12. AMALGAMATION - I

MODEL WISE ANALYSIS OF PAST EXAM PAPERS OF IPCC

MODEL NO.	N - 11	M - 12	N - 12	M - 13	N - 13	M - 14	N - 14	M - 15	N - 15	M - 16	N - 16
Model – 1	-	-	-	-	-	-	-	-	-	4	-
Model – 2	-	-	-	-	-	-	-	-	-	-	-
Model – 3	-	-	16	-	-	-	-	16	-	-	-
Model – 4	-	-	-	-	-	16	-	-	-	16	-
Model – 5	4	5	-	-	-	-	-	-	4	-	-

Model – 1 : Computation of Purchase Consideration

Model – 2 : Merger & Purchase - Both methods of accounting

Model – 3 : Amalgamation in the nature of Merger

Model – 4 : Amalgamation in the nature of Purchase

Model – 5 : Theory

THEORY

Objective:

1. Computation of purchase consideration
2. Accounting treatment in the books of selling company
3. Accounting treatment in the books of purchasing company
   a. In the nature of Merger
   b. In the nature of Purchase

Introduction: In order to reap the economies of large scale production and to reduce competition, two (or) more than two Joint Stock Companies may combine their undertakings and become one Joint-Stock Company. This process is briefly called as "**Amalgamation**".

Meaning:

Amalgamation may involve

Liquidation of two (or) more companies and formation of a new Co.	Liquidation of one or more companies and merging with an existing Co. also called as absorption

Objectives:

Accounting Standard 14: Amalgamation is a means of restructuring for companies in order to achieve growth and to utilize the advantages / synergies prevailing in their environment.

E.g. Large scale production, expansion, global, presence, tax benefits etc.

Amalgamation in the nature of

Merger	Purchase

Amalgamation in the nature of merger: It satisfies all the following conditions:

1. All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.
2. 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 company by virtue of the amalgamation.
3. 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.
4. The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.
5. 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: If any of the above conditions are not satisfied, then the nature of Amalgamation is said to be in the nature of Purchase.

Purchase Consideration (P.C.): Different methods in computing the "Purchase Consideration":

Meaning: According to AS-14, 'consideration' for the amalgamation means the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company.

Any additional amount paid for any other purpose not to be taken as part of purchase consideration. E.g. expenses of winding up, settlement of liabilities etc.

1. **Net Assets Method (or) Net Assets taken Over Basis Method):** Under this method P. C. shall be computed as follows:

Particulars	Rs.
Agreed value of assets taken over	XXX
Less: Agreed value of Liabilities taken over	XXX
Purchase Consideration →	**XXX**

Note:

1. The term "agreed value" means the amount at which the transferor company has agreed to sell and the transferee company has agreed to take over a particular assets or a liability. Otherwise book value will be the agreed value.
2. Fictitious assets (i.e., preliminary expenses, underwriting commission, discount on issue of shares, discount on issue of debentures and debit balance in P & L A/c) are not taken over.

2. **Payments Method (or) Net payments to Shareholder Basis Method:** Under this method purchase consideration should be calculated by aggregating total payments made by the purchasing company.

Example 1: A Ltd. had taken over B Ltd. and for that it agreed to pay Rs.5,00,000 in cash 4,00,000 Equity Shares of Rs.10 each fully paid at an agreed value of Rs.15 per share then the P.C. will be ascertained as follows:

Particulars	Rs.
Cash	5,00,000
4,00,000 E. Shares of Rs.10 each fully paid, at Rs.15 per share	60,00,000
Purchase Consideration →	**65,00,000**

Note: A modified method of indicating consideration is to say how much a shareholder get per share on the transfer of the company's business to transferee company.

Example: 2

A Ltd is absorbed by B Ltd. the purchase consideration is settled by issue of shares of B Ltd. Swap ratio is decided on the basis of fair value (e.g. market value) of shares of both the companies. Fair value of A Ltd share – Rs.25 per share; Fair value of B Ltd. Rs.50 per share.

Swap ratio: Based on fair value of shares–1 share of B Ltd for every 2 shares of A Ltd i.e. 1:2

Methods of Accounting for Amalgamation as per AS-14:

Methods of Accounting

↓

Purchase Method	**Pooling of Interest method**
↓	↓
In case of nature of purchase	**In case of nature of Merger**

A. Entries in the books of Amalgamating Company / Selling Company / Transferor Company: AS – 14 is not applicable since the standards are meant only for preparation and presentation of financial statements. The transferor company is wound up and there is no preparation of any General Purpose Financial Statements.

1.	**For transfer of all assets taken over by the purchasing company at book values to Realisation A/c (Except fictitious Assets):** Realisation A/c Dr. To Assets A/c (Individually) **Note:** **i.** If cash & bank balances are not taken over then they should not be transferred to Realisation A/c. **ii.** If there is a provision against an Asset then such an asset is to be transferred to Realisation A/c at gross figure.	XXX	XXX
2.	**For transfer of liabilities taken over by the Purchasing Co. at book values to Realisation A/c:** Liabilities A/c (Individually) Dr. To Realisation A/c **Note:** If any fund (or) reserve denotes liability it should be transferred to Realisation A/c. **E.g.** Workmen compensation fund.	XXX	XXX
3.	**Due entry for Purchase Consideration:** Purchasing Company A/c Dr. To Realisation A/c	XXX	XXX
4.	**Receipt entry for Purchase Consideration:** Cash/E. shares/P. shares/Debentures in Purchasing Company A/c Dr. To Purchasing Company A/c	XXX	XXX
5.	**For sale of Assets not taken over by the Purchasing Co.:** Cash A/c Dr.	XXX	

	Realisation A/c [loss] Dr. To Assets A/c To Realisation A/c [profit]	XXX	 XXX XXX
6.	**For discharge of liabilities not taken over by the Purchasing Co.** Liability A/c Dr. Realisation A/c (loss) Dr. To cash A/c To Realisation A/c (profit)	 XXX XXX	 XXX XXX
7.	**Realization Expenses:** **Case I:** Borne by transferor company Realization A/c Dr. To Bank A/c **Case II:** Borne by transferee company **No entry in this books** **Case III:** Incurred by transferor(selling company) and reimbursed by transferee company a. **When Expenditure is incurred:** Purchasing company A/c Dr. To Bank A/c b. **On reimbursement:** Bank A/c Dr. To Purchasing company A/c	 XXX XXX XXX	 XXX XXX XXX
7A	**For liquidation expenses:** a. **Expenses to be borne by Selling co. and paid by Selling Co.** Realisation A/c Dr. To Cash A/c	 XXX	 XXX
	b. **Expenses to be borne by Purchasing Co. but paid by Selling Co.** 1. Purchasing Co. A/c Dr. To Cash A/c 2. Cash A/c Dr. To Purchasing co. A/c	 XXX XXX	 XXX XXX
	c. **Expenses to be borne by Purchasing Co & paid by Purchasing Co.** No Entry -		
8.	**For transfer of Preference share capital to Preference share holders A/c:** Preference share capital A/c Dr. To Preference share holders A/c	 XXX	 XXX
9.	**For making payment to pref. share holders:** Pref. share holders A/c Dr. To Cash/E. shares/P. shares/Debentures in Purchasing Company A/c	 XXX	 XXX

10.	**For transfer of equity capital & reserves surplus to ESH A/c:** E. share capital A/c Dr. Reserve & Surplus A/c Dr. To E. share holders A/c	XXX XXX	 XXX
11.	**For transfer of realisation A/c balance to ESH:** **a. If profit:** Realisation A/c Dr. To E. share holders A/c	XXX	XXX
	b. If loss: Equity share holders A/c Dr. To Realisation A/c	XXX	XXX
12.	**For transfer of fictitious assets to ESH A/c:** E. share holders A/c Dr. To Fictitious Assets A/c	XXX	XXX
13.	**For credit balance in ESH A/c which reveal the net amount finally payable to equity share holders and on payment of such amount to them.** E. share holders A/c Dr. To Cash/E. shares/P. shares/Debentures in Purchasing Company A/c.	XXX	XXX

Note: All Ledger Accounts would get closed after passing above entries.

Note: (Optional) Assets if they are not taken over by the transferee Company can be transferred. If sale those assets then the entry will be

Bank A/c	Dr.	XXX	
To Realisation A/c			XXX

B. In the books of purchasing Co./Amalgamated Co./Transferee Co. – Purchase Method: AS – 14 Accounting for amalgamation, governs the accounting treatment in the books of transferee company. Since the transferee company carries on business and prepares General Purpose Financial statements which would include assets and liabilities of the transferor company taken over, AS – 14 prescribes accounting treatment for recognizing and measuring assets and liabilities taken over.

1.	**For purchase of business:** Business purchase A/c Dr. To liquidator of selling Co. A/c	XXX	 XXX
2.	**For incorporation of Assets & Liabilities in the books at agreed values:** Assets A/c Dr. Good will A/c [b/f] Dr. To liabilities A/c To Business Purchase A/c To capital reserve A/c [b/f] **Note:** **i.** If Purchase Consideration is greater than net assets taken over difference to be transfer to Good will A/c. **ii.** If Purchase Consideration is less than net Assets taken over than difference should be transfer to capital reserve A/c. **iii.** Goodwill and capital reserve are mutually exclusive. **iv.** Goodwill should be amortized over period of five years unless longer period is justified.	XXX XXX	XXX XXX XXX

3.	**For discharge of Purchase Consideration:** Liquidator of Selling Co. A/c Dr. To E. share capital/Cash/P. share capital/ Debentures A/c	XXX	 XXX
4.	**Realization Expenses** **i.** Borne by selling company – NO ENTRY **ii.** Borne by purchasing company Goodwill /Capital reserve A/c Dr. To Bank A/c **iii.** Incurred by selling company and reimbursed by purchasing company **Due entry:** Goodwill / Capital reserve A/c Dr. To Selling company A/c Selling company A/c Dr. To Bank A/c	 XXX XXX XXX	 XXX XXX XXX
5.	**For inter company Owings:** Creditors A/c Dr. To Debtors A/c	 XXX	 XXX
6.	**For creation of stock Reserve:** Goodwill/Capital reserve A/c * Dr. To Stock reserve A/c **Note: The balance in Stock Reserve A/c should be reduced from the stock.**	 XXX	 XXX
7.	**For statutory reserves: Maintenance of them:** Amalgamation Adjustment A/c Dr. To Statutory Reserve A/c **Cancellation of them:** Statutory Reserve A/c Dr. To Amalgamation Adjustment A/c **Note:** In order to get the advantage of provision of some statute, it may be necessary to retain the identity of the statutory reserve of the transferor company in the books of the transferee company.	 XXX XXX	 XXX XXX

- **Alternatively profit or loss A/c/ free reserves may be debited.**

II. <u>Pooling of interest method of Accounting:</u>

A. Accounting entries in the books of Amalgamating Co./ Selling Co./Transferor Co.:
It should be noted that the Accounting Standard deals with the accounting procedures only in the books of the transferee company. So far as the books of the transferor company are concerned, the normal procedures are to be followed for the closing the books of account through Realization Account.

B. Accounting entries in the books of Amalgamated Co./ Purchasing Co./Transferee Co.:

1.	**For purchase of business:** Business purchase A/c Dr. To Liquidator of selling Co. A/c	 XXX	 XXX
2.	**Incorporation of assets & liabilities taken over:** **a.** Assets and liabilities of selling company taken over are to be recorded at same values at which they appeared in selling company's books. **b.** The reserves of selling company are also to be incorporated subject to adjustments given below. **c.** The difference between purchase consideration and paid up capital (equity and preference) of selling company is to be adjusted as under:		

	i. Excess of consideration paid over paid up share capital (equity and preference) is to be adjusted against: ▸ Free reserves of selling company ▸ Secondly against free reserves of purchasing company ▸ Lastly, debit Profit and Loss A/c. **Note:** The sequence is usually specified in the "Scheme of Amalgamation". ii. Where the consideration paid is less than paid up share capital, the difference is to be credited to **capital reserves** of selling company while incorporation. **Note: See the Illustration given below for the following alternatives**. **Alternative 1:** Assets A/c Dr. To Liabilities A/c To Free reserves A/c To Statutory reserves A/c To Business purchase A/c **Alternative 2:** Assets A/c Dr. To Liabilities A/c To Free reserves A/c To Statutory reserves A/c To Business purchase A/c **Alternative 3:** Assets A/c Dr. Reserves or Profit and loss A/c Dr. To Liabilities A/c To Free reserves A/c To Statutory reserves A/c To Business purchase A/c **Alternative 4:** Assets A/c Dr. To Liabilities A/c To Free reserves A/c To Statutory reserves A/c To Capital reserve A/c To Business purchase A/c	 150 150 150 15 150	 50 45 5 50 50 5 5 90 50 - 5 110 50 45 5 10 40
3.	**Discharge of P.C.:** Liquidator of Selling Co. A/c Dr. Discount on issue of shares A/c Dr. To Bank A/c To E. Share Capital A/c To P. Share Capital A/c To Securities premium A/c **Note:** ▸ In case of Merger Transferee Co may allot Pref. shares for the P. Share holders of the transferor Company. Transferee Company may allot securities other than E. Shares and give cash and the assets to satisfy the dissenting shareholders of the transferor Co.	 XXX XXX	 XXX XXX XXX XXX

4.	**Realization expenses**		
	i. Borne by selling company – NO ENTRY		
	ii. Borne by purchasing company		
	Profit & Loss A/c Dr.	XXX	
	To Bank A/c		XXX
	iii. Incurred by selling company and reimbursed by purchasing company		
	Due Entry:		
	Profit & Loss A/c Dr.	XXX	
	To Selling company A/c		XXX
	On settlement:		
	Selling company A/c Dr.	XXX	
	To Bank A/c		XXX

ILLUSTRATION:

Balance Sheet of selling company:

Liabilities	**Rs.**	**Assets**	**Rs.**
Share capital	50	Total assets	150
Reserves			
Free reserves 45			
Statutory reserve 5	50		
Outstanding liabilities	50		
	150		**150**

Consideration:

(Rs.)

I	II	III	IV
50	90	110	40

Treatment of reserves:

Particular	I	II	III	IV
1. Consideration	50	90	110	40
2. Paid up share capital of transferor company (equity & preference)	50	50	50	50
3. Excess of 1 over 2	-	40	60	(10)
4. Adjustment of above excess (3) against				
a. Free reserves of transferor company	-	(40)	(45)	-
b. Free reserves of transferee company	-	-	(15)	-
5. Balance of selling company reserves to be incorporated.				
a. Free reserves	45	5	-	45
b. Statutory reserves	5	5	5	5
c. Capital reserve	-	-	-	10

Note: The unique attributes of this type of amalgamation are the carry forward of assets and liabilities at book values and the carry forward of retained earnings. In addition, equity shareholders of the transferee companies continue to have a proportionate share in the transferee company.

Characteristics of Pooling of Interests Method:

1. Pooling of interests accounting treats an amalgamation as a **'non-event'** in that the combining companies are viewed as if they always had been together.
2. The unique attributes of pooling of interests accounting are the carry forward of assets and liabilities at book values and the carry forward of retained earnings.
3. Under pooling of interests accounts, **no goodwill** is recorded as arising from the amalgamation.

4. All costs associated with the amalgamation or with issuing the shares used in the amalgamation are expended as incurred; none of the costs of bringing about the amalgamation are capitalized.

5. Under pooling of interests accounting, the carry forward of retained earnings of the acquired company may give management more flexibility with respect to dividends subsequent to the amalgamation.

The important differences between the two methods of accounting are summarized below:

Particulars	Pooling of interest	Purchase
1. Discharge of purchase consideration	Mainly shares; cash for settling dues of fractional shares	Shares, or other securities, or cash
2. Assets and Liabilities	Recorded at book values	Recorded at Fair values
3. Reserves	Are brought into and recorded in the books	Only statutory reserves are recorded by debit to Amalgamation adjustment A/c (reversed when statutory conditions are met)
4. Difference between consideration and net value of assets	Not recorded – difference is adjusted against reserves	Recorded as goodwill or capital reserve

SOME IMPORTANT CONCEPTS

1. **Dissenting Shareholders:** In an amalgamation, some shareholders of the transferor Company may not assent to the scheme of Amalgamation and may refuse to transfer their shares to the transferee company in accordance with the scheme. Such shareholders are called **Dissenting Shareholders**. Such shareholders are to be discharged as per the terms agreed upon by them.

2. **Passing Entries for par value of share:** In such a case purchasing company is left with a large debit in the Goodwill Account accompanied by quite a large amount in the Securities premium account. The two cannot be adjusted. However, it would be permissible to negotiate on the basis to the market value of the shares but to make entries only on the basis of par of shares of purchasing company. This will mean that Goodwill Account (or Capital Reserve) will be automatically adjusted for the sharing premium.

3. **List of disclosure requirements of AS – 14:** The first Financial Statement following the Amalgamation should disclose –

For all Amalgamations	Additional disclosures under the Pooling of Interests Method	Additional disclosure under the Purchase Method.
▸ Names and general nature of business of the amalgamating companies. ▸ Effective date of amalgamation for accounting purpose; ▸ Method of accounting used to reflect the amalgamation; and ▸ Particulars of the scheme sanctioned under a statute.	▸ Description and number of shares issued, together with the percentage of each company's equity shares exchanged to effect the amalgam-mation; and ▸ Amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof.	▸ 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 amortization of any goodwill arising on amalgamation.

4. **Effect of Amalgamation after the Balance Sheet date:**

Amalgamation is effected	Treatment
▸ After the Balance Sheet date but ▸ Before the issuance of financial statements by either parties.	▸ The amalgamation is not incorporated in the financial statements, but ▸ Disclosure is made in accordance with AS-4.

In certain circumstances, the amalgamation may also provide additional information affecting the financial statements themselves, for instance, by allowing the going concern concept assumption to be maintained.

Example: As per a scheme sanctioned under the Companies Act, 2013, Kripa Ltd. is amalgamated with Sundari Ltd. with effect from 1st May 2004. Both Companies close their accounts 31st March every year. For the year ended 31st March 2004, the Companies have not yet finalized their accounts. The amalgamation is to be accounted only during the financial year ending 31st March 2005. However, disclosure is made in the accounts for the year ending 31st March 2004, as per AS – 14 requirements.

5. **Inter-Company Owings:** At the time of amalgamation, amounts owing by the transferee company to the transferor company, or *vice versa*, have to be eliminated.

E.g.: P Ltd. acquires the business of S Ltd. and the later company owes as a book debt Rs.40,000 to the former company, then after the amalgamation, the Sundry Debtors A/c and Sundry Creditors A/c should show the net figures after deduction of Rs.40,000. Then the entry in the books of P Ltd. will be as follows:

Sundry Creditors A/c	Dr.	XXX	
To Sundry Debtors A/c			XXX

Note: The treatment is exactly the same if the transferee company owed money to the transferee company.

Similar problem arises when at the time of amalgamation; the transferee company holds bills receivable accepted by the transferor company or *vice versa*. After amalgamation, such bills receivables have to be eliminated from the books of the transferee company by means of the following entry:

Bills Payable A/c	Dr.	XXX	
To Bills Receivable A/c			XXX

Note: No additional entry is required to be passed in the books of the transferor company.

Similarly, if the transferee company has, as investments, certain debentures issued by the transferor company after amalgamation the same are to be eliminated from the books of the transferee company by means of the following entry:

Debentures A/c	Dr.	XXX	
To Investments in Debentures A/c			XXX

If debentures were acquired as investment at above or below the amount at which the debentures have been recorded as liability by the transferee company at the time of amalgamation, while passing the entry for cancellation of Investment & Debentures in the books of transferee company, the difference between cost of Investment & recorded value of Debentures cancelled is adjusted to goodwill or capital reserve in case of Amalgamation in the nature of purchase and general reserve or profit & loss A/c incase of Amalgamation in the nature of merger.

6. **Contingently payable consideration:** Where the scheme of amalgamation provides for an adjustment to the consideration contingent on one or more future events, the amount of the additional payments should be included in the consideration if payment is probable and a reasonable estimate of the amount can be made. In all other cases, the adjustment should be recognized as soon as the amount is determinable.

   Example: X Ltd. acquired Y Ltd. for Rs.60 crores. X Ltd. will pay an additional Rs.5 crores, if the profits of the coming year is more than last year's profit.

   This will be an adjustment to the consideration, which is contingent on future events. If it is probable that the target will be achieved the amount of additional payment should be included in the consideration, at the acquisition date.

PROBLEMS FOR CLASSROOM DISCUSSION

Problem 1: (PRINTED SOLUTION AVAILABLE) The following is the summarized balance sheet of A Ltd as on 31st March 2015

Name of the Company : A Ltd

Balance Sheet as at : 31st March, 2015

			Particulars	Notes No.	Rs.
			1	2	3
1			**EQUITY AND LIABILITIES:**		
			Shareholder's funds		
	a		Share capital	1	14,00,000
	b		Reserves and Surplus	2	(80,000)
2			**Non-current liabilities**		
	a		Long tem borrowings (10 % Debentures (secured))		2,00,000
3			**Current liabilities**		
	a		Trade Payable	3	2,40,000
	b		Other current liabilities (Bank OD)		50,000
			TOTAL		**18,10,000**
1			**ASSETS:**		
	a		Current assets		18,00,000
	b		Other current assets	4	10,000
			TOTAL		**18,10,000**

Note to Accounts:

Particulars	Rs.
1. Share capital	
14,000 equity shares of Rs.100 each fully paid up	14,00,000
2. Reserves and Surplus	
General Reserve	10,000
Profit & Loss A/c	(90,000)
3.Trade Payables	
Sundry creditors	2,00,000
Bill payable	40,000
4. Other Current Assets	
Discount on issue of debentures	10,000

'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. **(PM)**

(Ans.: Purchase consideration Rs.14,11,000)

(Solve problem no. 1 and 2 of assignment problems as rework)

Note:____

Problem 2: The following balance sheet of X Ltd as on 31st march 2014

Name of the Company : X Ltd

Balance Sheet as at : 31st March, 2014

('000)

			Particulars	Notes No.	Rs.
			1	**2**	**3**
1			**EQUITY AND LIABILITIES:**		
			Shareholder's funds		
	a		Share capital	1	10,000
	b		Reserves and Surplus	2	12,50
2			**Non-current liabilities**		
	a		Long term borrowings (12 % Debentures (secured))		40,00
			Current liabilities		
3	a		Trade Payable	3	20,00
			TOTAL		**172,50**
			ASSETS:		
			Non Current Assets		
1			Fixed Assets		
	a		Tangible Assets	4	105,50
	b		Non Current Investments		5,00
			Current Assets		
			Inventories (stock)		23,00
2			Trade receivables (debtors)		24,00
			Cash and cash equivalents		15,00
			TOTAL		**172,50**

Note to Accounts: **('000)**

Particulars	Rs.
1. Share capital	
Equity shares of Rs.10 each	75,00
14% preference shares of 100 each	25,00
2. Reserves and Surplus	
General Reserve	12,50
3. Trade Payable	
Sundry creditors and other liabilities	20,00

4. Tangible Assets	
Land and buildings	50,00
Plant and machinery	45,00
Furniture	10,50

Other Information:

1. Y Ltd. takes over X Ltd. on 10th April, 2014.
2. Debentures holders of X Ltd. are discharged by Y Ltd. at 10% premium by issuing 15% own debentures of Y Ltd.
3. 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).
4. 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. **(SM)**

(Ans: Purchase consideration Rs. 80,00,000)

(Solve problem no. 3 & 4 of assignment problems as rework)

Note:____

Problem 3: The following draft Balance Sheets are given as on 31st March, 2014:

Liabilities	**(in lakhs)**		**Assets**	**(in lakhs)**	
	Best ltd	**Better ltd**		**Best ltd**	**Better ltd**
Share Capital:			Fixed Assets	25	15
Shares of Rs. 100, each fully paid	20	10	Investments	5	-
Reserve and Surplus	10	8	Current Assets	20	5
Other Liabilities	20	2			
	50	20		50	20

The following further information is given —

a) Better Limited issued bonus shares on 1st April, 2014, in the ratio of one share for every two held, out of Reserves and Surplus.

b) It was agreed that Best Ltd. will take over the business of Better Ltd., on the basis of the latter's Balance Sheet, the consideration taking the form of allotment of shares in Best Ltd.

c) The value of shares in Best Ltd. was considered to be Rs. 150 and the shares in Better Ltd. were valued at Rs. 100 after the issue of the bonus shares. The allotment of shares is to be made on the basis of these values.

d) Liabilities of Better Ltd., included Rs. 1 lakh due to Best Ltd., for purchases from it, on which Best Ltd., made profit of 25% of the cost. The goods of Rs. 50,000 out of the said purchases, remained in stock on the date of the above Balance Sheet.

Make the closing ledger in the Books of Better Ltd. and the opening journal entries in the Books of Best Ltd., and prepare the Balance Sheet as at 1st April, 2014 after the takeover.

(SM) ***(Ans: Loss on realization Rs.3,00,000)***

Note:____

Problem 4: **(PRINTED SOLUTION AVAILABLE)** The summarized Balance Sheet of Srishti Ltd. as on 31st March, 2014 was as follows:

Liabilities	Rs.	Assets	Rs.
Equity shares of Rs. 10 each	30,00,000	Goodwill	5,00,000
Export Profit Reserves	8,50,000	Tangible Fixed Assets	30,00,000
General Reserves	50,000	Stock	10,40,000
Profit and loss Account	5,50,000	Debtors	1,80,000
9% Debentures	5,00,000	Cash & Bank	2,80,000
Trade Creditors	1,00,000	Preliminary Expenses	50,000
	50,50,000		**50,50,000**

Anu Ltd. agreed to absorb the business of Srishti Ltd. with effect from 1st April, 2014.

a) The purchase consideration settled by Anu Ltd. as agreed:

i) 4,50,000 equity Shares of Rs. 10 each issued by Anu Ltd. by valuing its share @ 15 per share.

ii) Cash payment equivalent to Rs. 2.50 for every share in Srishti Ltd.

b) The issue of such an amount of fully paid 8% Debentures in Anu Ltd. at 96% as is sufficient to discharge 9% Debentures in Srishti Ltd. at a premium of 20%.

c) Anu Ltd. will take over the Tangible Fixed Assets at 100% more than the book value, Stock at Rs. 7,10,000 and Debtors at their face value subject to a provision of 5% for doubtful Debts.

d) The actual cost of liquidation of Srishti Ltd. was Rs. 75,000.Liquidation cost of Srishti Ltd is to be reimbursed by Anu Ltd. to the extent of Rs.50,000.

e) Statutory Reserves are to be maintained for 1 more year.

You are required to:

i) Close the books of Srishti Ltd. by preparing Realisation Account, Anu Ltd. Account, Shareholders Account and Debenture Account, and

ii) Pass Journal Entries in the books of Anu Ltd. regarding acquisition of business. **(PM)**

(Ans: purchase consideration Rs. 75,00,000 lakhs, profit on realization-31,00,000)

(Solve problem no. 8 of assignment problems as rework)

Problem 5: Summarized Balance Sheets As On 31st March 2015.

Name of the Companies: Gee Ltd and Pee Ltd

Balance Sheet as at : 31st March 2015

			Particulars	Notes No.	Gee Ltd (Rs.)	Pee Ltd (Rs.)
			1	2	3	4
			EQUITY AND LIABILITIES:			
1			**Shareholder's funds**			
	a		Share capital	1	36,00,000	23,50000
	b		Reserves and Surplus	2	7,75,000	5,25,000
			Non- current liabilities			
2	a		Long term borrowings		2,50,000	1,75,000
		I	15% debentures 100 each (Secured)			
			Current liabilities			
3	a		Trade Payable	3	2,25,000	1,75,000
	b		Other current liabilities		1,00,000	75,000
			TOTAL		**49,50,000**	**33,00,000**

			ASSETS:			
			Non-current assets			
1	a		Fixed assets			
		I	Tangible assets	**4**	31,62,500	18,00,000
		Ii	Non-current investments		3,50,000	2,50,000
2			**Current Assets**			
	a		Inventories (Stock)		6,25,000	4,75,000
	b		Trade receivables	**5**	4,50,000	5,15,000
	c		Cash and cash equivalents (Cash at bank)		3,62,500	2,60,000
			TOTAL		**49,50,000**	**33,00,000**

Notes to Accounts:

Particulars	Gee Ltd (Rs.)	Pee Ltd (Rs.)
1. Shareholder's funds		
Equity share capital fully paid up (Rs.10 each)	25,00,000	15,00,000
14% preference share capital (Rs.100 each)	11,00,000	8,50,000
2. Reserves and Surplus		
General reserve	2,50,000	2,50,000
Export profit reserve	1,50,000	1,00,000
Investment allowance reserve	-	50,000
Profit and loss A/c	3,75,000	1,25,000
3. Trade payable		
Creditors	1,50,000	75,000
Bills payables	75,000	1,00,000
4. Tangible assets		
Land and buildings	12,50,000	7,75,000
Plant and machinery	16,25,000	8,50,000
Furniture and fixtures	2,87,500	1,75,000
5. Trade Receivables		
Debtors	4,00,000	4,60,000
Bills receivables	50,000	55,000

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

Gee Ltd. takes over Pee Ltd. on 1st April, 2015. The purchase consideration is discharged as follows:

1. Issued 1,65,000 equity shares of Rs.10 each at par to the equity shareholders of Pee Ltd.
2. Issued 15% preference shares of Rs.100 each to discharge the preference shareholders of Pee Ltd. at 10% premium.
3. The debentures of Pee Ltd. will be converted into equivalent number of debentures of Gee Ltd.
4. The statutory reserves of Pee Ltd. are to be maintained for two more years.
5. Expenses of amalgamation amounting to Rs.10,000 will be borne by Gee Ltd.
6. Details of trade receivables and trade payables as under:

	Gee Ltd.	Pee Ltd.
Trade payables		
Trade payables	1,50,000	75,000
Bills payables	75,000	1,00,000
	2,25,000	**1,75,000**

Trade receivables		
Debtors	4,00,000	4,60,000
Bills receivables	50,000	55,000

Show the opening Journal entries and the opening balance sheet of Gee Ltd. as at 1st April, 2015 after amalgamation, on the assumption that the amalgamation is in the nature of the merger.

(PM) ***(Ans: purchase consideration 25,85,000. Total of Balance sheet 81,85,000)***

(Solve problem no. 5 of assignment problems as rework)

Note:____

Problem 6: Consider the following balance sheets of X Ltd. and Y Ltd.

Name of the Companies: X Ltd and Y Ltd

Balance Sheet as at : 31st march 2015

('000)

			Particulars	Notes No.	X Ltd (Rs.)	Y Ltd (Rs.)
			1	**2**	**3**	**4**
1			**EQUITY AND LIABILITIES:**			
			Shareholder's funds			
	a		Share capital	1	72,00	47,00
	b		Reserves and Surplus	2	1550	1050
2			**Non-current liabilities**			
	a		Long term liabilities (13%debentures Rs.100 each)		5,00	3,50
3			**Current liabilities**			
	a		Trade Payable (sundry creditors)		4,50	3,50
	b		Other current liabilities		2,00	1,50
			TOTAL		**99,00**	**66,00**
1			**ASSETS:**			
			Non-current assets			
	a		Fixed assets			
		i	Tangible assets	3	6,325	3,600
2			**Current Assets**			
	a		Current investment		7,00	5,00
	b		Inventories (Stock)		12,50	9,50
	c		Trade receivables (Debtors)		9,00	10,30
	d		Cash and cash equivalents (Cash and Bank)		7,25	5,20
			TOTAL		**99,00**	**66,00**

Notes to Accounts: **('000)**

Particulars	X Ltd (Rs.)	Y Ltd (Rs.)
1. Shareholder's funds:		
Equity shares of Rs.10 each	50,00	30,00
14% preference shares of Rs.100 each	22,00	17,00
2. Reserves and Surplus:		
General reserve	5,00	2,50
Export profit reserve	3,00	2,00
Investment allowance reserve	-	1,00
Profit and loss A/c	7,50	5,00

3. Tangible Assets:		
Land & Building	25,00	15,50
Plant & Machinery	32,50	17,00
Furniture and fittings	5,75	3,50

X Ltd. takes over Y Ltd. on 1st April, 2015. X Ltd. discharges the purchase consideration as below:

1. Issued 3,50,000 equity shares of Rs.10 each at par to the equity shareholders of Y Ltd.

2. 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. **(SM)**

(Ans: PC Rs. 5370, Merger- Balance Sheet Amount 16,500, Purchase-Balance Sheet Amount 16,800)

(Solve problem no. 11 of assignment problems as rework)

Note: ____

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Problem 7: 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:

Balance Sheet of K ltd. And L ltd.

			Particulars	Notes No.	K Ltd (Rs.)	L Ltd (Rs.)
			1	2	3	4
1			**EQUITY AND LIABILITIES:**			
			Shareholder's funds			
	a		Share capital	1	12,00,000	6,00,000
	b		Reserves and Surplus	2	4,31,375	1,97,175
2			**Non-current liabilities**			
	a		Long term borrowings			
			5% Debentures		2,00,000	-
			Secured loan		-	2,00,000
3			**Current liabilities**			
	a		Trade Payable (Creditors)		1,00,000	2,10,000
			TOTAL		**19,31,375**	**12,07,175**
1			**ASSETS:**			
			Non-current assets			
	a		Fixed assets			
		(i)	Tangible assets	3	11,30000	8,20,000
		(ii)	In tangible assets	4	80,000	-
2			**Current Assets**			
	a		Inventories (Stock)		2,25,000	1,40,000
	b		Trade receivables (Debtors)		2,75,000	1,75,000
	c		Cash and cash equivalents	5	1,61,375	72,175
	d		Other current assets	6	60,000	-
			TOTAL		**19,31,375**	**12,07,175**

Note to Accounts:

Particulars	K Ltd (Rs.)	L Ltd (Rs.)
1. Share capital		
Equity Shares of Rs.100 each	8,00,000	3,00,000
7% Preference Share of Rs.100 each	4,00,000	3,00,000
2. Reserves and Surplus		
General Reserve	-	1,00,000
Profit and Loss A/c	4,31,375	97,175
3. Tangible Assets		
Land & Building	4,50,000	3,00,000
Plant & Machinery	6,20,000	5,00,000
Furniture & Fittings	60,000	20,000
4. In Tangible Assets		
Goodwill	80,000	-
5. Cash and cash equivalents		
Cash at Bank	1,20,000	55,000
Cash in hand	41,375	17,175
6. Other current assets		
Preliminary Exp.	60,000	-

The terms of amalgamation are as under:

A)

1. The assumption of assets and liabilities of both the Companies

2. 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.

3. 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.

4. Issue of such amount of fully paid 6% debentures in LK Ltd. as is sufficient to discharge the 5% debentures in K Ltd at a discount of 5% after takeover.

B)

1. The assets and liabilities are to be taken at book values Inventory and Trade receivables for which provisions at 2% and 2 ½ % respectively to be raised.

2. The trade receivables of K Ltd. included Rs.20,000 due from L Ltd.

C) 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 shares so as to have sufficient working capital. Prepare ledger accounts in the books of K Ltd. and L Ltd. to close their books. **(SM)**

(Ans.: purchase consideration to K ltd. Rs. 15,60,000 and L Ltd Rs. 7,90,000)

(Solve problem no.6 of assignment problems as rework)

Note:____

Problem 8: The financial position of two companies Hari Ltd. and Vayu Ltd. as on 31st march, 2015 was as under:

Name of the Companies: Hari Ltd and Vayu Ltd

Balance Sheet as at : 31st march 2012

			Particulars	Notes No.	Hari Ltd (Rs.)	Vayu Ltd (Rs.)
			1	2	3	4
			EQUITY AND LIABILITIES:			
1			Shareholder's funds			
	a		Share capital	1	11,00,000	4,00,000
	b		Reserves and Surplus	2	70,000	70,000
			Current liabilities			
	a		Trade Payable (sundry creditors)		1,30,000	80,000
2	b		Short term provisions (Retirement and gratuity fund)		50,000	20,000
			TOTAL		**13,50,000**	**5,70,000**
			ASSETS:			
			Non-current assets			
1	a		Fixed assets			
		I	Tangible assets	3	8,00,000	2,50,000
		Ii	Intangible assets (Good will)		50,000	25,000
			Current Assets			
	a		Inventories (Stock)		2,50,000	1,75,000
2	b		Trade receivables (Debtors)		2,00,000	1,00,000
	c		Cash and cash equivalents (Cash at bank)		50,000	20,000
			TOTAL		**13,50,000**	**5,70,000**

Notes to Accounts:

Particulars	Hari (Rs.)	Vayu (Rs.)
1. Shareholder's funds:		
Equity share capital (Rs.10 each)	10,00,000	3,00,000
9% preference share capital (Rs.100 each)	1,00,000	-
10% preference share capital (Rs.100 each)	-	1,00,000
2. Reserves and Surplus:		
General reserve	70,000	70,000
3. Tangible assets:		
Building	3,00,000	1,00,000
Machinery	5,00,000	1,50,000

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. Inventory to be taken over at 10% less value and Provision for Doubtful Debts to be created @ 7.5%.

4. 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, 2015. **(PM)**

(Ans: NAV Method Pc 5,30,000 , Realisation profit 50,000 , PC discharged in the form of 9% preference shares 1,10,000 and equity shares 4,20,000; Total of Balance sheet Rs.19,87,500)

(Solve problem no. 7 of assignment problems as rework)

Note: ____

____

Problem 9: The following is the summarized Balance Sheet of A Ltd. as at 31st March, 2015:

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	Inventory	2,20,000
Trade payables	3,20,000	Trade receivables	2,60,000
General Reserve	80,000	Bank	1,36,000
		Goodwill	1,30,000
		Share issue 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 trade payables 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, 2015 goods costing Rs. 1,20,000 to A Ltd. for Rs. 1,60,000. Rs. 1,00,000 worth of goods are still in Inventory of A Ltd. on 31st March, 2015. Trade payables 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, 2015 after the takeover. **(PM)**

(Ans: Total of Balance sheet Rs.14,90,000 Purchase consideration-12,10,000 Loss on Realisation-76,000)

(Solve problem no. 9 of assignment problems as rework)

Note: ____

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Problem 10: Given below are the summarized balance sheets of Huge Ltd and Big Ltd. as on 31.12.2013. Big Ltd. was merged with Huge Ltd. with effect from 1.1.2014.

Balance Sheets as on 31.12.2013

Liabilities	Huge Ltd.	Big Ltd.	Assets	Huge Ltd.	Big Ltd.
Share capital:			Sundry fixed assets	9,50,000	4,00,000
Equity shares of Rs. 10 each	7,00,000	2,50,000	Investments (Nontrade)	2,00,000	50,000
General reserve	3,50,000	1,20,000	Inventory	1,20,000	50,000

Profit and loss A/c	2,00,000	65,000	Trade receivables	75,000	80,000
Export profit reserve	70,000	40,000	Advance tax	80,000	20,000
12% Debentures	1,00,000	1,00,000	Cash and bank	2,75,000	1,30,000
Trade payables	40,000	45,000			
Provision for Taxation	1,00,000	60,000			
Proposed Dividend	1,40,000	50,000			
	17,00,000	**7,30,000**		**17,00,000**	**7,30,000**

Huge Ltd. would issue 12% debentures to discharge the claims of the debenture holders of Big Ltd. at par. Non-trade investments of Huge Ltd. fetched @ 25% while those of Big Ltd. fetched @ 18%.

Profit of Huge Ltd. and Big Ltd. during 2011 2012 and 2013 were as follows:

Year	Huge Ltd.	Big Ltd.
2011	5,00,000	1,50,000
2012	6,50,000	2,10,000
2013	5,75,000	1,80,000

Goodwill may be calculated on the basis of capitalization method taking 20% as the normal rate of return. Purchase consideration is discharged by Huge Ltd. on the basis of intrinsic value per share. Both companies decided to cancel the proposed dividend as it has already been not approved by Board of Directors.

Pass Journal Entries and prepare the balance sheet of Huge Ltd. after the merger. **(SM)**

(Ans: Total of Balance sheet Rs. 28,49,960)

Note: ____

<u>Problem 11:</u> (PRINTED SOLUTION AVAILABLE) The financial position of two companies M/s. Abhay Ltd. and M/s. Asha Ltd. as on 31-3-2015 is as follows:

Balance Sheet as on 31-3-2015

	Abhay Ltd. (Rs)	Asha Ltd. (Rs)
Sources of Funds		
Share Capital - Issued and Subscribed		
15,000 equity shares @ Rs 100, fully paid	15,00,000	
10,000 equity shares @ Rs 100, fully paid		10,00,000
General Reserve	2,75,000	1,25,000
Profit & Loss	75,000	25,000
Securities Premium	1,50,000	50,000
Contingency Reserve	45,000	30,000
12% Debentures, @ Rs 100 fully paid		2,50,000
Sundry Creditors	55,000	35,000
	21,00,000	**15,15,000**
Application of Funds		
Land and Buildings	8,50,000	5,75,000
Plant and Machinery	3,45,000	2,25,000
Goodwill		1,45,000
Inventory	4,20,000	2,40,000
Sundry Debtors	3,05,000	2,85,000
Bank	1,80,000	45,000
	21,00,000	**15,15,000**

They decided to merge and form a new company M/s. Abhilasha Ltd: as on 1-4-2015 on the following terms:

1. Goodwill to be valued at 2 years purchase of the super profits. The normal rate of return is 10% of the combined share capital and general reserve. All other reserves are to be ignored for the purpose of goodwill.

Average profits of M/s. Abhay Ltd. is Rs 2,75,000 and M/s. Asha Ltd. is Rs 1,75,000.

2. Land and Buildings, Plant and machinery and Inventory of both companies to be valued at 10% above book value and a provision of 10% to be provided on Sundry Debtors.

3. 12% debentures to be redeemed by the issue of 12% preference shares of MIs. Abhilasha Ltd. (face value of Rs.100) at a premium of 10%.

4. Sundry creditors to be taken over at book value. There is an unrecorded liability of Rs 15,500 of MIs. Asha Ltd as on 1-4-2015.

5. The bank balance of both companies to be taken over by M/s. Abhilasha Ltd. after deducting liquidation expenses of Rs 60,000 to be borne by MIs. Abhay Ltd. and MIs. Asha Ltd. in the ratio of 2:1.

You are required to:

1. Compute the basis on which shares of MIs. Abhilasha Ltd. are to be issued to the shareholders of the existing company assuming that the nominal value of per share of MIs. Abhilasha Ltd. is Rs 100.

2. Draw Balance Sheet of MIs. Abhilasha Ltd. as on 1-4-2015 after the amalgamation.

(MAY-2015)

(***Ans: (i) No. of equity shares of Abhay Ltd. 23,310 & Asha Ltd. 12,250 (ii) Total of Balance sheet Rs. 39,36,500 Goodwill of Abhay ltd-1,95,000 Asha ltd-1,25,000)***

(Solve problem no. 10 of assignment problems as rework)

Note: ____

____

Problem 12: B Ltd. and C Ltd. were competing companies both of which had incurred losses in recent years. Their respective balances sheets as on 30th June 2003 were as follows:

***Name of the Companies:* B Ltd.**

***Balance Sheet as at :* 30th June 2003**

			Particulars	*Notes No.*	Rs.
			1	2	3
			EQUITY AND LIABILITIES:		
			Shareholder's funds		
1	a		Share capital	1	1,00,000
	b		Reserves and Surplus	2	(19,420)
			Non-current liabilities		
2	a		Other long term liabilities		
			Bank overdraft		6,050
			Current liabilities		
3	a		Trade Payable(creditors)		18,560
			TOTAL		**1,05,190**
			ASSETS:		
			Non-current assets		
1	a		Fixed assets		
		i	Tangible assets	3	44,600
		Ii	Intangible assets	4	2,500
			Current Assets		
2	a		Inventories (Stock)		42,460
	b		Trade receivables (Debtors)		15,630
			TOTAL		**1,05,190**

Note to accounts:

Particulars	Rs.
1. Share capital	
10,000 equity shares of Rs.10 each fully paid up	1,00,000
2. Reserves and Surplus	
Profit and Loss A/c	(19,420)
3. Tangible Assets	
Plants	40,000
Furniture & Fittings	4,600
4. Intangible Assets	
Patents	2,500

Name of the Companies: **C Ltd.**

Balance Sheet as at: **30th June 2003**

			Particulars	Notes No.	Rs.
			1	2	3
			EQUITY AND LIABILITIES:		
			Shareholder's funds		
1	a		Share capital	1	60,000
	b		Reserves and Surplus	2	640
			Current liabilities		
2	a		Trade Payable (Creditors)		8,310
			TOTAL		**68,950**
			ASSETS:		
			Non-current assets		
1	a		Fixed assets		
		i	Tangible assets	3	24,280
		ii	Intangible assets	4	18,000
			Current Assets		
	a		Inventories (Stock)		16,990
2	b		Trade receivables (Debtors)		9,550
			Cash And Cash Equivalent		130
			TOTAL		**68,950**

Note to Accounts:

Particulars	Rs.
1. Share capital	
12,000 Equity Shares of Rs.5 each fully paid	60,000
2. Reserves and Surplus	
Profit and Loss A/c	640
3. Tangible Assets	
Plants	21,000
Furniture & Fittings	3,280
4. Intangible Assets	
Good Will	10,000
Patents	8,000

In order to eliminate competition & provide for more economical working as well as to make it possible to introduce fresh capital, the following arrangements were made and carried into effect:

a. Both companies were to be wound up, a new company A Ltd. being formed to take over both businesses.

b. A Ltd. took over the floating assets of both companies at book value (but not C Ltd's cash) and the fixed assets at the following valuation.

Particulars	B Ltd	C Ltd.
Goodwill	1,000	1,000
Patents	500	2,000
Plants	27,000	11,000
Furniture & Fittings	3,000	2,300
	31,500	***16,300***

c. The consideration for the assets of B Ltd. was satisfied by the issue of 1,200 12% preference shares of Rs.10 each and Rs.64,490 in Rs.10 equity shares of A Ltd. fully paid and the balance in cash and for the assets of C Ltd. Rs.34,300 in Rs.10 equity shares of A Ltd. and the balance in cash.

d. The liquidator of B Ltd transferred the preference shares to a loan creditor of Rs.12,000 in satisfaction of his claim. The equity shares were distributed pro-rata among the shareholders of each of the original companies, the cash being just sufficient to satisfy the creditors of each company and the expenses of liquidation to be borne by B Ltd. & C Ltd. amounted to Rs.500 and Rs.300 respectively.

e. In order to provide the necessary cash A Ltd. issued 100, 15% debentures of Rs.100 each at a discount of 5% and 1,800, 12% Preference Shares of Rs.10 each at par, these were fully paid up.
You are required to show the necessary opening entries in the books of A Ltd.

(Ans.: P.C (B Ltd.) Rs.89,590, (C Ltd.) Rs.42,840)

(Solve problem no. 12 of assignment problems as rework)

Note: ____________________

ASSIGNMENT PROBLEMS

Problem 1: Neel Ltd. and Gagan Ltd. amalgamated to form a new company on 1.04.2015. Following is the Draft Balance Sheet of Neel Ltd. and Gagan Ltd. as at 31.3.2015:

Liabilities	Neel	Gagan	Assets	Neel	Gagan
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:

1. The authorised capital of the new company will be Rs. 25,00,000 divided into 1,00,000 equity shares of Rs. 25 each.
2. Liabilities of Neel Ltd. includes Rs. 50,000 due to Gagan Ltd. for the purchases made. Gagan Ltd. made a profit of 20% on sale to Neel Ltd.
3. Neel Ltd. had purchased goods costing Rs. 10,000 from Gagan Ltd. All these goods are included in the current asset of Neel Ltd. as at 31st March, 2015.
4. The assets of Neel Ltd. and Gagan Ltd. are to be revalued as under:

Particulars	Neel	Gagan
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000

5. 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:

Particulars	Neel	Gagan
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 net assets in the business as on 31.3.2015 after revaluation of assets of Neel Ltd. and Gagan Ltd. respectively.

You are required to compute the

1. Equity and preference shares issued to Neel Ltd. and Gagan Ltd.,
2. Purchase consideration. **(SM)**

(Ans: (i) Equity shares of Neel and Gagan is 11,400 and 12,600 shares & Preference shares of Neel and Gagan is 56,000 and 61,600 shares (ii) Purchase consideration of Neel and Gagan is Rs. 8,45,000 and Rs.9,31,000)

(Solve problem no. 1 of assignment problems as rework)

Problem 2: Following is the summarized Balance Sheet of X Co. Ltd. as at 31st March, 2015:

Balance Sheet as at 31st March, 2015

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
Trade payables	2,00,000	Inventory in trade	3,00,000
		trade receivables	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:

1. Each equity share in X Co. Ltd. for the purpose of absorption is to be valued at Rs. 80.
2. Equity shares will be issued by Y Co. Ltd. by valuing its each equity shares of Rs. 100 each at Rs. 120 per share.
3. 11% Preference shareholders of X Co. Ltd. will be given 11% redeemable debentures of Y Co. Ltd. at equivalent value.
4. 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. **(PM)**

(Ans: Purchase consideration Rs. 17,00,000)

Problem 3: S. Ltd. is absorbed by P. Ltd. The draft balance sheet of S. Ltd. is as under:

Balance Sheet

Liabilities	Rs.	Assets	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 payables	1,00,000		
	13,00,000		13,00,000

P. Ltd. has agreed:

i) 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.

ii) 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%;

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

iv) To assume the liability to trade payables.

You are required to calculate the purchase consideration. **(SM)**

(Ans: Purchase consideration Rs. 10,00,000)

Problem 4: Y Ltd. decides to absorb X Ltd. The Balance Sheet of X Ltd. is as follows:

Name of the Company: X Ltd

Balance Sheet as at : 31st march 2012

			Particulars	*Notes No.*	*X Ltd (Rs.)*
			1	2	3
			EQUITY AND LIABILITIES:		
			Shareholder's funds		
1	a		Share capital	1	3,60,000
	b		Reserves and Surplus	2	(70,000)
			TOTAL		**2,90,000**
			ASSETS		
1	a		Current assets		2,90,000
			TOTAL		**2,90,000**

Notes to Accounts:

Particulars	Rs.
1. Shareholder's funds	
3,000 equity shares of **Rs.**100 each(fully paid)	3,00,000
Preference shares	60,000
2. Reserves and Surplus	
Profit and loss A/c	(70,000)

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. Calculate purchase consideration to be paid by Y Ltd. and how will it be discharged?

(Ans: Rs.27,00,000, 1,750 equity shares)

Problem 5: The following are the summarized Balance Sheets of P Ltd. and Q Ltd. as on 31st March, 2014:

Liabilities	P Ltd. Rs.	Q Ltd. Rs.	Assets	P Ltd. Rs.	Q Ltd. Rs.
Share Capital			Fixed Assets	7,00,000	2,50,000
Equity Shares of Rs. 10 each	6,00,000	3,00,000	Investment	80,000	80,000
10% Pref. Shares of Rs. 100 each	2,00,000	1,00,000	**Current assets:**		
Reserves & Surplus	3,00,000	2,00,000	Inventory	2,40,000	3,20,000
Secured Loans:			Trade receivables	4,20,000	2,10,000

12% Debentures	2,00,000	1,50,000	Cash at bank	1,10,000	40,000
Current Liabilities:					
Trade payables	2,50,000	1,50,000			
	15,50,000	**9,00,000**		**15,50,000**	**9,00,000**

Details of Trade receivables and trade payables are as under:

Particulars	P Ltd. (Rs.)	Q Ltd. (Rs.)
Trade receivables		
Debtors	3,60,000	1,90,000
Bills Receivable	60,000	20,000
	4,20,000	**2,10,000**
Trade payables		
Sundry Creditors	2,20,000	1,25,000
Bills Payable	30,000	25,000
	2,50,000	**1,50,000**

Fixed Assets of both the companies are to be revalued at 15% above book value.

Inventory in Trade and Debtors are taken over at 5% lesser than their book value. Both the companies are to pay 10% Equity dividend, Preference dividend having been already paid.

After the above transactions are given effect to, P Ltd. will absorb Q Ltd. on the following terms:

1. 8 Equity Shares of Rs.10 each will be issued by P Ltd. at par against 6 shares of Q Ltd.
2. 10% Preference Shareholders of Q Ltd. will be paid at 10% discount by issue of 10% Preference Shares of Rs.100 each at par in P Ltd.
3. 12% Debenture holders of Q Ltd. are to be paid at 8% premium by 12% Debentures in P Ltd. issued at a discount of 10%.
4. Rs. 30,000 is to be paid by P Ltd. to Q Ltd. for Liquidation expenses. Sundry Creditors of Q Ltd. include Rs. 10,000 due to P Ltd.

Prepare:

1. Journal entries in the books of P Ltd.
2. Statement of consideration payable by P Ltd. **(Nov. 2014 – RTP, SM)**

(Ans: Pc under payment method Rs. 4,90,000 & Profit on amalgamation Rs. 80,000)

Problem 6: The summarised Balance Sheet of Mars Ltd. as on 31st March, 2015 was as follow:

Liabilities	Rs.	Assets	Rs.
Share Capital:		**Fixed Assets:**	
1,00,000 Equity shares of Rs.10 each fully paid up	10,00,000	Land and building	7,64,000
Reserve and surplus:		**Current Assets:**	
Capital reserve	42,000	Inventory	7,75,000
Contingency reserve	2,70,000	Trade receivables	1,82,000
Profit and loss A/c	2,52,000	Cash at bank	3,29,000
Current Liabilities & Provisions:			
Trade payables	2,66,000		
Provision for income tax	2,20,000		
	20,50,000		**20,50,000**

On 1st April, 2015, Jupiter Limited agreed to absorb Mars Limited on the following terms and conditions:

1. Jupiter Limited will take over the assets at the following values:

Particulars	Rs.
Land and building	10,80,000
Inventory	7,70,000
Bills receivable	30,000

2. Purchase consideration will be settled by Jupiter Ltd. as under:

   4,100 fully paid 10% preference shares of Rs. 100 will be issued and the balance will be settled by issuing equity shares of Rs. 10 each at Rs. 8 paid up.

3. Liquidation expenses are to be reimbursed by Jupiter Ltd. to the extent of Rs. 5,000.
4. Trade receivables realized Rs. 1,50,000. Bills payable were settled for Rs. 38,000. Income tax authorities fixed the taxation liability at Rs. 2,22,000 and the same was paid.
5. Trade payables were finally settled with cash remaining after meeting liquidation expenses amounting to Rs. 8,000.
6. Details of trade receivables and trade payables as under:

Trade Receivables		**Amount**
Trade receivables	1,60,000	
Less : Provision for doubtful debts	(8,000)	1,52,000
Bill receivable		30,000
		1,82,000
Trade Payables		
Bills payable		40,000
creditors		2,26,000
		2,66,000

You are required to:

1. Calculate the number of equity shares and preference shares to be allotted by Jupiter Limited in discharge of purchase consideration
2. Prepare the Realisation account, Bank account, Equity shareholders account and Jupiter Limited's account in the books of Mars Ltd. **(PM)**

(Ans: (i) No. of equity shares 1,83,750 & Preference shares 4,100 (ii) Realisation Profit Rs.3,16,000)

Problem 7: The following was the Balance Sheet of V Ltd. as on 31st March, 2015:

Particulars	Note No.	Amount (Rs. in lakhs)
EQUITY AND LIABILITIES:		
(1) Shareholders' Funds		
(a) Share Capital	1	1,150
(b) Reserves and Surplus	2	(87)
(2) Non-current Liabilities		
(a) Long-term Borrowings	3	630
(3) Current Liabilities		
Trade Payables		170
Total		**1,863**

ASSETS:		
(1) Non-current Assets		
Tangible Assets	4	1,152
(2) Current Assets		
Inventories		380
Trade Receivables		256
Cash and Cash equivalents	5	75
Total		**1,863**

Notes:

(1) Share Capital	
Authorised :	?
Issued, Subscribed and Paid up :	
80 lakhs Equity Shares of Rs. 10 each, fully paid up	800
35 lakhs 12% Cumulative Preference Shares of Rs. 10 each, fully paid up	350
Total	**1,150**
(2) Reserves and Surplus	
Profit & Loss Account	(87)
(3) Long-term Borrowings	
10% Secured Cumulative Debentures of Rs. 100 each, fully paid up	600
Outstanding Debenture Interest	30
Total	**630**
(4) Tangible Assets	
Land and Buildings	445
Plant and Machinery	593
Furniture, Fixtures and Fittings	114
Total	**1,152**
(5) Cash and Cash Equivalents	
Balance at Bank	69
Cash in hand	6
Total	**75**

On 1st April, 2015, P Ltd. took over the entire business of V Ltd. on the following terms:

V Ltd.'s equity shareholders would receive 4 fully paid equity shares of P Ltd. of Rs. 10 each issued at a premium of Rs. 2.50 each for every five shares held by them in V Ltd.

Preference shareholders of V Ltd. would get 35 lakhs 13% Cumulative Preference Shares of Rs. 10 each fully paid up in P Ltd., in lieu of their present holding.

All the debentures of V Ltd. would be converted into equal number of 10.5% Secured Cumulative Debentures of Rs. 100 each, fully paid up after the takeover by P Ltd., which would also pay outstanding debenture interest in cash.

Expenses of amalgamation would be borne by P Ltd. Expenses came to be Rs. 2 lakhs. P Ltd. discovered that its trade payables included Rs. 7 lakhs due to V Ltd. for goods purchased.

Also P Ltd.'s Inventory included goods of the invoice price of Rs. 5 lakhs earlier purchased from V Ltd., which had charged profit @ 20% of the invoice price.

You are required to:

1. Prepare Realisation A/c in the books of V Ltd.
2. Pass journal entries in the books of P Ltd. assuming it to be an amalgamation in the nature of merger. **(PM)** ***(Ans: Purchase Consideration Rs.1,150 lakhs; Realisation Profit Rs 87lakhs)***

Problem 8: A Ltd. and B Ltd. were amalgamated on and from 1st April, 2012. A new company C Ltd. was formed to take over the business of the existing companies. The summarized Balance Sheets of A Ltd. and B Ltd. as on 31st March, 2012 are given below:

Liabilities	*(Rs. in lakhs)*		*Assets*	*(Rs. in lakhs)*	
	A Ltd.	*B Ltd.*		*A Ltd.*	*B Ltd.*
Share Capital			Fixed Assets		
Equity Shares of Rs. 100 each	800	750	Land and Building	550	400
12% Preference shares of Rs.100 each	300	200	Plant & Machinery	350	250
			Investments	150	50
			Current Assets, Loans & Advances		
Reserves and Surplus			Stock	350	250
Revaluation Reserve	150	100	Sundry Debtors	250	300
General Reserve	170	150	Bills Receivable	50	50
Investment Allowance Reserve	50	50	Cash and Bank	300	200
Profit and Loss Account	50	30			
Secured Loans					
10% Debentures (Rs.100 each)	60	30			
Current Liabilities and Provisions					
Sundry Creditors	270	120			
Bills Payable	150	70			
	2,000	1,500		2,000	1,500

Additional Information:

1. 10% Debenture holders of A Ltd. and B Ltd. are discharged by C Ltd. issuing such number of its 15% Debentures of **Rs.**100 each so as to maintain the same amount of interest.
2. Preference shareholders of the two companies are issued equivalent number of 15% preference shares of C Ltd. at a price of **Rs.**150 per share (face value of **Rs.**100).
3. C Ltd. will issue 5 equity shares for each equity share of A Ltd. and 4 equity shares for each equity share of B Ltd. The shares are to be issued @ Rs. 30 each, having a face value of **Rs.** 10 per share.
4. Investment allowance reserve is to be maintained for 4 more years.

Prepare the Balance Sheet of C Ltd. as on 1st April, 2012 after the amalgamation has been carried out on the basis of Amalgamation in the nature of purchase. ***(May 2013 - RTP)***

(Ans.: Purchase consideration to A ltd. Rs.1650 lakhs, B ltd Rs. 1200 lakhs)

Problem 9: Ram Limited and Shyam Limited carry on business of a similar nature and it is agreed that they should amalgamate. A new company, Ram and Shyam Limited, is to be formed to which the assets and liabilities of the existing companies, with certain exception, are to be transferred. On 31st March 2015, the Summarized Balance Sheets of the two companies were as under:

Ram Limited Balance Sheet as at 31st March, 2015

Liabilities	Rs.	Assets	Rs.
Issued and Subscribed Share Capital:		Freehold Property, at cost	2,10,000
30,000 Equity Shares of Rs. 10 each, fully paid	3,00,000	Plant and Machinery, at cost less Depreciation	50,000
General Reserve	1,60,000	Motor Vehicles, at cost Less Depreciation	20,000
Profit and Loss Account	40,000	Inventory	1,20,000
Trade payables	1,50,000	Trade receivables	1,64,000
		Cash at Bank	86,000
	6,50,000		**6,50,000**

Shyam Limited Balance Sheet as at 31st March, 2015

Liabilities	Rs.	Assets	Rs.
Issued and Subscribed Share Capital:		Freehold Property, at cost	1,20,000
16,000 Equity Shares of Rs. 10 each, fully paid	1,60,000	Plant and Machinery, at cost less Depreciation	30,000
6% Debentures	1,20,000	Inventory	1,56,000
Profit and Loss Account	40,000	Trade receivables	42,000
Trade payables	64,000	Cash at Bank	36,000
	3,84,000		**3,84,000**

Assets and Liabilities are to be taken at book-value, with the following exceptions:

1. Goodwill of Ram Limited and of Shyam Limited is to be valued at Rs. 1,60,000 and Rs. 60,000 respectively.
2. Motor Vehicles of Ram Limited are to be valued at Rs. 60,000.
3. The debentures of Shyam Limited are to be discharged by the issue of 6% Debentures of Ram and Shyam Limited at a premium of 5%.
4. The Trade receivables of Shyam Ltd. realized fully and Bank Balance of Shyam Limited are to be retained by the liquidator and the Trade payables of Shyam Ltd. are to be paid out of the proceeds thereof.

You are required to:

1. Compute the basis on which shares in Ram and Shyam Limited will be issued to the Shareholders of the existing companies assuming that the nominal value of each share in Ram and Shyam Limited is Rs. 10.
2. Draw up a Balance Sheet of Ram and Shyam Limited as of 1st April, 2015, the date of completion of amalgamation.
3. Write up Journal entries, including Bank entries, for closing the books of Shyam Limited. **(PM)**

(Ans: (i) No. of shares of Ram ltd. 70,000 & Shyam ltd. 24,000;
(ii) Total of Balance sheet Rs. 12,16,000)

Problem 10: Super Express Ltd. and Fast Express Ltd. were in competing business. They decided to form a new company named Super-Fast Express Ltd. The summarized balance sheets of both the companies were as under:

Name of the Companies : Super Ltd and Fast Ltd

Balance Sheet as at : 31st march 2014

			Particulars	Notes No.	Super express Ltd. (Rs.)	Fast express Ltd. (Rs.)
			1	2	3	4
1			**EQUITY AND LIABILITIES:**			
			Shareholder's funds			
	a		Share capital	1	20,00,000	10,00,000
	b		Reserves and Surplus	2	1,00,000	2,60,000
2			**Current liabilities**			
	a		Trade Payable (sundry creditors)		60,000	40,000
	b		Short term provisions (Provident fund)		1,00,000	-
			TOTAL		**22,60,000**	**13,00,000**
1			**ASSETS:**			
			Non-current assets			
	a		Fixed assets			

		I	Tangible assets	3	14,00,000	11,00,000
		ii	Intangible assets (Goodwill)		-	1,00,000
2			**Current Assets**			
	a		Inventories (Stock)		3,00,000	40,000
	b		Trade receivables (Debtors)		2,40,000	40,000
	c		Cash and cash equivalents	4	3,20,000	20,000
			TOTAL		**22,60,000**	**13,00,000**

Notes to Accounts:

Particulars	Super express	Fast express
1. Shareholder's funds		
20,000 equity shares of Rs.100 each	20,00,000	-
10,000 equity shares of Rs.100 each		10,00,000
2. Reserves and Surplus		
Insurance reserve	1,00,000	-
Employees profit sharing account	-	60,000
Reserve account	-	1,00,000
Surplus	-	1,00,000
3. Tangible assets		
Building	10,00,000	6,00,000
Machinery	4,00,000	5,00,000
4. Cash and cash equivalents		
Cash at bank	2,20,000	10,000
Cash in hand	1,00,000	10,000

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 amounting to Rs.30,000 (20,000 for Super-Fast express Ltd. and 10,000 for fast express Ltd.). Prepare opening balance sheet of Super-Fast Express Ltd. **(PM)**

(Ans: Total of Balance sheet -35,60,000(As per pooling of Interest method))

Problem 11: The following are the summarized Balance Sheets of A Ltd. and B Ltd. as on 31.3.2014:

Particulars	(Rs.in thousands)	
Liabilities	**A Ltd.**	**B Ltd.**
Share capital:		
Equity shares of 100 each fully paid up	2,000	1,000
Reserves	800	---
10% Debentures	500	---
Loans from Banks	250	450
Bank overdrafts	---	50
Trade payables	300	300
Proposed dividend	200	---
Total	**4,050**	**1,800**
Assets		
Tangible assets/fixed assets	2,700	850
Investments	700	---
Trade receivables	400	150
Cash at bank	250	---
Accumulated loss	---	800
Total	**4,050**	**1,800**

B Ltd. has acquired the business of A Ltd. The following scheme of merger was approved:

i) Banks agreed to waive off the loan of Rs. 60 thousands of B Ltd.

ii) B Ltd. will reduce its shares to Rs. 10 per share and then consolidate 10 such shares into one share of Rs. 100 each (new share).

iii) Shareholders of A Ltd. will be given one share (new) of B Ltd. in exchange of every share held in A Ltd.

iv) Proposed dividend of A Ltd. will be paid after merger to shareholders of A Ltd.

v) Trade payables of B Ltd. includes Rs. 100 thousands payable to A Ltd.

Pass necessary entries in the books of B Ltd. and prepare Balance Sheet after merger.

(SM) ***(Ans: Total of Balance sheet Rs. 47,50,000)***

Problem 12: The Balance Sheets 'P' Ltd. & 'Q' Ltd. as on 31.3.2003 were as follows:

***Name of the Companies:* P Ltd and Q Ltd.**

Balance Sheet as at :* 31.3.2003** ***(Rs. in 000's)

			Particulars	*Notes No.*	*P Ltd (Rs.)*	*Q Ltd (Rs.)*
			1	2	3	4
			EQUITY AND LIABILITIES:			
			Shareholder's funds			
1	a		Share capital	1	20,000	4,000
	b		Reserves and Surplus	2	8,900	320
			Current liabilities			
2	a		Trade Payable (Creditors)		500	210
			TOTAL		**29,400**	**4,530**
			ASSETS			
			Non-current assets			
1			Fixed assets			
	a	i)	Tangible assets	3	21,500	950
		ii)	In tangible assets	4	2,000	-
		iii)	Non-current investment		1,150	-
			Current Assets			
	a		Inventories(stock)		3,500	2,790
2	b		Trade receivables(debtors)		800	620
	c		Cash and cash equivalents (cash at bank)		450	170
			TOTAL		**29,400**	***4,530***

Note to Accounts:

Particulars	*P Ltd (Rs.)*	*Q Ltd (Rs.)*
1. Share capital		
20,00,000 E. shares of Rs.10 each	20,000	-
4,00,000 E. shares of Rs.10 each	-	4,000
2. Reserves and Surplus		
General Reserve	8,000	-
Profit and Loss A/c	900	320
3. Tangible Assets		
Land & Building	6,000	-
Plant & Machinery	15,500	-
Motor vehicles	-	600
Furniture	-	350
4. In Tangible Assets		
Patents	2,000	-

A new Company, 'R Ltd'. was formed to acquire the assets & liabilities of 'P Ltd'. & 'Q Ltd'. The terms of acquisition of business were as under:

1. 'R Ltd'. to have an authorised capital of Rs.4,50,00,000 divided into 50,000, 13% P. shares of Rs.100 each and 40,00,000 equity shares of Rs.10 each
2. Business of 'P Ltd'. Valued at Rs.3,00,00,000; settlement being made by issue of fully paid Equity shares at Rs.12.
3. Business of 'Q Ltd'. Valued at 48,00,000 to be satisfied by issue of fully-paid shares at Rs.12.
4. 'R Ltd'. made a public issue of 30,000 P. shares at par and 3,00,000 E. shares at Rs.12. The issue was underwritten at the commission allowed by law and was fully subscribed. All obligations were met.
5. 'S Ltd'. who mooted the scheme, was allotted 40,000 equity shares (fully paid) at Rs.12 in consideration of his services.

You are required to make opening entries in the books 'R Ltd'.

(Ans.: Total of realisation A/c of Q Ltd. Rs.5010000)

THEORY QUESTIONS

1. Distinguish between the pooling of interest method and the purchase method of recording transactions relating to amalgamation? **(May - 2002, Nov 2013)**
2. Briefly explain the methods of accounting for amalgamation as per AS-14? **(May - 2004, Nov -2007)**
3. What are the conditions that are to be satisfied for amalgamation in the nature of merger in an amalgamation? **(Nov- 2006, 2009, 2015)**
4. Briefly explain the types of amalgamations? **(May - 2012)**
5. What disclosures should be made in the first financial statement following amalgamation? **(Nov - 2011)**
6. Give journal entries to be passed for accounting unrealized profit on stock, under amalgamation. **(May - 2009)**

ABC ANALYSIS

	A Category	B Category	C Category
Class Room Problems	1, 5, 6, 7, 8, 11, 4, 12	2, 3, 10	9
Assignment Problems	2, 10, 8, 11	1, 5, 7, 3, 4, 12	6, 9

Verified by: Hari Narayana Sir,
Mahesh Sir,
Executed by: Rajasekhar Sir

THE END