Chapter 11

Amalgamation Absorption & Reconstruction

Question for Group-I

1. Calculation of Purchase Consideration

Q 1. The following is the Balance Sheet of 'A' Ltd. As on 31.3.2007:

Liabilities	*Rs.*	*Assets*	*Rs.*
14,000 Equity Shares of		Sundry Assets	18,00,000
Rs. 100 each fully paid	14,00,000	Discount on issue of	
General Reserve	10,000	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		
Bill 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 at book values. There is an unrecorded liability of Rs.25,000.

(*PE – II Nov. – 2007, Marks 6*)

Q 2. S. Ltd. is absorbed by P. Ltd. The balance sheet of S. Ltd. is as under:

Balance Sheet

	Rs.		*Rs.*
Share Capital:		Sundry Assets	13,00,000
2,000 7% Preference shares of			
Rs. 100 each (Fully paid-up)	2,00,000		
5,000 Equity shares of Rs. 100			
each (Fully paid-up)	5,00,000		
Reserves	3,00,000		
6% Debentures	2,00,000		
Trade creditors	1,00,000		
	13,00,000		13,00,000

P. Ltd. has agreed:

(a) To issue 9% Preference shares of Rs. 100 each, in the ratio of 3 shares of P. Ltd. for 4 preference shares in S. Ltd.

(b) To issue to the debenture holders in S. Ltd. 8% Mortgage Debentures at Rs. 96 in lieu of 6% Debentures in S. Ltd. which are to be redeemed at a premium of 20%

(c) To pay Rs. 20 per share in cash and to issue six equity shares of Rs. Rs. 100 each (market value Rs. 125) in lieu of every five shares held in S. Ltd., and

(d) To assume the liability to trade creditors.

Calculate Purchase Consideration.

Q 3. Sham Ltd. Balance Sheet as on 31st March, 2002 is as follows:

Liabilities	*Rs.*	*Assets*	*Rs.*
Equity Share Capital of Rs.		Fixed Assets	1,00,000
10 each	1,50,000	Current Assets	2,00,000
9% Debenture	1,00,000		
Current Liabilities	50,000		
	3,00,000		3,00,000

Ram Ltd. agreed to take over Sham Ltd.

(1) New company will issue necessary equity shares to old company's share holders.

(2) 10,000 11% debentures of Rs. 10 each were issued at Rs. 12 each for 9% Debenture holders.

(3) Current Liabilities were also taken over

Calculate Purchase Consideration assuming intrinsic value of old & new company are Rs. 20 and 15 per share respectively.

Ans.: *Purchase Consideration: Rs. 3,00,000*

Q 4. Balance Sheet of X Ltd. as on 31st March, 1995:

Liabilities	*Rs. (000)*	*Assets*	*Rs. (000)*
Share Capital:		Land & Building	50,00
Equity Shares of Rs. 10 each	75,00	Plant & Machinery	45,00
14% Preference Shares of		Furniture	10,50
Rs. 100 each	25,00	Investments	5,00
General Reserve	12,50	Stock	23,00
12% Debentures	40,00	Debtors	24,00
Sundry Creditors and other		Cash & Bank Balance	15,00
Current liabilities	20,00		
	172,50		172,50

Other Information:

(i) Y Ltd. takes over X Ltd. on 1st April, 1995.

(ii) Debenture holders of X Ltd. are discharged by Y Ltd. at 10% premium by issuing 15% own debentures of Y Ltd.

(iii) 14% Preference Shareholders of X Ltd. are discharged at a premium of 20% by issuing necessary number of 15% Preference Shares of Y Ltd. (Face value Rs. 100 each).

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

Compute the purchase consideration.

Q 5. Balance Sheet of Ram Ltd. & Sham Ltd. is given as on 31st March 2002:

	Ram Ltd.	*Sham Ltd.*		*Ram Ltd.*	*Sham Ltd.*
Equity Share Capital of Rs. 10 each	1,00,000	50,000	Fixed Assets	80,000	70,000
			Book Debts	30,000	40,000
			Stock	20,000	10,000
Reserve & Surplus	10,000	20,000	Cash in hand	10,000	5,000
Debentures	20,000	40,000			
Creditors	10,000				
Share premium		15,000			
	1,40,000	1,25,000		1,40,000	1,25,000

Ram Ltd. took over Sham Ltd. on following conditions:

(1) That necessary shares would be issued to old share holders in accordance with intrinsic value of shares.

(2) That fixed assets has market value of Rs. 75,000 and 80,000 respectively, Debtors are good, Stock is shown at cost price whose gross realizable value is Rs. 25,000 and 12,000 respectively.

(3) Debentures of Sham Ltd. were to be issued equivalent Debentures at premium of 10%

Calculate Purchase Consideration

Q 6. Y Ltd. decides to absorb X Ltd. The Balance Sheet of X Ltd. is as follows:

	Rs.		*Rs.*
3,000 Equity shares of Rs.		Sundry Net Assets	2,90,000
100 each (Fully paid)	3,00,000	Profit and Loss	
Preference shares	60,000	Account	70,000
	3,60,000		3,60,000

Y Ltd. agrees to take over the net assets of X Ltd. An equity share in X Ltd., for purposes of absorption, is valued @ Rs. 70. Y Ltd. agrees to pay Rs. 60,000 in cash for payment to preference shareholders and the balance in the form of its equity shares valued at Rs 120 each.

2. Preparation of Financial Statements

Q 7. X Ltd. is absorbed by Y Ltd. Given below are the Balance Sheets of the two companies taken after revaluation of their assets on an uniform basis:

	X Ltd. (*Rs.*)	*Y Ltd.* (*Rs.*)
Authorized Capital:		
9,000 shares of Rs. 300 each	27,00,000	
40,000 shares of Rs. 180 each		72,00,000
Paid-up capital:		
9,000 shares, Rs. 270 per share paid-up	24,30,000	
40,000 shares, Rs. 150 per share paid-up		60,00,000
Creditors	1,10,000	1,30,000
General Reserve	8,07,000	25,70,000
Profit and Loss Account	30,000	70,000
	33,77,000	87,70,000
Sundry Assets	33,70,000	87,15,000
Cash at Bank	7,000	55,000
	33,77,000	87,70,000

The holders of every three shares in X Ltd. were to receive 5 shares in Y ltd. plus as much cash as is necessary to adjust the rights of shareholders of both the companies in accordance with the intrinsic values of the shares as per the respective Balance Sheets.

Pass the necessary Journal entries in the books of Y Ltd. and prepare the Balance Sheet giving effect to the above scheme of absorption.

Q 8. Exe Limited is absorbed by Wye Limited. Given below are the Balance Sheets of the two Companies prepared after revaluation of their assets on a uniform basis.

Balance Sheet of Exe Limited

Liabilities	*Rs.*	*Assets*	*Rs.*
Authorized Share Capital:		Sundry Assets	16,85,000
9,000 Equity Shares of		Cash in hand	3,500
Rs. 150 each	13,50,000		
Paid-up Share Capital:			
9,000 Equity Shares of			
Rs. 150 each Rs. 135 paid-up	12,15,000		
General Reserve	4,03,500		
Profit and Loss A/c	15,000		
Sundry Creditors	55,000		
	16,88,500		16,88,500

Balance Sheet of Wye Limited

Liabilities	*Rs.*	*Assets*	*Rs.*
Authorized Share Capital:		Sundry Assets	43,57,500
60,000 Equity Shares of		Cash in hand	27,500
Rs. 75 each	45,00,000		
Paid-up Share Capital:			
40,000 Equity Shares of			
Rs. 75 paid-up	30,00,000		
General Reserve	12,85,000		
Profit and Loss A/c	35,000		
Sundry Creditors	65,000		
	43,85,000		43,85,000

The holder of every three Shares in Exe Limited was to receive five Shares in the Wye Limited plus as much cash as is necessary to adjust the rights of shareholders of both the Companies in accordance with the intrinsic values of the share as per the respective Balance Sheets.

Pass necessary journal entries in the books of Wye Limited and prepare the Balance Sheet giving effect to the above scheme of absorption. Entries are to be made at par value only. (*May – 1992*)

Q 9. Exe Limited was wound up on 31.3.2004 and its Balance Sheet as on that date was given below:

Liabilities	*Rs.*	*Assets*		*Rs.*
Share Capital : 1,20,000 Equity		Fixed assets		9,64,000
Share of Rs. 10 each	12,00,000	Current assets		
Reserves and Surplus		Stock	7,75,000	
Profit prior to Incorporation	42,000	Sundry Debtors	1,60,000	

Liabilities	*Rs.*	*Assets*		*Rs.*
Contingency Reserve	2,70,000	Less : Provision for		
		bad and doubtful debts	8,000	
Profit and loss Accounts	2,52,000	Bills Receivable	30,000	
Current Liabilities		Cash at bank	3,29,000	12,86,000
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 realized Rs. 1,50,000. Bills payable was settled for Rs 38000. 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:

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

(2) Prepare the Realizations account, Cash/bank account, Equity Shareholders account and Wye Limited account in the books of Exe Limited.

(3) Pass journal entries in the books of Wye Limited.

(*16 Marks; May – 2005*)

Comments:

Amalgamation/Absorption: Satisfactory performance has been given by the candidates. Some candidates were not able to compute the number of equity shares to be issued on amalgamation.

Q 10. What are the methods of accounting for amalgamation? In what circumstances which method should be applied?

Ans.: Methods of Accounting for Amalgamations: There are two main methods of accounting for amalgamations.

- **Pooling of interests method:** An amalgamation in the nature of merger should be accounted for under the pooling of interests method.
- **Purchase method:** An amalgamation in the nature of purchase should be accounted for under the purchase method.

Q 11. Briefly explain the methods of accounting for amalgamation as per Accounting Standard-14. [*May 2004, 4 marks*]

Ans.: As per AS 14 on 'Accounting for Amalgamations', there are two main methods of accounting for amalgamations:

(i) The Pooling of interest Method

Under this method, the assets, liabilities and reserves of the transferor company are recorded by the transferee company at their existing carrying amounts (after making the necessary adjustments).

If at the time of amalgamation, the transferor and the transferee companies have conflicting accounting policies, a uniform set of accounting policies is adopted following the amalgamation. The effects on the financial statements of any changes in accounting policies are reported in accordance with AS 5 on 'Net Profit or Loss for the Period, Prior Period items and Changes in Accounting Policies'.

(ii) The Purchase Method

Under the purchase method, the transferee company accounts for the amalgamation either by incorporating the assets and liabilities at their existing carrying amounts or by allocating the consideration to individual identifiable assets and liabilities of the transferor company on the basis of their fair values at the date of amalgamation. The identifiable assets and liabilities may include assets and liabilities not recorded in the financial statements of the transferor company.

Where assets and liabilities are restated on the basis of their fair values, the determination of fair values may be influenced by the intentions of the transferee company.

Q 12. What are the two main methods of accounting amalgamation of Companies? (*PCC Nov. – 2007, Marks – 2*)

Q 13. Explain purchase method of amalgamation.

Ans.: The Purchase Method: **It requires that—**

- Assets and liabilities of the transferor company should be either incorporated at their existing carrying amounts or consideration should be allocated to individual identifiable assets and liabilities on the basis of their fair values at the date of amalgamation.

- Reserves (whether capital or revenue or arising on revaluation) of the transferor company, other than the statutory reserves, should not be included in the financial statements of the transferee company.
- Any excess of the consideration over the value of the net assets should be recognised as goodwill arising on amalgamation. If the consideration is lower than the value of the net assets acquired, the difference should be treated as Capital Reserve.
- Goodwill arising on amalgamation should be amortised to income on a systematic basis not exceeding five years unless a somewhat longer period can be justified.
- Identity of statutory reserve should be maintained, if required, by an equal charge to the Amalgamation Adjustment Account, which is presented under the head "Miscellaneous expenditure' and is adjusted against the balance of statutory reserves when their separate identities are no longer required.

Q 14. Wye Ltd. acquires the business of Z Ltd. whose balance sheet on 31st December, 1996 is as under:

Liabilities	*Rs.*	*Assets*	*Rs.*
Share Capital divided into		Goodwill	2,00,000
shares of Rs. 100 each	4,00,000	Land & Building	4,00,000
6% Preference share	8,00,000	Plant and Machinery	6,00,000
capital	1,00,000	Patents	50,000
Equity share capital	50,000	Stock	1,50,000
Capital Reserve	2,00,000	Books Debts	1,80,000
Profit & Loss A/c		Cash at Bank	70,000
6% Debentures Interest	12,000	Underwriting	
outstanding on above		Commission	40,000
Workmen's Compensation			
Reserve (Expected liability	8,000		
Rs. 5,000)	1,20,000		
Trade Creditors			
	16,90,000		16,90,000

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

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

(ii) For each preference share in Zed Ltd. Rs. 10 in cash and one 9% preference share of Rs. 100 each in Wye Ltd.

(iii) For each equity share in Zed Ltd. Rs. 20 in cash and one equity share in Wye Ltd. of Rs. 100 each having the market value of Rs. 140.

(iv) Expense of liquidation of Zed Ltd. are to be reimbursed by Wye Ltd. to the extent of Rs. 10,000. Actual expenses amounted to Rs. 12,500.

Wye Ltd. valued Land and Building at Rs. 5,50,000 Plant and Machinery at Rs. 6,50,000 and patents at Rs. 20,000.

Prepare Balance Sheet of New Companies

3. Books of Transferor Company

Q 15. The financial position of two companies Hari Ltd. and Vayu Ltd. as on 31st March, 2002 was as under:

	Hari Ltd. (*Rs.*)	*Vayu Ltd.* (*Rs.*)
Assets:		
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:		
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:

1. 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of Hari Ltd.
2. 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.
3. Stock to be taken over at 10% less value and Reserve on Bad and Doubtful Debts to the created @ 7.5%.

4. Equity Shareholders of Vayu Ltd. will be issued Equity Shares @ Rs. 10.50 each.

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. (*2002 – Nov*)

Q 16. Given below are the Balance Sheet of two companies as on 31st December, 2000:

Anand Ltd.

Balance Sheet as at 31st December, 2000

Liabilities	*Rs.*	*Assets*	*Rs.*
Share Capital:		Goodwill	1,50,000
Rs. 10 shares fully paid	15,00,000	Freehold Property	4,00,000
Share Premium Account	4,500	Plant & Machinery	3,50,000
General Reserve	1,00,000	Stock	6,82,000
Profit & Loss Account	1,65,650	Sundry Debtors	2,58,500
8% Debentures	3,50,000	Bank	3,37,500
Sundry Creditors	57,850		
	21,78,000		21,78,000

Bhanu Ltd. Balance Sheet as at 31st December, 2000

Liabilities	*Rs.*	*Assets*	*Rs.*
Share Capital		Goodwill	50,000
Rs. 10 shares fully paid	3,90,000	Freehold Property	1,80,000
10% Debentures	70,000	Plant & Machinery	1,00,000
Bank Overdraft	6,000	Stock	1,62,000
Sundry Creditors	2,57,000	Sundry Debtors	95,000
		Profit & Loss A/c	1,36,000
	7,23,000		7,23,000

The two companies decided to amalgamate, as on 31st December, 2000, and a new company called Anand Bhanu Ltd. was formed with an authorized capital of Rs. 25,00,000 in shares of Rs. 10 each. The terms of amalgamation were as follows:

Anand Ltd.:

(i) 6 shares of Rs. 10 each fully paid in the new company in exchange for every 5 shares in Anand Ltd. and Rs. 10,000 in cash;

(ii) The debenture-holders were to be allotted such debentures in the new company bearing interest at 7% per annum as would bring the same amount of interest.

Bhanu Ltd.:

(i) 1 share of Rs. 10 each fully paid in the new company in exchange for every 3 shares in Bhanu Ltd., and Rs. 5,000 in cash;

(ii) Debenture-holders were to be allotted such debentures in the new company bearing interest at 7% per annum as would bring the same amount of interest

The new company took over all the assets and liabilities of the two existing companies.

Show Journal entries in the books of Anand Bhanu Ltd., giving effect to the arrangement and prepare its Opening Balance Sheet.

Q 17. What are the conditions, which, according to Accounting Standard 14, must be satisfied for 'Amalgamation in the nature of Merger' and 'Amalgamation in the nature of Purchase'?

OR

What are the conditions, which, according to Accounting Standard 14, must be satisfied for 'Amalgamation in the nature of Merger'?

[*CA Inter, May 2001*(*4 Marks*)]

OR

Distinguish between amalgamation by merger and by purchase as per AS 14.

[*ICWA Final, June 1995*(*8 Marks*)]

Ans.: Amalgamation in the Nature of Merger: An amalgamation in the nature of merger should satisfy ***all*** the following conditions:

- All the assets and liabilities of the transferor company become the assets and liabilities of the transferee company.
- Shareholders holding at least 90% of the face value of the equity shares of the transferor company become equity shareholders of the transferee company (shares already held by the transferee company or its subsidiaries or their nominees are not to be considered for the purpose of 90%).
- Purchase consideration is discharged wholly by the issue of equity shares in the transferee company; however, cash may be paid in respect of any fractional shares.
- The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.

- 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.

Amalgamation in the Nature of Purchase: An amalgamation should be considered to be an amalgamation in the nature of purchase, when any one or more of the conditions specified above is not satisfied.

Q 18. List the conditions to be fulfilled as per Accounting Standard 14 (AS 14) for an amalgamation to be in the nature of merger, in the case of companies.

(*PE-II, Nov. – 2008; Marks – 4*)

Q 19. Explain pooling of interest method of amalgamation.

[*CA Inter, May 1997*(*6 Marks*)]

Ans.: The Pooling of Interests Method: It requires that—

- Assets and liabilities of the transferor-company should be recorded at their existing carrying amounts, i.e., they are to be taken at their book values.
- Reserves (whether capital or revenue or arising on revaluation) of the transferor company should be recorded at their existing carrying amounts and in the same form, i.e., balance of general reserve should be carried as revaluation reserve, balance of revaluation reserve is carried as revaluation reserve etc.
- Difference of the share capital issued and other consideration paid to the transferor company over and above its own share capital should be adjusted in reserves.
- Balance of the Profit and Loss Account of the transferor company should be aggregated with that of the transferee company or transferred to the General Reserve.
- If transferor and transferee companies have conflicting accounting policies, a uniform set of accounting policies should be adopted, the effects on the financial statements of any changes in accounting policies should be reported in accordance with AS 5.

Q 20. Following balance sheets of X Ltd. and Y Ltd.

Liabilities	*X Ltd.* *Rs. '000*	*Y Ltd.* *Rs. '000*	*Assets*	*X Ltd.* *Rs. '000*	*Y Ltd.* *Rs. '000*
Equity Share Capital			Land & Building	2,500	1,550
(Rs. 10 each)	50,00	30,00	Plant & Machinery	3,250	1,700
14% Pref. Share			Furniture & Fittings	575	350
Capital (Rs. 100 each)	22,00	17,00	Investments	700	500
General Reserve	5,00	2,50	Stock	1,250	950
Export Profit Reserve	3,00	2,00	Debtors	900	1,030
Investment Allowance			Cash & Bank	725	520
Reserve	—	1,00			
Profit & Loss A/c	7,50	5,00			
13% Debentures	5,00	3,50			
(Rs. 100 each)					
Trade Creditors	4,50	3,50			
Other Current					
Liabilities	2,00	1,50			
	99,00	66,00		99,00	66,00

X Ltd. takes over Y Ltd. on 1st April, 1995. X Ltd. discharges the purchase consideration as below:

(i) Issued 3,50,000 equity shares of Rs.10 each at par to the equity share holders of Y Ltd.

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

The debentures of Y Ltd. will be converted into equivalent number of debentures of X Ltd. The statutory reserves of Y Ltd. are to be maintained for 2 more years.

Show the balance sheet of X Ltd. after amalgamation on the assumption that:

(a) The amalgamation is in the nature of merger.

(b) The amalgamation is in the nature of purchase.

Q 21. Following is the Balance Sheets of X Co. Ltd as at 31st March, 2008:

Liabilities	*Amount*	*Assets*	*Amount*
Equity share capital		Land & building	1000000
(Rs.100 each)	1500000	Plant & machinery	700000
11% Pref. Share Capital	500000	Furniture & fittings	200000
General reserve	300000	Stocks in trade	300000
Sundry creditors	200000	Sundry debtors	200000
		Cash in hand &cash at bank	100000
	2500000		2500000

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 absorptions 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 120 per share.

(iii) 11% preference shareholder of X Co. Ltd will be given 11% redeemable debenture 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. (*PE-II, Nov. – 2008; Marks – 8*)

Q 22. The following were the Balance Sheet of P Ltd. and V Ltd. as at 31st March, 2002:

Liabilities	*P Ltd.* *Rs. In lakhs*	*V Ltd.* *Rs. In lakhs*
Equity shares 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.* *Rs. In lakhs*	*V Ltd.* *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, 2002 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.

(*May – 2001*)

Comments:

***Company Accounts Amalgamation* –** Majority of the examinees reported unsatisfactory performance of the candidates in this question. Most of the candidates could not pass correct journal entries to take over assets and liabilities in the book of p Ltd. (amalgamated company) and hence, could not prepare the required balance sheet of P Ltd. after the merger. Some candidates did not pass the adjustment entry for the mutual dues of the companies under the head bills receivable/payable.

Q 23. Super Express Ltd. and Fast Express Ltd. were in company 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, 2002

Liabilities	*Rs.*	*Assets*	*Rs.*
20,000 Equity Shares		Building	10,00,000
of 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, 2002

Liabilities	*Rs.*	*Assets*	*Rs.*
10,000 Equity Shares		Goodwill	1,00,000
of Rs. 100 each	10,00,000	Building	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		13,00,00

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

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

Comments:

Company Accounts –Amalgamation – Most of the examiners observed average performance of the candidates in this part of the question. However, some of the candidates wrongly treated insurance reserve and provident fund while ascertaining the amount of net assets.

Q 24. What are the discloser requirements prescribed under AS-14?

OR

Briefly describe the discloser requirements for amalgamation including additional discloser, if any, for different methods of amalgamation as per AS-14?

[*CA PE II-Level*, *May 2003* (*4 Marks*)]

Ans.: Discloser Requirements: AS-14 requires following disclosers:

Common discloser: For all amalgamations, the following disclosures should be made:

- Names and general nature of business of the amalgamating companies;
- Effective date of amalgamation for accounting purposes;
- Method of accounting used to reflect the amalgamation; and
- Particulars of the scheme sanctioned under a statute.

Additional Discloser: In addition to above following should also be disclosed where—

1. Pooling of interest method is followed,

- Description and number of shares issued, together with % of each company's equity shares exchanged to effect the amalgamation;
- Amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof

2. Purchase method is followed,

- Consideration for the amalgamation and a description of the consideration paid or contingently payable; and
- Amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof including the period of amortisation of any goodwill arising on amalgamation.

Q 25. Briefly describe the disclosure requirements for Amalgamation including additional disclosure, if any, for different methods of amalgamation as per AS-14. [*May 2003, 4 marks*]

Ans.: The disclosure requirements for amalgamations have been prescribed in paragraphs 43 to 46 of AS 14 on Accounting for Amalgamation.

For all amalgamations, the following disclosures should be made in the first financial statements following the amalgamation:

(a) names and general nature of business of the amalgamating companies;
(b) the effective date of amalgamation for accounting purpose;
(c) the method of accounting used to reflect the amalgamation; and
(d) particulars of the scheme sanctioned under a statute.

For amalgamations accounted under the pooling of interests method, the following, additional disclosures should be made in the first financial statements following the amalgamation:

(i) Description and number of shares issued, together with the percentage of each company's equity shares exchanged to effect the amalgamation; and
(ii) the amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof.

For amalgamations, accounted under the purchase method, the following additional disclosures should be made in the first financial statements following the amalgamation;

(i) Consideration for the amalgamation and a description of the consideration paid or contingently payable; and
(ii) the amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof including the period of amortisation of any goodwill arising on amalgamation.

Question for Group-II

Q 26. The Balance Sheet as on 31st March, 2002 of X Ltd. and Y Ltd. are as under:

X Ltd.

Liabilities	*Rs.*	*Assets*	*Rs.*
Share Capital:		Fixed Assets:	
Authorized and Subscribed		Buildings	20,00,000
60,000 equity shares of		Machineries	26,00,000
Rs. 100 each fully paid	60,00,000	Furniture	40,000
Reserve and Surplus:		Current Assets:	
General Reserve	8,00,000	Stock	16,00,000
Profit and Loss Account	4,80,000	Debtors	9,20,000
Current Liabilities &		Cash in Hand	2,80,000
Provision:		Bank Balance	8,00,000
Creditors	9,60,000		
	82,40,000		82,40,000

Y Ltd.

Liabilities	*Rs.*	*Assets*	*Rs.*
Share Capital:		Goodwill	4,00,000
Authorized and Subscribed		Machineries	16,80,000
20,000 equity shares of		Furniture	20,000
Rs. 100 each fully paid	20,00,000	Stock	7,20,000
Reserve and Surplus:		Debtors	7,20,000
Capital Reserve	2,00,000	Cash in Hand	20,000
General Reserve	1,00,000	Bank Balance	1,60,000
Profit and Loss Account	1,40,000	Expenditure on New	
Unsecured Loan:		Project	3,00,000
12% Debentures	12,00,000		
Current Liabilities &			
Provision:			
Creditors	3,80,000		
	40,20,000		40,20,000

Y Ltd. was absorbed by X Ltd. on 1st April, 2002, on the following terms:

(a) Fixed Assets other than Goodwill to be valued at Rs, 20,00,000 including Rs. 24,000 for furniture.

(b) Stock to be reduced by Rs. 80,000 and Debtors by 5 per cent.

(c) X Ltd. to assume liabilities and to discharge the 12% Debentures by issue of 11 % Debentures of the same value.

(d) The new project to be valued at Rs. 3,80,000.

(e) The Shareholders of Y Ltd, to receive cash payment of Rs. 30 per share plus four equity shares in X Ltd. for every five shares held in Y Ltd.

(f) Both the companies to declare and pay dividend of 6% prior to absorption.

(g) Expenses of liquidation of Y Ltd. are to be reimbursed by X Ltd. Rs. 24,000.

Draft journal entries recording the scheme in the books of Y Ltd. and prepare the Balance Sheet of X Ltd. after absorption assuming that X Ltd.'s authorized capital has been increased to Rs. 80,00,000. (*May – 1993*) (*Adapted*)

Q 27. K Ltd. and L Ltd. amalgamate to form a new company LK Ltd. The financial position of these two companies on the date of amalgamation was as under:

	K Ltd. *Rs.*	*L Ltd.* *Rs.*		*K Ltd.* *Rs.*	*L Ltd.* *Rs.*
Share Capital:			Good will	80,000	
Equity shares			Land & Building		
of Rs. 100 each	8,00,000	3,00,000	Plant &	4,50,000	3,00,000
7% Preference			Machinery		
Share			Furniture and	6,20,000	5,00,000
of Rs. 100 each	4,00,000	3,00,000	Fittings		
5% Debentures	2,00,000	—	Sundry Debtors	60,000	20,000
General Reserve	—	1,00,000	Stores & Stock		
P & L A/c	4,31,375	97,175	Cash at Bank	2,75,000	1,75,000
Sundry Creditors	1,00,000	2,10,000	Cash in hand	2,25,000	1,40,000
Secured Loan	—	2,00,000	Preliminary	1,20,000	55,000
			Expenses	41,375	17,175
				60,000	
	19,31,375	12,07,175		19,31,375	12,07,175

The terms of amalgamation are as under:

(a) (i) The assumption of liabilities of both the Companies.

(ii) Issue of 5 Preference shares of Rs. 20 each in LK Ltd. @ Rs. 18 paid up at premium of Rs. 4 per share for each preference share held in both the Companies.

(iii) Issue of 6 Equity shares of Rs. 20 each in LK Ltd. @ Rs. 18 paid up at a premium of Rs. 4 per share for each equity share held in both the Companies. In addition, necessary cash should be paid to the Equity Shareholders of both the Companies as is required to adjust the rights of shareholders of both the Companies in accordance with the intrinsic value of the shares of both the Companies.

(iv) Issue of such amount of fully paid 6% debentures in LK Ltd. as is sufficient to discharge the 5% debentures in K Ltd.

(b) (i) The assets and liabilities are to be taken at book values except stock and debtors for which provisions at 2% and 2 ½% respectively to be raised.

(ii) The sundry debtors of K Ltd. include Rs. 20,000 due from L Ltd.

The LK Ltd. is to issue 15,000 new equity shares of Rs. 20 each, Rs. 18 paid up at premium of Rs. 4 per share so as to have sufficient working capital. Prepare ledger accounts in the books of K Ltd. And L Ltd. to close their books.

Q 28. Star and Moon had been carrying on business independently. They agreed to amalgamate and form a new company Neptune Ltd. with an authorized share capital of Rs. 2,00,000 divided into 40,000 equity shares of Rs. 5 each.

On 31st December, 2002, the respective Balance Sheets of Star and Moon were as follows:

	Star Rs.	*Moon 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 Rs.	*Moon 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 proportion to the profitability of their respective business based on the average net profit during the last three years which were as follows:

	Star Rs.	*Moon Rs.*
2000 Profit	2,24,788	1,36,950
2001 (Loss)/Profit	(1,250)	1,71,050
2002 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, 2002 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. (*May – 1996*)

Comments:

***Amalgamation* –** The performance of the candidates was average in this question. However, in large number of cases, candidates committed mistakes in calculating amount of debentures to be issued and capital reserve.

Q 29. 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* *Rs.*	*Q* *Rs.*	*Assets*	*P* *Rs.*	*Q* *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 *Rs.*	*Q* *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 Rs.	Q Rs.
1st year	2,62,800	2,75,125
2nd 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. (*PCC, May – 2007; Marks 16*)

Q 30. Given below is the balance sheet of S Ltd. as on 31st March, 2007:

(*Amount in lakhs of rupees*)

Equity share capital (in equity shares of Rs. 10 each)	4.00	Block of assets less depreciation to date	6.00
10% Preference share capital	3.00	Stock and debtors	5.30
General Reserve	1.00	Cash and bank	0.70
Profit & Loss Account	1.00		
Creditors	3.00		
	12.00		12.00

A Ltd., another existing company holds 25% of equity share capital of S Ltd. purchased at Rs. 10 per share.

It was agreed that A Ltd. should take over the entire undertaking of S Ltd. on 30.9.2007 on which date the position of current assets (except cash and bank balances) and creditors was as follows:

Stock and debtors 4 lakhs

Creditors 2 lakhs

Profits earned for half year ended 30.9.2007 by S Ltd. was Rs. 70,500 after charging depreciation of Rs. 32,500 on block of assets. S Ltd. declared 10% dividend for 2006- 2007 on 30.8.2007 and the same was paid within a week. Ignore corporate dividend tax.

Goodwill of S Ltd. was valued at Rs. 80,000 and block assets were valued at 10% over their book value as on 31.3.2007 for purpose of take over. Preference shareholders of S Ltd. will be allotted 10% preference shares of Rs. 10 each by A Ltd. Equity shareholders of S Ltd. will receive requisite number of equity shares of Rs. 10 each from A Ltd. valued at Rs. 10 per share.

(a) Compute the purchase consideration for the taken over business.

(b) Explain how the capital reserve or goodwill, if any, will appear in the balance sheet of A Ltd., after the amalgamation in the nature of purchase.

Q 31. A Ltd. agreed to acquire the business of B Ltd. as on 31st December, 1995. On that date Balance Sheet of B Ltd. was summarized as follows:

Liabilities	*Rs.*	*Assets*	*Rs.*
Share Capital (Fully paid		Goodwill	50,000
share of Rs. 10 each)	3,00,000	Land Building and	
General Reserve	85,000	Plant	3,20,000
P & L A/c	55,000	Stock in trade	84,000
6% Debentures	50,000	Debtors	18,000
Creditors	10,000	Cash & Bank Balance	28,000
	5,00,000		5,00,000

The Debenture holders agreed to receive such 7% Debentures issued at 96 each as would discharge the debentures in B Ltd. at a premium of 20%. The shareholders in B Ltd. were to receive Rs. 2.50 in cash per share and 3 shares in A Ltd. for every two shares held - the shares in A Ltd. being considered as worth Rs. 12.50 each.

There were fractions equaling 50 shares for which cash was paid. The directors of A Ltd, considered the various assets to be valued as follows:

	Rs.
Land	1,00,000
Building	2,50,000
Plant	3,50,000
Stock	80,000
Debtors	18,000

The cost of liquidation of B Ltd. ultimately was Rs. 5,000. Due to a technical hitch, the transaction could be completed only on 1st July, 1996. Till date B Ltd. carried on trading which resulted in a profit Rs. 20,000 after providing Rs. 15,000 as depreciation. On 30th June, 1996 Stock was Rs. 90,000. Debtors were Rs. 25,000 and Creditors were Rs. 15,000. There was no addition to or deletion from the fixed assets. It was agreed that the profit should belong to A Ltd.

You are required, as on July 1, 1996, to:

(i) Prepare Realization Account and the Shareholders Account in the ledger of B Ltd., and

(ii) Give journal entries in the books of A Ltd.

Q 32.

Balance Sheet of V. Co. as on 31.3.02

Particulars	*Rs.*	*Particulars*	*Rs.*
Equity Share Capital	1,50,000	Goodwill	20,000
(15,000 equity shares of 10 each)		Land & Building	2,20,000
15% Pref. Share Capital	50,000	Patents	15,000
Capital Redemption Reserve	30,000	Motor car	25,000
Dividend Equalization fund	10,000	Investments	30,000
Insurance fund	40,000	Stock	75,000
Workmen compensation fund	30,000	Insurance policy	50,000
10% debenture	1,00,000	Debtors	45,000
Creditors	60,000	Cash	35,000
Outstanding wages	10,000	Discount on shares	5,000
Proposed dividend	15,000		
Provision for tax	25,000		
	5,20,000		5,20,000

Contingent liability Rs. 10,000. It was agreed by P Co. to take over V Co. as on 31.3.02.

1. P Co. took over V. Co and it was agreed to pay Rs. 2 in cash per share and issue 4 shares for every 6 held valued at 12 each.
2. Preference Shareholders are issued 10% new preference shares in such quantity so as to maintain their dividend.
3. Patents are valued 25% lesser while investments are valued at 80%.
4. Insurance policy was taken over by P Ltd. at its surrender value of 30,000.
5. Contingent liabilities was agreed to be taken over by P. Ltd. which is estimated to Rs. 7,000.
6. Liability against workman compensation fund is 10,000
7. Shareholders holding 600 shares dissented and its was agreed to pay them Rs. 13 in cash while 30 shares are fund fractional which was discharged @ Rs. 10.
8. Liquidation expenses amounting to Rs. 5,000.

Close the books of V. Co. Journalise in P Co. and show new balance sheet of P. Co.

Q 33. The Balance Sheet of Anand Ltd. and Dany Ltd. as at 31st December, 2000 were as follows:

	Anand Ltd	*Dany Ltd*		*Anand Ltd*	*Dany Ltd*
Equity Shares of Rs. 10 each	3,00,000	2,00,000	Fixed Assets (other than goodwill)	2,50,000	1,75,000
Reserves	75,000	50,000	Stock in trade	47,500	37,500
Profit & Loss A/c	37,500	30,000	Debtors	70,000	50,000
Sundry Creditors	18,750	15,000	Cash and Bank	58,750	30,000
			Preliminary Exp	5,000	2,500
	4,31,250	2,95,000		4,31,250	2,95,000

Anand Ltd. took over and absorbed Dany Ltd., as on 1st July, 2001. No Balance Sheet of Dany Ltd., were prepared on the date of take over. But the following information is made available to you:

(i) In the six months ended 30th June, 2001, Dany Ltd., made net profits of Rs. 30,000 after providing for depreciation at 10% per annum on fixed assets.

(ii) Anand Ltd., during that period had made net profits of Rs. 72,500 after providing for depreciation at 10% per annum on the fixed assets

(iii) Both the companies had distributed dividends of 10% on 1st April, 2001.

(iv) Goodwill of Dany Ltd., on the date of take over, was estimated at Rs. 12,500 and it was agreed that the stocks of Dany Ltd., would be appreciated by Rs. 7,500 on the date of take over.

(v) Anand Ltd. to issue shares at par to shareholders of Dany Ltd., on the basis of the intrinsic value of its shares on the date of take over.

Draft the Balance Sheet of Anand Ltd. after absorption.

Q 34. The Balance Sheets of Strong Ltd. and Weak Ltd. as on 31.03.2009 is as below:

Balance Sheet as on 31.03.2009

Liabilities	*Strong Ltd. Rs.*	*Weak Ltd. Rs.*	*Assets*	*Strong Ltd. Rs.*	*Weak Ltd. Rs.*
Equity Share Capital (Rs.100 each)	50,00,000	30,00,000	Fixed Assets other than Goodwill	30,00,000	20,00,000
Reserve	4,00,000	2,00,000	Stock	8,00,000	6,00,000

Liabilities	*Strong Ltd.* *Rs.*	*Weak Ltd.* *Rs.*	*Assets*	*Strong Ltd.* *Rs.*	*Weak Ltd.* *Rs.*
P/L A/c6,00,000	4,00,000	Debtors	14,00,000	9,00,000	
Creditors	5,00,000	3,00,000	Cash & Bank	12,00,000	3,50,000
			Preliminary Expenses	1,00,000	50,000
	65,00,000	39,00,000		65,00,000	39,00,000

Strong Ltd. takes over Weak Ltd. on 01.07.09. No Balance Sheet of Weak Ltd. is available as on that date. It is however estimated that Weak Ltd. earns estimated profit of Rs.2,00,000 after charging proportionate depreciation @ 10% p.a. on fixed assets, during April-June, 2009.

Estimated profit of Strong Ltd. during these 3 months is Rs.4,00,000 after charging proportionate depreciation @ 10% p.a. on fixed assets.

Both the companies have declared and paid 10% dividend within this 3 months' period. Goodwill of Weak Ltd. is valued at Rs.2,00,000 and Fixed Assets are valued at Rs.1,00,000 above the estimated book value. Purchase consideration is to be satisfied by Strong Ltd. by shares at par. Ignore Income-tax.

You are required to calculate the following:

(i) No. of shares to be issued by Strong Ltd. to Weak Ltd. against purchase consideration;

(ii) Net Current Assets of Strong Ltd. and Weak Ltd. as on 01.07.2009;

(iii) P/L A/c balance of the Strong Ltd. as on 01.07.2009;

(iv) Fixed Assets as on 01.07.2009;

(v) Balance Sheet of Strong Ltd. as on 01.07.2009 after take over of Weak Ltd.

Q 35. The Balance Sheets of B Ltd. and C Ltd., as on 31st March, 2000 were as follows: Rs 000

	B. Ltd. *Rs.*	*C. Ltd.* *Rs.*		*B. Ltd.* *Rs.*	*C. Ltd.* *Rs.*
50,000 12% Preference			Goodwill	—	150
Shares of Rs. 100 each	5,000	—	Land & Building	7,400	—
15,00,000 Equity	15,000		Plant & Machinery	16,380	—
Shares of Rs. 10 each	—	4,000	Furniture	270	500
4,00,000 Equity Shares			Patents	600	—
of Rs. 10 each			Motor Vehicles	—	705
Capital Reserve	4,800	—	Stock	4,050	2,600
General Reserve	3,500	1,000	Debtors	800	1,290
Profit & Loss Account	600	150	Cash at Bank	100	155
Creditors	700	250			
	29,600	5,400		29600	5,400

A new company, D Ltd. was formed with an authorised capital of Rs. 4 crore divided into 50,000 preference shares of Rs. 100 each and 35,00,000 equity shares of Rs. 10 each, B Ltd. and C Ltd. merged into D Ltd. on the following terms:

(i) D Ltd. allotted to B Ltd. 50,000 13% fully paid preference shares and 20 lakh fully paid equity shares to satisfy the claims of B Ltd.'s preference shareholders and equity shareholders respectively.

(ii) D. Ltd. allotted to C. Ltd. 4,40,000 fully paid equity shares to be distributed among C Ltd.'s shareholders in full satisfaction of their claims.

(iii) Mr. D. who mooted the scheme was allotted 5,000 fully paid equity shares in consideration of his services. The company debited the amount to Preliminary Expenses Account.

(iv) Expenses on the liquidation of B. Ltd. and C. Ltd. totaled Rs. 3,000 and were borne by D Ltd.

D. Ltd. made a public issue of 2 lakh equity shares of Rs. 10 each at a premium of Rs. 2 per share. The issue was underwritten at a commission of 2½ % on the issue price of the shares. The issue was fully subscribed for by the public. D Ltd. paid Rs. 85,000 in cash as its preliminary expenses.

Show important Ledger Accounts to close the books of B. Ltd., pass journal entries in the books of D ltd., and prepare D. Ltd.'s Balance Sheet immediately after all the above mentioned transactions have been recorded.

(*RTP-November 2003*)

Q 36. The following are the Balance Sheets of Yes Ltd. and No Ltd. as on 31st October, 2008:

	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

		Yes Ltd. Rs. (in crores)		*No Ltd. Rs. (in crores)*
Funds employed in:				
Fixed assets: Cost		70		30
Less: Depreciation		50		24
		20		6
Written down value				
Investments at cost:				
30 lakhs equity shares of Rs. 10 each of No Ltd.		3		
Long-term loan to No. Ltd.		10		
Current assets	100		34	
Less : Current liabilities	33	67	15	19
		100		25

On that day Yes Ltd. absorbed No Ltd. The members of No Ltd. are to get one equity share of Yes Ltd. issued at a premium of Rs. 2 per share for every five equity shares held by them in No Ltd. The necessary approvals are obtained.
You are asked to pass journal entries in the books of the two companies to give effect to the above.

Q 37. Following are the summarized Balance Sheets of A Ltd. And B Ltd. as at 31.03.2008:

Particulars	*A Ltd.*	*B Ltd.*
Share Capital: Equity shares 10 each (Fully paid up)	10,00,000	6,00,000
Share 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) 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. 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:

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

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

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

Prepare the Balance Sheet of AB Ltd. [*PCC May 2008, 16 Marks*]

Accounting for Amalgamations

Q 1. What are the conditions, which, according to Accounting Standard 14, must be satisfied for 'Amalgamation in the nature of Merger' and 'Amalgamation in the nature of Purchase'?

OR

What are the conditions, which, according to Accounting Standard 14, must be satisfied for 'Amalgamation in the nature of Merger'?

(*CA Inter, May 2001; 4 Marks*)

OR

Distinguish between amalgamation by merger and by purchase as per AS 14.

(*ICWA Final, June 1995; 8 Marks*)

Ans.

Amalgamation in the Nature of Merger: An amalgamation in the nature of merger should satisfy ***all*** the following conditions:

- All the assets and liabilities of the transferor company become the assets and liabilities of the transferee company.
- Shareholders holding at least 90% of the face value of the equity shares of the transferor company become equity shareholders of the transferee company (shares already held by the transferee company or its subsidiaries or their nominees are not to be considered for the purpose of 90%).
- Purchase consideration is discharged wholly by the issue of equity shares in the transferee company; however, cash may be paid in respect of any fractional shares.
- The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.
- 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.

Amalgamation in the Nature of Purchase: An amalgamation should be considered to be an amalgamation in the nature of purchase, when any one or more of the conditions specified above is not satisfied.

Q 2. What are the methods of accounting for amalgamation? In what circumstances which method should be applied?

Ans.

Methods of Accounting for Amalgamations: There are two main methods of accounting for amalgamations.

- **Pooling of interests method:** An amalgamation in the nature of merger should be accounted for under the pooling of interests method.
- **Purchase method:** An amalgamation in the nature of purchase should be accounted for under the purchase method.

Q 3. Explain pooling of interest method of amalgamation.

(*CA Inter, May 1997; 6 Marks*)

Ans.

The Pooling of Interests Method: It requires that—

- Assets and liabilities of the transferor-company should be recorded at their existing carrying amounts, i.e., they are to be taken at their book values.
- Reserves (whether capital or revenue or arising on revaluation) of the transferor company should be recorded at their existing carrying amounts and in the same form, i.e., balance of general reserve should be carried as revaluation reserve, balance of revaluation reserve is carried as revaluation reserve etc.
- Difference of the share capital issued and other consideration paid to the transferor company over and above its own share capital should be adjusted in reserves.
- Balance of the Profit and Loss Account of the transferor company should be aggregated with that of the transferee company or transferred to the General Reserve.
- If transferor and transferee companies have conflicting accounting policies, a uniform set of accounting policies should be adopted, the effects on the financial statements of any changes in accounting policies should be reported in accordance with AS 5.

Q 4. Explain purchase method of amalgamation.

Ans.

The Purchase Method: It requires that—

- Assets and liabilities of the transferor company should be either incorporated at their existing carrying amounts or consideration should be allocated to individual identifiable assets and liabilities on the basis of their fair values at the date of amalgamation.
- Reserves (whether capital or revenue or arising on revaluation) of the transferor company, other than the statutory reserves, should not be included in the financial statements of the transferee company.
- Any excess of the consideration over the value of the net assets should be recognised as goodwill arising on amalgamation. If the consideration is lower than the value of the net assets acquired, the difference should be treated as Capital Reserve.
- Goodwill arising on amalgamation should be amortised to income on a systematic basis not exceeding five years unless a somewhat longer period can be justified.
- Identity of statutory reserve should be maintained, if required, by an equal charge to the Amalgamation Adjustment Account, which is presented under the head "Miscellaneous expenditure' and is adjusted against the balance of statutory reserves when their separate identities are no longer required.

Q 5. What are the discloser requirements prescribed under AS-14?

OR

Briefly describe the discloser requirements for amalgamation including additional discloser, if any, for different methods of amalgamation as per AS-14?

(*CA PE II-Level, May 2003; 4 Marks*)

Ans.

Discloser Requirements: AS-14 requires following disclosers:

Common discloser: For all amalgamations, the following disclosures should be made:

- Names and general nature of business of the amalgamating companies;
- Effective date of amalgamation for accounting purposes;
- Method of accounting used to reflect the amalgamation; and
- Particulars of the scheme sanctioned under a statute.

Additional Discloser: In addition to above following should also be disclosed where—

1. **Pooling of interest method** is followed:
   - Description and number of shares issued, together with % of each company's equity shares exchanged to effect the amalgamation;
   - Amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof
2. **Purchase method** is followed,—
   - Consideration for the amalgamation and a description of the consideration paid or contingently payable; and
   - Amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof including the period of amortisation of any goodwill arising on amalgamation.

Q 6 Briefly describe the disclosure requirements for Amalgamation including additional disclosure, if any, for different methods of amalgamation as per AS-14. (*May 2003*, *4 marks*)

Ans.

The disclosure requirements for amalgamations have been prescribed in paragraphs 43 to 46 of AS 14 on Accounting for Amalgamation.

For all amalgamations, the following disclosures should be made in the first financial statements following the amalgamation:

(a) names and general nature of business of the amalgamating companies;

(b) the effective date of amalgamation for accounting purpose;

(c) the method of accounting used to reflect the amalgamation; and

(d) particulars of the scheme sanctioned under a statute.

For amalgamations accounted under the pooling of interests method, the following, additional disclosures should be made in the first financial statements following the amalgamation:

(i) Description and number of shares issued, together with the percentage of each company's equity shares exchanged to effect the amalgamation; and

(ii) the amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof.

For amalgamations, accounted under the purchase method, the following additional disclosures should be made in the first financial statements following the amalgamation;

(i) Consideration for the amalgamation and a description of the consideration paid or contingently payable; and

(ii) the amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof including the period of amortisation of any goodwill arising on amalgamation.

Q 7. Briefly explain the methods of accounting for amalgamation as per Accounting Standard-14. (*May 2004*, *4 marks*)

Ans.

As per AS 14 on 'Accounting for Amalgamations', there are two main methods of accounting for amalgamations:

(*i*) *The Pooling of interest Method*

Under this method, the assets, liabilities and reserves of the transferor company are recorded by the transferee company at their existing carrying amounts (after making the necessary adjustments).

If at the time of amalgamation, the transferor and the transferee companies have conflicting accounting policies, a uniform set of accounting policies is adopted following the amalgamation. The effects on the financial statements of any changes in accounting policies are reported in accordance with AS 5 on 'Net Profit or Loss for the Period, Prior Period items and Changes in Accounting Policies'.

(*ii*) *The Purchase Method*

Under the purchase method, the transferee company accounts for the amalgamation either by incorporating the assets and liabilities at their existing carrying amounts or by allocating the consideration to individual identifiable assets and liabilities of the transferor company on the basis of their fair values at the date of amalgamation. The identifiable assets and liabilities may include assets and liabilities not recorded in the financial statements of the transferor company.

Where assets and liabilities are restated on the basis of their fair values, the determination of fair values may be influenced by the intentions of the transferee company.

Q 8. What are the two main methods of accounting amalgamation of Companies?

(*PCC November 2007, Marks 2*)

Q 9. The Balance Sheets of Strong Ltd. and Weak Ltd. as on 31.03.2009 is as below:

Balance Sheet as on 31.03.2009

Liabilities	*Strong Ltd.* *Rs.*	*Weak Ltd.* *Rs.*	*Assets*	*Strong Ltd.* *Rs.*	*Weak Ltd.* *Rs.*
Equity Share Capital (Rs.100 each)	50,00,000	30,00,000	Fixed Assets other than Goodwill	30,00,000	20,00,000
Reserve	4,00,000	2,00,000	Stock	8,00,000	6,00,000
P/L A/c	6,00,000	4,00,000	Debtors	14,00,000	9,00,000
Creditors	5,00,000	3,00,000	Cash & Bank	12,00,000	3,50,000
			Preliminary Expenses	1,00,000	50,000
	65,00,000	39,00,000		65,00,000	39,00,000

Strong Ltd. takes over Weak Ltd. on 01.07.09.No Balance Sheet of Weak Ltd. is available as on that date. It is however estimated that Weak Ltd. earns estimated profit of Rs.2,00,000 after charging proportionate depreciation @ 10% p.a. on fixed assets, during April-June, 2009.

Estimated profit of Strong Ltd. during these 3 months is Rs.4,00,000 after charging proportionate depreciation @ 10% p.a. on fixed assets.

Both the companies have declared and paid 10% dividend within this 3 months' period. Goodwill of Weak Ltd. is valued at Rs.2,00,000 and Fixed Assets are valued at Rs.1,00,000 above the estimated book value. Purchase consideration is to be satisfied by Strong Ltd. by shares at par. Ignore Income-tax.

You are required to calculate the following:

(i) No. of shares to be issued by Strong Ltd. to Weak Ltd. against purchase consideration;

(ii) Net Current Assets of Strong Ltd. and Weak Ltd. as on 01.07.2009;

(iii) P/L A/c balance of the Strong Ltd. as on 01.07.2009;

(iv) Fixed Assets as on 01.07.2009;

(v) Balance Sheet of Strong Ltd. as on 01.07.2009 after take over of Weak Ltd.

Q 10. The following is the Balance Sheet of A Ltd. as at 31st March, 2009:

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 super profits, 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, 2009 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, 2009. 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, 2009 after the takeover.

Q 11. Following is the Balance Sheet as at March 31, 2008:

(*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			Debtors	651	440
of Rs. 100 each	500	400	Cash at bank	26	130
Stock	393	680	Own debenture		
General reserve	180	170	(Nominal value Rs.	192	
Profit and loss account			2,00,000)		

(*Rs. '000*)

Liabilities	*Max Ltd.*	*Mini Ltd.*	*Assets*	*Max Ltd.*	*Mini Ltd.*
12% Debentures of Rs. 100	15		Discount on issue		
each	600	200	of debentures	2	
Sundry creditors	415	225	Profit and loss account	411	
	3,195	2,010		3,195	2,010

On 1.4.2008, 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 2.4.2008 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, 2008.

Q 12. Given below is the balance sheet of S Ltd. as on 31st March, 2007:

(*Amount in lakhs of rupees*)

	Rs.		*Rs.*
Equity share capital (in equity shares of Rs. 10 each)	4.00	Block of assets less depreciation to date	6.00
10% Preference share capital	3.00	Stock and debtors	5.30
General Reserve	1.00	Cash and bank	0.70
Profit & Loss Account	1.00		
Creditors	3.00		
	12.00		12.00

A Ltd., another existing company holds 25% of equity share capital of S Ltd. purchased at Rs. 10 per share.

It was agreed that A Ltd. should take over the entire undertaking of S Ltd. on 30.9.2007 on which date the position of current assets (except cash and bank balances) and creditors was as follows:

Stock and debtors 4 lakhs

Creditors 2 lakhs

Profits earned for half year ended 30.9.2007 by S Ltd. was Rs. 70,500 after charging depreciation of Rs. 32,500 on block of assets. S Ltd. declared 10% dividend for 2006- 2007 on 30.8.2007 and the same was paid within a week. Ignore corporate dividend tax.

Goodwill of S Ltd. was valued at Rs. 80,000 and block assets were valued at 10% over their book value as on 31.3.2007 for purpose of take over. Preference shareholders of S Ltd. will be allotted 10% preference shares of Rs. 10 each by A Ltd. Equity shareholders of S Ltd. will receive requisite number of equity shares of Rs. 10 each from A Ltd. valued at Rs. 10 per share.

(a) Compute the purchase consideration for the taken over business.

(b) Explain how the capital reserve or goodwill, if any, will appear in the balance sheet of A Ltd., after the amalgamation in the nature of purchase.