Answer 25.

Kalyani Ltd.

Value Added Statement for the year ended 31st March, 2009

	Rs.in lakhs	Rs. in lakhs	%
Sales		206.42	
Less: Cost of bought in material and services:			
Production and operational expenses	150.57		
Administration expenses	3.92		
Interest on working capital loans	2.30	156.79	
Value Added by manufacturing and trading activities		49.63	
Add: Other income		10.20	
Total Value Added		59.83	

Application of Value Added:

To Pay Employees:			
Salaries, Wages, Bonus and other benefits		12.80	21.39
To Pay Directors:			
Salaries and Commission		2.20	3.68
To Pay Government:			
Cess and Local Taxes	3.20		
Income Tax	3.00	6.20	10.36
To Pay Providers of Capital:			
Interest on Debentures	1.80		
Interest on Fixed Loans	3.90		
Dividend	3.00		
		8.70	14.54
To Provide for maintenance and Expansion of the company:			
Depreciation	5.69		
General Reserve (24.30 – 0.46)	23.84		
Retained profit (1.75 – 1.35)	0.40	29.93	50.03
		59.83	100.00

Reconciliation between Total Value Added and Profit Before Taxation :

		(Rs. in lakhs)	(Rs. in lakhs)
Profit before tax			30.24
Add back:			
Depreciation		5.69	
Salaries, Wages, Bonus and other benefits		12.80	
Directors' Remuneration	2.20		
Cess and Local Taxes	3.20		
Interest on Debentures	1.80		
Interest on Fixed Loans	3.90		29.59
Total Value Added			59.83

Q26. From the following Profit and Loss Account of X Limited, prepare Gross Value Added Statement and show the reconciliation between Gross Value Added and Profit before taxation: Profit and Loss Account for the year ended 31st March, 2009

Income	**(Rs. in lakhs)**	**(Rs. in lakhs)**
Sales		**800**
Other Income		**50**
		850
Expenditure		
Production and Operational Expenses	**600**	
Administrative Expenses	**30**	
Interest and Other Charges	**30**	
Depreciation	**20**	**680**
Profit before taxes		**170**
Provision for taxes		**30**
		140
Balance as per last Balance Sheet		**10**
		150
Transferred to:		
General Reserve		**80**
Proposed Dividend		**20**
Surplus carried to Balance Sheet		**50**
		150

Profit and Loss Account (extract)

for the year ended 31st March, 2008

Particulars	Rs.	Particulars	Rs.
To Depreciation on Machinery	4,11,765		

Balance Sheet (extract) as at 31st March,2008

Liabilities	Rs.	Assets		Rs.
Current Liabilities	12,00,000	**Fixed Assets**		
Creditors for Supply of Machinery		Machinery (at cost)	40,00,000	
		Add: Adj.for foreign Exchange fluctuation	2,00,000	
				42,00,000
		Less: Accumulated Depreciation	8,11,765	
				33,88,235

AS -12: ACCOUNTING FOR GOVERNMENT GRANTS

Government refers to Union/State, Govt. Agencies and similar bodies - Local, National or International.

Grants also include subsidies, cash incentive, and duty drawback either in cash or kind/benefits to an enterprise on recognition of compliance in the past or future compliance with condition attached to it.

The accounting for the grant should be appropriate to reveal the extent of benefit accrued to the enterprise during the reporting period.

For the purpose of the statement, following are not dealt with.

a) Effects of changing prices or in supplementary information

b) Government assistance other than grants.

c) Ownership participation by government.

In order to recognize the income there should be conclusive evidence that conditions attached to the grant have been or will be fulfilled to account for such earned benefits estimated on a prudent basis, even though the actual amount may be finally settled/received after the accounting period. Mere receipt would not suffice for income recognition.

AS-4 (contingencies etc) and AS-5 (Prior period etc) would be applicable as the case may be.

The accounting for Govt. grants should be based on the nature of the relevant grant:

a) In the nature of promoter's contribution as shareholder's fund (capital approach)

II Basics of Amalgamation and Absorption

Illustration - 4

A Ltd. and B Ltd. amalgamated on and from 1st April 2009. A new Company C Ltd. was formed to take over the businesses of the existing companies.

Balance Sheet as on 31.02.2003

Rs. in '000

Liabilities	*A Ltd.*	*B Ltd.*	*Assets*	*A Ltd.*	*B Ltd.*
Equity Shares of R. 100 each	60,000	70,000	Sundry Fixed Assets	85,000	75,000
General reserve	15,000	20,000	Investments	10,500	5,500
Profit and Loss A/c	10,000	5,000	Stock	12,500	27,500
Investment allowance			Debtors	18,000	40,000
Reserve	5,000	1,000	Cash and Bank	4,500	4,000
Export profit reserve	500	1,000			
12% Debentures	30,000	40,000			
Sundry creditors	10,000	15,000			
	1,30,500	**1,52,000**		**1,30,500**	**1,52,000**

C Ltd. issued requisite number of equity shares to discharge the claims of the equity shareholders of the transferor companies; The total shares issued as consideration is to be aggregate of paid up capital of A Ltd. and B Ltd.

Compute the Purchase Consideration and mode of discharge thereof and draft the Balance Sheet of C Ltd. after amalgamation on the following assumptions.

a. Amalgamation is the nature of MERGER

b. Amalgamation is the nature of PURCHASE

***Solution*:**

i. Amalgamation in the nature of MERGER

- Nature of Amalgamation → MERGER
- Method of Accounting → POOLING OF INTEREST METHOD

ii. Computation of Purchase Consideration

Rs. in '000)

Particulars	A Ltd.		B Ltd.	
A. Assets				
i. Sundry Fixed assets	85,000		75,000	
ii. Investments	10,500		5,500	
iii. Stock	12,500		27,500	
iv. Debtors	18,000		40,000	
v. Cash and Bank	4,500		4,000	
		1,30,500		1,52,000
B. Liabilities				
i. 12% Debentures	30,000		40,000	
ii. Sundry creditors	10,000		15,000	
		(40,000)		(55,000)
C. NET ASSETS taken over [A-B]		**90,500**		**97,000**

Journal Entries in the Books of X Ltd. (in the case of Amalgamation in the nature of Merger)

Purchase consideration for amalgamation in the nature of merger.

Total consideration payable = Aggregate of paid-up capital of A Ltd. and B Ltd.

= Rs. 60,000 + Rs. 70,000

= Rs. 1,30,000

Total net assets taken over = Rs. 90,050 + Rs. 97,000

= Rs. 1,87,500

The total consideration payable to A Ltd. and B Ltd. is apportioned based on the net assets of the companies.

A Ltd. : $\text{Rs. } 1{,}30{,}000 \times \frac{90{,}500}{1{,}87{,}500} = \text{Rs. } 62{,}750$

B Ltd. : $\text{Rs. } 1{,}30{,}000 \times \frac{97{,}000}{1{,}87{,}500} = \text{Rs. } 67{,}250$

(Rs. in '000)

Particulars	*Debit*	*Credit*
I. Take over a A Ltd:		
a. For Business Purchase		
Business Purchase A/c Dr.	62,750	
To Liquidator of A Ltd. A/c		62,750
b. For Assets and Liabilities taken over:		
i. Purchase consideration paid - 62,750		
ii. Less: Paid up Share capital - 60,000		
iii. Excess consideration paid - 2,750		

Particulars		Debit	Credit
As per AS-14 consideration will be adjusted against for reserves of A Ltd.			
The General reserves of A Ltd. to be incorporated = Rs. 15,000 - Rs. 2,750 = Rs. 12,250			
Sundry Fixed Assets A/c	Dr.	85,000	
Investments A/c	Dr.	10,500	
Stock A/c	Dr.	12,500	
Debtors A/c	Dr.	18,000	
Cash and Bank A/c	Dr.	4,500	
To General Reserve A/c			12,250
To Profit and Loss A/c			10,000
To Investment Allowance Reserve A/c			5,000
To Export Profit Reserve A/c			500
To 12% Debentures A/c			30,000
To Sundry creditors A/c			10,000
To Business Purchase A/c			62,750
c. For Discharge of Purchase Consideration:			
Liquidator of A Ltd. A/c	Dr.	62,750	
To Equity Share capital A/c			62,750

Particulars		Debit	Credit
II. Take over of B Ltd:			
a. For Business Purchase			
Business Purchase A/c	Dr.	67,250	
To Liquidator of B Ltd. A/c			67,250
b. For Assets and Liabilities Taken over:			
i. Purchase Consideration Paid : 67,250			
ii. Paid up Share capital : 70,000			
iii. Short fall to Purchase Consideration : 2,750			
The above short payment is to be credited to "Capital reserve A/c" as per ICAI - Expert Advisory Committee Opinion on AS-14			
Sundry Fixed Assets A/c	Dr.	75,000	
Investments A/c	Dr.	5,500	
Stock A/c	Dr.	27,500	
Debtors A/c	Dr.	40,000	
Cash and Bank A/c	Dr.	4,000	
To General Reserve A/c			20,000
To Profit and Loss A/c			5,000
To Investment Allowance Reserve A/c			1,000

Particulars		Debit	Credit
To Export Profit Reserve A/c			1,000
To 12% Debentures A/c			40,000
To Sundry Creditors A/c			15,000
To Business Purchase A/c			67,250
To Capital Reserve A/c*			2,750
c. For Discharge purchase consideration:			
Liquidator of B Ltd. A/c	Dr.	67,250	
To Equity Share capital A/c			67,250

Balance Sheet of C Ltd. as on 1.04.2009

Rs. in '000

Liabilities	*Amount*	*Assets*	*Amount*
Share Capital:		Sundry Fixed assets	1,60,000
Equity Shares of		(85,000 + 75,000)	
Rs. 100/- each (60,000+70,000)	1,30,000	Investments (10,500 + 5,500)	16,000
Reserves and surplus:		Current assets:	
Capital Reserve	2,750	Stock (12,500 + 27,500)	40,000
General Reserve (12,250 + 20,000)	32,250	Debtors (18,000 + 40,000)	58,000
Profit and Loss A/c (10,000 + 5,000)	15,000	Cash and Bank (4,500 + 4,000)	8,500
Investment Allowance Reserve			
(5,000 + 1,000)	6,000		
Export Profit Reserve (500 + 1,000)	1,500		
12% Debentures (Note 2)	70,000		
(30,000 + 40,000)			
Current liabilities and Provisions:			
Sundry creditors (10,000 + 15,000)	25,000		
	2,82,500		**2,82,500**

Journal Entries in the Books of C Ltd. (in the case of Amalgamation in the nature of Purchase)

In the case of Amalgamation in the nature of purchase consideration will be paid on the bais of "Net Assets" and hence the purchase consideration is for A - Rs. 90,500 and for B - Rs.97,500.

Particulars		*Debit*	*Credit*
		Rs.	*Rs.*
I. Take over of A Ltd:			
a. For Business Purchase:			
Business Purchase A/c	Dr.	90,500	
To Liquidator of A Ltd. A/c			90,500
b. For Assets and Liabilities taken over:			
Sundry Fixed Assets A/c	Dr.	85,000	

Particulars		Debit	Credit
Investments A/c	Dr.	10,500	
Stock A/c	Dr.	12,500	
Debtors A/c	Dr.	18,000	
Cash and Bank A/c	Dr.	4,500	
To Business Purchase A/c			90,500
To 12% Debentures A/c			30,000
To Sundry Creditors A/c			10,000
c. For Discharge of Purchase Consideration:			
Liquidator of A Ltd. A/c	Dr.	90,500	
To Equity Share capital A/c			90,500
II. Take over of B Ltd:			
a. For Business Purchase			
Business Purchase A/c	Dr.	97,000	
To Liquidator of B Ltd. A/c			97,000
b. For Assets and Liabilities taken over:			
Sundry Fixed Assets A/c	Dr.	75,000	
Investments A/c	Dr.	5,500	
Stock A/c	Dr.	27,500	
Debtors A/c	Dr.	40,000	
Cash and Bank A/c	Dr.	4,000	
To Business Purchase A/c			97,000
To 12% Debentures A/c			40,000
To Sundry creditors A/c			15,000
c. Discharge of Purchase Consideration:			
Liquidator of A Ltd. A/c	Dr.	97,000	
To Equity Share capital A/c			97,000

Note: Assumed that new debetures were issued in exchange of the old debentures.

Amalgamation Adjustment A/c	Dr.	7,500	
To Statutory Reserve A/c			7,500

Note: The "Amalgamation Adjustment A/c" should be disclosed as a part of "Miscellaneous Expenditure" to the extent not written off or other similar category in the Balance Sheet of the TRANSFEREE Company.

Balance Sheet of C Ltd. as on 1.4.09 after Amalgamation

Liabilities	*Rs.*	*Assets*	*Rs.*
Share Capital:		Sundry Fixed assets	1,60,000
Equity Shares of		(85,000 + 75,000)	
Rs. 100/- each (90,500+97,000)	1,87,500	Investments (10,500 + 5,500)	16,000
Reserves and Surplus:		**Current Asset, and Loan Advances:**	
Investment Allowance Reserve		Current Assets:	
(5,000 + 1,000)	6,000	Stock (12,500 + 27,500)	40,000
Export Profit Reserve (500 + 1,000)	1,500	Debtors (18,000 + 40,000)	58,000
12% Debentures (30,000 + 40,000)	70,000	Cash and Bank (4,500 + 4,000)	8,500
Current liabilities and Provisions:		**Miscellaneous Expenditure to**	
Sundry creditors (10,000 + 15,000)	25,000	**the extent not written off:**	
		Amalgamation	7,500
		Adjustment A/c	
	2,90,000		**2,90,000**

Illustration - 5

A Ltd. and B Ltd. were amalgamation on and from 1st April, 2009. A new company X Ltd. was formed to take over the business of the existing companies. The Balance sheet of A Ltd and B Ltd as on 31st March, 2009 are given below:

(Rs. in lakhs)

Liabilities	**A Ltd.**	**B Ltd.**	**Assets**	**A Ltd.**	**B Ltd.**
Share capital:			Fixed assets:		
Equity Shares of Rs. 100/-	850	725	Land and Building	460	275
each			Plant and Machinery	325	210
10% Preference Share of			Investments	75	50
Rs. 100 each	320	175	Current Asset and		
Reserves and surplus:			Loans and Advances:		
Revaluation Reserve	125	80	Stock	325	269
General reserve	240	160	Sundry Debtors	305	270
Investment Allowance	50	30	Bills receivable	25	—
Reserve			Cash and Bank	385	251
Profit and Loss Account	75	52			
Secured Loans:					
13% Debentures (Rs.100 each)	50	28			
Unsecured Loan:					
Public Deposits	25	—			
Current liabilities and					
Provision:					
Sundry creditors	145	75			
Bills Payable	20	—			
	1,900	**1,325**		**1,900**	**1,325**