 x 2/100 = Rs. 26,255

* Total assets realised = Rs.20,00,000 + Rs.3,20,000 = Rs.23,20,000

(b) Calculation of Purchase Consideration under Net Assets Method

			Rs.
Sundry assets			
	$18{,}00{,}000 \times \frac{75}{100} \times \frac{112}{100} =$	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 17

The Balance Sheet of A Limited and B Limited as at 31st March, 2008 are as follows:

Liabilities	*A Ltd.*	*B Ltd.*	*Assets*	*A Ltd.*	*B Ltd.*
Equity share of Rs.10 each	*20,00,000*	*12,00,000*	*Sundry assets*	*30,00,000*	*14,00,000*
General reserve	*4,00,000*	*2,20,000*	*40,000 Equity shares in A Ltd.*	*-*	*4,00,000*
Creditors	*6,00,000*	*3,80,000*			
	30,00,000	*18,00,000*		*30,00,000*	*18,00,000*

A Ltd. absorbed B Ltd. on the basis of intrinsic value of the shares. The purchase consideration is to be discharged in fully paid-up equity shares. A sum of Rs.1,00,000 is owed by A Ltd. to B Ltd., also included in the stock of A Ltd. is Rs.1,20,000 goods supplied by B Ltd. at cost plus 20%.

Give Journal entries in the books of both the companies, if entries are made at intrinsic value. Also prepare Balance Sheet of A Ltd. after absorption. (16 Marks) (PE-II – May 2008)

Answer

In the Books of B Ltd.

Journal Entries

			Dr. (Rs.)	*Cr. (Rs.)*
(i)	Realisation A/c	Dr.	14,00,000	
	To Sundry assets A/c			14,00,000
	(Being assets transferred to realization account on sale of business to A Ltd.)			
(ii)	Creditors A/c	Dr.	3,80,000	
	To Realisation A/c			3,80,000
	(Being creditors transferred to realization account on sale of business to A Ltd.)			
(iii)	Equity share capital A/c	Dr.	12,00,000	
	General reserve A/c	Dr.	2,20,000	
	To Equity shareholders A/c			14,20,000
	(Being transfer of share capital and general reserve to shareholders account)			
(iv)	A Ltd.	Dr.	10,20,000	
	To Realisation A/c			10,20,000
	(Being purchase consideration due – W.N. 2)			
(v)	Equity shares in A Ltd.	Dr.	10,20,000	
	To A Ltd.			10,20,000
	(Being purchase consideration received by A Ltd.)			
(vi)	Equity shares in A Ltd. A/c	Dr.	80,000	
	To Realisation A/c			80,000
	(Being appreciation in the value of shares of A Ltd. brought into books as entries are to be made at intrinsic value)			

(vii)	Realisation A/c	Dr.	80,000	
	To Equity shareholders A/c			80,000
	(Being profit on realization transferred to shareholders account)			
(viii)	Equity shareholders A/c	Dr.	15,00,000	
	To Equity shares in A Ltd. A/c			15,00,000
	(Being 85,000+ 40,000 = 1,25,000 shares distributed to equity shareholders of B Ltd.)			

In the Books of A Ltd.
Journal Entries

			Dr. (Rs.)	*Cr. (Rs.)*
(i)	Business purchase A/c	Dr.	10,20,000	
	To Liquidators of B Ltd. A/c			10,20,000
	(Being amount payable to B Ltd. – W.N. 2)			
(ii)	Sundry assets A/c	Dr.	14,00,000	
	To Creditors A/c			3,80,000
	To Business purchase A/c			10,20,000
	(Being assets & liabilities taken over and purchase consideration due)			
(iii)	Liquidators of B Ltd. A/c	Dr.	10,20,000	
	To Equity share capital A/c			8,50,000
	To Securities premium A/c			1,70,000
	(Being shares allotted in full payment of purchase consideration)			
(iv)	Creditors A/c	Dr.	1,00,000	
	To Debtors (of B Ltd.) A/c			1,00,000
	(Being cancellation of mutual liability of debtors & creditors of Rs.1,00,000)			
(v)	General reserve A/c	Dr.	20,000*	
	To Stock A/c			20,000
	(Being elimination of unrealized profit on unsold stock of Rs.1,20,000, bought from B Ltd.)			

*Unrealized profit = Rs.1,20,000 × 20/120 = Rs.20,000.

Balance Sheet of A Ltd.
as at 31st March, 2008

Liabilities	*Rs.*	*Assets*	*Rs.*
Share capital:		Sundry assets	42,80,000
2,85,000 Equity shares of Rs.10 each	28,50,000	(30,00,000 + 14,00,000 – 1,00,000 – 20,000)	
(of the above, 85,000 equity shares of Rs.10 each are issued for consideration other than cash)			
Securities premium	1,70,000		
General reserve	3,80,000		
Creditors	8,80,000		
(6,00,000 + 3,80,000- 1,00,000)			
	42,80,000		42,80,000

Working Notes:

1. **Calculation of Intrinsic Value of shares of 'A' Ltd.**

	Rs.
Sundry assets of A Ltd.	30,00,000
Less: Creditors	6,00,000
Net assets	24,00,000
Number of equity shares	2,00,000 shares
Intrinsic value per equity share = $\frac{\text{Rs.24,00,000}}{\text{2,00,000 shares}}$	Rs. 12 per share

2. **Calculation of Purchase Consideration**

	Rs.
Sundry assets of B Ltd.	14,00,000
Add: Investments in shares of A Ltd. (40,000 shares × Rs.12)	4,80,000
	18,80,000
Less: Creditors	3,80,000
Net assets	15,00,000

	Shares
Total number of equity shares to be issued by A Ltd. @Rs.12 per share (Rs.15,00,000 / Rs.12)	1,25,000
Less: Number of equity shares of A Ltd. which are already with B Ltd.	40,000
Number of shares to be issued to outsiders	85,000
	Rs.
Equity share capital (85,000 shares × Rs.10)	8,50,000
Securities premium (85,000 shares × Rs.2)	1,70,000
Purchase consideration	10,20,000

Question 18

Following is the Balance Sheet of X Co. Ltd. as at 31st March, 2008:

Balance Sheet as at 31st March, 2008

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.

(8 Marks) (PE-II – Nov. 2008)

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 19

P and Q have been carrying on same business independently. Due to competition in the market, they decided to amalgamate and form a new company called PQ Ltd.

Following is the Balance Sheet of P and Q as at 31.3.2007:

Liabilities	P	Q	Assets	P	Q
	Rs.	Rs.		Rs.	Rs.
Capital	7,75,000	8,55,000	Plant & machinery	4,85,000	6,14,000
Current liabilities	6,23,500	5,57,600	Building	7,50,000	6,40,000
			Current assets	1,63,500	1,58,600
	13,98,500	14,12,600		13,98,500	14,12,600

Following are the additional information:

(i) *The authorised capital of the new company will be Rs.25,00,000 divided into 1,00,000 equity shares of Rs.25 each.*

(ii) *Liabilities of P includes Rs.50,000 due to Q for the purchases made. Q made a profit of 20% on sale to P.*

(iii) *P has goods purchased from Q, cost to him Rs.10,000. This is included in the Current asset of P as at 31st March, 2007.*

(iv) *The assets of P and Q are to be revalued as under:*

	P	Q
	Rs.	Rs.
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000

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

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

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

	P	Q
	Rs.	Rs.
1st year	2,62,800	2,75,125
IInd year	2,12,200	2,49,875
Total	4,75,000	5,25,000

(c) *Issue 12% preference shares of Rs.10 each fully paid up at par to provide income equivalent to 8% return on capital employed in the business as on 31.3.2007 after revaluation of assets of P and Q respectively.*

You are required to:

(i) Compute the amount of equity and preference shares issued to P and Q.

(ii) Prepare the Balance Sheet of P & Q Ltd. immediately after amalgamation.

(16 Marks) (PCC – May 2007)

Answer

(i) Calculation of amount of equity shares issued to P and Q

Profits of	P	Q
	Rs.	*Rs.*
Ist year	2,62,800	2,75,125
IInd year	2,12,200	2,49,875
Total	4,75,000	5,25,000

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

24000 x 475/1000	11,400 equity shares	
24000 x 525/1000		12,600 equity shares

Calculation of amount of 12% Preference shares issued to P and Q

	P	Q
	Rs.	*Rs.*
Capital employed (Refer working note 1)	8,40,000	9,24,000
8% return on capital employed	67,200	73,920
12% Preference shares to be issued $\left[67{,}200 \times \frac{100}{12}\right]$	Rs. 5,60,000	
$\left[73{,}920 \times \frac{100}{12}\right]$		Rs. 6,16,000

Total Purchase Consideration

	P	Q
	Rs.	*Rs.*
Equity Shares	2,85,000	3,15,000
12% Preference shares	5,60,000	6,16,000
Total	8,45,000	9,31,000

(ii) Balance Sheet of PQ Ltd. (after amalgamation)

Liabilities	*Rs.*	*Assets*	*Rs.*
Authorised share capital:		*Fixed assets:*	
1,00,000 Equity Share of Rs.25 each	25,00,000	Goodwill (W.N.1)	14,000
Issued and subscribed share capital:		Plant and Machinery	12,00,000
24,000 Equity Shares of Rs.25 each	6,00,000	Building	14,23,000
1,17,600 12% Preference shares of Rs.10 each	11,76,000	*Current Assets* (W.N.2)	2,70,100
(All of the equity and preference shares have been issued for consideration other than cash)			
Current Liabilities (W.N. 3)	11,31,100		
	29,07,100		29,07,100

Working Notes:

1. Goodwill

	P	Q
	Rs.	*Rs.*
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000
Current assets	1,63,500	1,58,600
	14,63,500	14,81,600
Less: Current liabilities	6,23,500	5,57,600
Net assets taken (capital employed)	8,40,000	9,24,000
Less: Purchase consideration	8,45,000	9,31,000
Goodwill	5,000	7,000
Total purchased goodwill		12,000
Add: Unrealised profit of Rs.10,000 @ 20% = Rs.2,000 is adjusted from current assets and from goodwill (since P & L A/c is not given)		2,000
Total Goodwill		14,000

2. Current Assets

	P	Q
	Rs.	*Rs.*
Balances before amalgamation	1,63,500	1,58,600
Less: Liabilities of P due to Q	-	50,000
Less: Unrealised Profit on stock i.e.Rs.10,000 x 20%	2,000	
Total	1,61,500	1,08,600
Grand Total		2,70,100

3. Current Liabilities

		P	Q
		Rs.	Rs.
Balances before amalgamation		6,23,500	5,57,600
Less:	Liabilities of P due to Q	50,000	-
Total		5,73,500	5,57,600
Grand Total			11,31,100

Question 20

Following is the Balance Sheet of ABC Ltd. as at 31st March, 2007:

Liabilities	*Rs.*	*Assets*	*Rs.*
Share capital:		*Plant and machinery*	*9,00,000*
2,00,000 Equity shares of		*Furniture and fixtures*	*2,50,000*
Rs 10 each fully paid up	*20,00,000*	*Patents and copyrights*	*70,000*
6,000 8% Preference shares		*Investments (at cost)*	
of Rs. 100 each	*6,00,000*	*(Market value Rs. 55,000)*	*68,000*
9% Debentures	*12,00,000*	*Stock*	*14,00,000*
Bank overdraft	*1,50,000*	*Sundry debtors*	*14,39,000*
Sundry creditors	*5,92,000*	*Cash and bank balance*	*10,000*
		Profit and Loss A/c	*4,05,000*
	45,42,000		*45,42,000*

The following scheme of reconstruction was finalised:

(i) Preference shareholders would give up 30% of their capital in exchange for allotment of 11% Debentures to them.

(ii) Debentureholders having charge on plant and machinery would accept plant and machinery in full settlement of their dues.

(iii) Stock equal to Rs.5,00,000 in book value will be taken over by sundry creditors in full settlement of their dues.

(iv) Investment value to be reduced to market price.

(v) The company would issue 11% Debentures for Rs.3,00,000 and augment its working capital requirement after settlement of bank overdraft.

Pass necessary Journal Entries in the books of the company. Prepare Capital Reduction account and Balance Sheet of the company after internal reconstruction.

(16 Marks) (PCC – Nov. 2007)

Answer

In the Books of ABC Ltd.

Journal Entries

Particulars		*Rs.*	*Rs.*
8% Preference share capital A/c	Dr.	6,00,000	
To Preference shareholders A/c			4,20,000
To Capital reduction A/c			1,80,000
[Being 30% reduction in liability of preference share capital]			
Preference shareholders A/c	Dr.	4,20,000	
To 11% Debentures A/c			4,20,000
[Being the issue of debentures to preference shareholders]			
9% Debentures A/c	Dr.	12,00,000	
To Debenture holders A/c			12,00,000
[Being transfer of 9% debentures to debenture holders A/c]			
Debenture holders A/c	Dr.	12,00,000	
To Plant & machinery A/c			9,00,000
To Capital reduction A/c			3,00,000
[Being settlement of debenture holders by allotment of plant & machinery]			
Sundry creditors A/c	Dr.	5,92,000	
To Stock A/c			5,00,000
To Capital reduction A/c			92,000
[Being settlement of creditors by giving stocks]			
Bank A/c	Dr.	3,00,000	
To 11% Debentures A/c			3,00,000
[Being fresh issue of debentures]			
Bank overdraft A/c	Dr.	1,50,000	
To Bank A/c			1,50,000
[Being settlement of bank overdraft]			

Capital reduction A/c	Dr.	5,72,000	
To Investment A/c			13,000
To Profit and loss A/c			4,05,000
To Capital reserve A/c (Bal. Fig.)			1,54,000
[Being decrease in investment and profit and loss account (Dr. bal.); and balance of capital reduction account transferred to capital reserve]			

Capital Reduction Account

		Rs.			*Rs.*
To	Investments A/c	13,000	By	Preference share capital A/c	1,80,000
To	Profit and loss A/c	4,05,000	By	9% Debenture holders A/c	3,00,000
To	Capital reserve A/c(Bal. Fig.)	1,54,000	By	Sundry creditors A/c	92,000
		5,72,000			5,72,000

Balance Sheet of ABC Ltd. (And Reduced)
As on 31st March 2007

Liabilities	*Rs.*	*Assets*	*Rs.*
Share capital 2,00,000 Equity shares of Rs.10		Plant & machinery (9,00,000 – 9,00,000)	Nil
each fully paid-up	20,00,000	Furniture & fixtures	2,50,000
Capital reserve	1,54,000	Patents & copyrights	70,000
11% Debentures (Rs.4,20,000 + Rs.3,00,000)	7,20,000	Investments (Rs.68,000 – Rs.13,000)	55,000
		Stock (Rs.14,00,000 – Rs.5,00,000)	9,00,000
		Sundry debtors	14,39,000
		Cash at bank (refer W.N.)	1,60,000
	28,74,000		28,74,000

Working Note:

Cash at bank = Opening balance + 11% Debentures issued – Bank overdraft paid

= Rs.10,000 + Rs.3,00,000 – Rs.1,50,000

= Rs.1,60,000

Question 21

Following are the summarised Balance Sheets of A Ltd. and B Ltd. as at 31.3.2008:

Particulars	A Ltd.	B Ltd.
Share capital: Equity shares 10 each (fully paid up)	10,00,000	6,00,000
Securities premium	2,00,000	-
General reserve	3,00,000	2,50,000
Profit and loss account	1,80,000	1,60,000
10% Debentures	5,00,000	-
Secured loan	-	3,00,000
Sundry creditors	2,60,000	1,70,000
	24,40,000	14,80,000
Land and building	9,00,000	4,50,000
Plant and machinery	5,00,000	3,80,000
Investment (5,000 shares of B Ltd.)	80,000	-
Stock	5,20,000	3,50,000
Debtors	4,10,000	2,60,000
Cash at bank	30,000	40,000
	24,40,000	14,80,000

The companies agree on a scheme of amalgamation on the following terms:

(i) A new company is to be formed by name AB Ltd.

(ii) AB Ltd. to take over all the assets and liabilities of the existing companies.

(iii) For the purpose of amalgamation, the shares of the existing companies are to be valued as under:

A Ltd. = Rs.18 per share

B Ltd. = Rs.20 per share

(iv) A contingent liability of A Ltd. of Rs.60,000 is to be treated as actual existing liability.

(v) The shareholders of A Ltd. and B Ltd. are to be paid by issuing sufficient number of shares of AB Ltd. at a premium of Rs.6 per share.

(vi) The face value of shares of AB Ltd. are to be of Rs.10 each.

You are required to:

(i) Calculate the purchase consideration (i.e., number of shares to be issued to A Ltd. and B Ltd.).

(ii) Pass journal entries in the books of A Ltd. for the transfer of assets and liabilities.

(iii) Pass journal entries in the books of AB Ltd. for acquisition of A Ltd. and B Ltd.

(iv) Prepare the Balance Sheet of AB Ltd. *(16 Marks) (PCC – May 2008)*

Answer

(i) Statement showing calculation of purchase consideration

		(Number of shares)
	A Ltd.	*B. Ltd.*
Existing shares	1,00,000	60,000
Less: Shares held by A Ltd.		5,000
	1,00,000	55,000
Value per share	Rs.18	Rs.20
Total value	Rs.18,00,000	Rs.11,00,000
No. of shares to be issued at a premium of Rs.6 per share i.e. Rs.16 (10+6)	1,12,500 shares	68,750 shares
	Rs.	*Rs.*
Share capital	11,25,000	6,87,500
Add: Securities premium	6,75,000	4,12,500
Total purchase consideration	18,00,000	11,00,000

(ii) **Journal Entries in the books of A Ltd.**

		Rs.	*Rs.*
Realisation A/c	Dr.	24,40,000	
To Land & building A/c			9,00,000
To Plant & machinery A/c			5,00,000
To Stock A/c			5,20,000
To Sundry debtors A/c			4,10,000
To Investments A/c			80,000
To Bank A/c			30,000
(Being assets transferred to Realisation A/c)			
Profit and loss A/c	Dr.	60,000	
To Creditors A/c			60,000
(Being contingent liability treated as real liability)			

10% Debentures A/c	Dr.	5,00,000	
Creditors A/c	Dr.	3,20,000	
To Realisation A/c			8,20,000
(Being transfer of liabilities to Realisation A/c)			
AB Ltd.	Dr.	18,00,000	
To Realisation A/c			18,00,000
(Being the purchase consideration accounted for)			
Share in AB Ltd. A/c	Dr.	18,00,000	
To AB Ltd.			18,00,000
(Being purchase consideration received)			
Share Capital A/c	Dr.	10,00,000	
Securities premium A/c	Dr.	2,00,000	
General Reserve A/c	Dr.	3,00,000	
Profit and Loss A/c	Dr.	1,20,000	
Realisation A/c	Dr.	1,80,000	
To Shareholders A/c			18,00,000
(Being transfer of balances to shareholders' account)			
Shareholders A/c	Dr.	18,00,000	
To Shares in AB Ltd.			18,00,000
(Being closure of shareholders a/c)			

(iii) **Journal Entries in the Books of AB Ltd.**

		Rs.	Rs.
Land & building A/c	Dr.	9,00,000	
Plant & machinery A/c	Dr.	5,00,000	
Stock A/c	Dr.	5,20,000	
Debtors A/c	Dr.	4,10,000	
Bank A/c	Dr.	30,000	
Goodwill A/c	Dr.	2,60,000	
To 10% Debentures A/c			5,00,000
To Sundry creditors A/c			3,20,000
To Liquidator of A Ltd. A/c			18,00,000
(Being the purchase consideration of A Ltd. accounted for)			

Land & building A/c	Dr.	4,50,000	
Plant & machinery A/c	Dr.	3,80,000	
Stock A/c	Dr.	3,50,000	
Debtors A/c	Dr.	2,60,000	
Bank A/c	Dr.	40,000	
Goodwill A/c	Dr.	90,000	
To Secured loan A/c			3,00,000
To Sundry creditors A/c			1,70,000
To Liquidator of B Ltd. A/c			11,00,000
(Being purchase consideration of B Ltd. accounted for)			
Liquidator of A Ltd. A/c	Dr.	18,00,000	
To Equity share capital A/c			11,25,000
To Securities premium A/c			6,75,000
(Being shares issued to Liquidator of A Ltd.)			
Liquidator of B Ltd. A/c	Dr.	11,00,000	
To Equity share capital A/c			6,87,500
To Securities premium A/c			4,12,500
(Being shares issued to Liquidator of B Ltd.)			

(iv) **Balance Sheet of AB Ltd.**

(After amalgamation of A Ltd. & B Ltd.)

Liabilities	*Rs.*	*Assets*	*Rs.*
Share capital:		Goodwill (2,60,000 + 90,000)	3,50,000
1,81,250 Equity shares of Rs.10 each fully paid up	18,12,500	Land & building	13,50,000
(above shares have been issued for consideration other than cash)		Plant & machinery Stock	8,80,000 8,70,000
Securities premium	10,87,500	Sundry debtors	6,70,000
10% Debentures	5,00,000	Cash at bank	70,000
Secured loan	3,00,000		
Sundry creditors	4,90,000		
	41,90,000		41,90,000

Question 22

The Balance Sheet of R Ltd., at March, 2008 was as follows:

	Rs.		Rs.
Share capital authorised	*14,00,000*	*Intangibles*	*68,000*
Issued: 64,000, 8% cumulative preference shares of Rs. 10 each, fully paid	*6,40,000*	*Freehold premises at cost*	*1,40,000*
		Plant and equipment at cost less depreciation	*2,40,000*
64,000 Equity shares of Rs. 10 each, Rs. 7.5 paid	*4,80,000*	*Investments in shares in Q Ltd. at cost*	*3,24,000*
Loans from directors	*60,000*	*Stocks*	*2,48,000*
Sundry creditors	*4,40,000*	*Debtors*	*3,20,000*
Bank overdraft	*2,08,000*	*Deferred revenue expenditure*	*48,000*
		Profit and loss account	*4,40,000*
	18,28,000		*18,28,000*

Note: *The arrears of preference dividends amount to Rs. 51,200.*

A scheme of reconstruction was duly approved with effect from 1st April, 2008 under the conditions stated below:

(a) The unpaid amount on the equity shares would be called up.

(b) The preference shareholders would forego their arrear dividends. In addition, they would accept a reduction of Rs. 2.5 per share. The dividend rate would be enhanced to 10%.

(c) The equity shareholders would accept a reduction of Rs. 7.5 per share.

(d) R Ltd. holds 21,600 shares in Q Ltd. This represents 15% of the share capital of that company. Q Ltd. is not a quoted company. The average net profit (after tax) of the company is Rs. 2,50,000. The shares would be valued based on 12% capitalization rate.

(e) A bad debt provision at 2% would be created.

(f) The other assets would be valued as under:

	Rs.
Intangibles	*48,000*
Plant	*1,40,000*
Freehold premises	*3,80,000*
Stocks	*2,50,000*

(g) The profit and loss account debit balance and the balance standing to the debit of the deferred revenue expenditure account would be eliminated.

(h) The directors would have to take equity shares at the new face value of Rs. 2.5 per share in settlement of their loan.

(i) The equity shareholders, including the directors, who would receive equity shares in settlement of their loans, would take up two new equity shares for every one held.

(j) The preference shareholders would take up one new preference share for every four held.

(k) The authorised share capital would be restated to Rs. 14,00,000.

(l) The new face values of the shares-preference and equity will be maintained at their reduced levels.

You are required to prepare:

(i) Necessary ledger accounts to effect the above; and

(ii) The Balance Sheet of the company after reconstruction. (16 Marks) (PCC – Nov. 2008)

Answer

In the books of R Ltd.
Ledger Accounts
Capital Reduction Account

		Rs.			Rs.
To	Intangibles (68,000 – 48,000)	20,000	By	8% Cumulative preference shares capital account	1,60,000
To	Plant and equipment account (2,40,000 – 1,40,000)	1,00,000	By	Equity share capital account	4,80,000
To	Deferred revenue expenditure account	48,000	By	Freehold premises account (3,80,000 – 1,40,000)	2,40,000
To	Profit and loss account	4,40,000	By	Stock account (2,50,000 –2,48,000)	2,000
To	Investment account (W.N. 2)	11,500			
To	Provision for doubtful debts	6,400			
To	Capital reserve account (Balance Transferred)	2,56,100			
		8,82,000			8,82,000

Equity Share Capital Account

		Rs.			Rs.
To	Capital reduction account	4,80,000	By	Balance b/d	4,80,000
To	Balance c/d	6,60,000	By	Bank account - final call (64,000 × Rs.2.5)	1,60,000
			By	Loan from Directors account	60,000
			By	Bank account [(64,000+24,000) ×2 × Rs.2.5]	4,40,000
		11,40,000			11,40,000
			By	Balance b/d	6,60,000

8% Cumulative Preference Share Capital Account

		Rs.			Rs.
To	10% Cumulative preference share capital account	4,80,000	By	Balance b/d	6,40,000
To	Capital reduction account	1,60,000			
		6,40,000			6,40,000

Bank Account

		Rs.			Rs.
To	Equity share capitall account	1,60,000	By	Balance b/d (overdraft)	2,08,000
To	Equity share capital account	4,40,000	By	Balance c/d	5,12,000
To	10% Cumulative preference share capital account	1,20,000			
		7,20,000			7,20,000
To	Balance b/d	5,12,000			

10% Cumulative Preferences Share Capital Account

		Rs.			Rs.
To	Balance c/d	6,00,000	By	8% Cumulative preference share capital account	4,80,000
			By	Bank (16,000 x Rs. 7.5)	1,20,000
		6,00,000			6,00,000
			By	Balance b/d	6,00,000

Balance Sheet of R. Ltd. (and Reduced)

as at 1 April, 2008

	Rs.		Rs.
Authorised: Share capital	14,00,000	Intangibles	48,000
Issued: 80,000 10% Cumulative preference shares of Rs.7.5 each	6,00,000	Freehold premises	3,80,000
2,64,000 equity shares of Rs.2.5 each	6,60,000	Plant and equipment	1,40,000
Capital reserve	2,56,100	Investment in Q Ltd. (W.N.1)	3,12,500
Sundry creditors	4,40,000	Stock	2,50,000
		Debtors less provision for doubtful debts (Rs.3,20,000 – Rs.6,400)	3,13,600
		Bank	5,12,000
	19,56,100		19,56,100

Working Notes:

1. Valuation of investments in shares of Q Ltd. = $\frac{\text{Rs.}2{,}50{,}000}{.12} \times \frac{15}{100} = \text{Rs.}3{,}12{,}500$

2. Reduction in the value of investment in shares of Q Ltd.

   Rs.3,24,000 – Rs.3,12,500 = Rs.11,500.