

3. AMALGAMATION OF COMPANIES

PROBLEM NO: 1

Calculation of Purchase Consideration under Net Assets Method

Particulars	Rs.	Rs.
Sundry assets $18,00,000 \times \frac{75}{100} \times \frac{112}{100} =$	15,12,000	
$18,00,000 \times \frac{25}{100} \times \frac{92}{100} =$	<u>4,14,000</u>	19,26,000
Less: Liabilities:		
10% Debentures	2,00,000	
Trade payables	2,40,000	
Bank overdraft	50,000	
Unrecorded liability	<u>25,000</u>	(5,15,000)
Purchase consideration		14,11,000

PROBLEM NO: 2

Value of 3,000 shares of X Ltd. @ Rs.70 = Rs.2,10,000

The purchase consideration will be:

= Rs.2,10,000 for equity shares + Rs.60,000 for Liability towards preference shareholders

= Rs.2,70,000

Rs. 60,000 out of the above will be in cash and Rs. 2,10,000 in the form of equity shares of Y Ltd., issued at Rs. 120 per share; the number of shares that will be issued = $2,10,000/120 = 1,750$ equity shares.

PROBLEM NO: 3

The purchase consideration will be

	Amount (Rs.)	Form
Preference shareholders : $2,000 \times \frac{3}{4} \times 100$	1,50,000	9% Pref. shares
Equity shareholders : $5,000 \times 20$	1,00,000	Cash
$5,000 \times \frac{6}{5} \times 125$	7,50,000	Equity shares
	10,00,000	

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. Therefore, debentures issued to the debentures holders will not be included in purchase consideration. Like trade payables. The liability in respect of debentures of S. Ltd. Will be taken by P Ltd. Which will then be settled by issuing new 8% debentures.

PROBLEM NO: 4

Realization Account

Particulars	Rs.	Particulars	Rs.
To Sundry assets	1,20,000	By Creditors	25,000
		By XY Ltd. (WN:1)	75,000
		By Shareholders (Loss on realization)	20,000
	<u>1,20,000</u>		<u>1,20,000</u>

Shareholders A/c

Particulars	Amount	Particulars	Amount
To Realisation Account (Loss)	20,000	By Share Capital	1,00,000
To Shares in XY Ltd.	90,000	By Profit and Loss Account	10,000
	<u>1,10,000</u>		<u>1,10,000</u>

Loan Y Ltd.

Particulars	Amount	Particulars	Amount
To Balance b/d.	15,000	By Shares in XY Ltd	15,000
	<u>15,000</u>		<u>15,000</u>

Shares in XY Ltd.

Particulars	Amount	Particulars	Amount
To XY Ltd.	75,000	By Share holders	90,000
To Loan Y Ltd.	15,000		
	<u>90,000</u>		<u>90,000</u>

XY Ltd

Particulars	Amount	Particulars	Amount
To Realization A/c. (PC due)	75,000	By Shares in XY Ltd	75,000
	<u>75,000</u>		<u>75,000</u>

Working note: 1**Computation of Purchase Consideration:**

Agreed value of assets taken over	= Rs.1,00,000
Less: Agreed value of liabilities taken over	= <u>Rs.25,000</u>
Purchase consideration	= <u>Rs.75,000</u>

PROBLEM NO: 5Balance Sheet of C Ltd. As at 1st April, 2012

(Rupees in Lakhs)

Particulars	Note No.	Amount
I. Equity and Liabilities:		
(1) Shareholder's Funds		
(a) Share Capital	1	1,200
(b) Reserves and Surplus	2	1,650
(2) Non-Current Liabilities		
Long-term borrowings	3	60
(3) Current Liabilities		
Trade Payables	4	610
Total		3,520
II. Assets:		
(1) Non-Current assets		
(a) Fixed assets		
(i) Tangible assets	5	1,550
(ii) Intangible assets	6	20

(b) Non-current investments	7	200
(2) Current assets		
(a) Inventory		600
(b) Trade receivables	8	650
(c) Cash and cash equivalents		500
Total		3,520

NOTE TO ACCOUNTS:

	Particulars	Amount (Rs. in Lakhs)	Amount (Rs. in Lakhs)
1. Share Capital			
	Equity share capital		
	70 Lakhs Equity shares of Rs.10 each	700	
	5 Lakhs Preference shares of Rs.100 each	500	1,200
	(all the above shares are allotted as fully paid-up pursuant to contracts without payment being received in cash)		
2. Reserves and surplus			
	Securities Premium Account		
	On equity shares – 70 Lakhs shares x Rs.20 = 1,400		
	On preference shares - 5 Lakhs shares x Rs.50 = 250	1650	
	Investment Allowance Reserve	100	
	Amalgamation adjustment Reserve	(100)	1,650
3. Long – term borrowings			
	15% Debentures		60
4. Trade payables			
	Sundry creditors	390	
	Bills payables	220	610
5. Tangible assets			
	Land and Buildings	950	
	Plant and Machinery	600	1,550
6. Intangible assets			
	Goodwill [W.N.2] (110 – 90)		20
7. Non – current investments			
	Investments		200
8. Trade receivables			
	Sundry Debtors	550	
	Bills receivables	100	650

WORKING NOTES:

		(Rupees in Lakhs)	
		A Ltd.	B Ltd.
1. Computation of Purchase consideration			
	(a)Preference shareholders:		
	[3,00,00,000/100] i.e. 3,00,000 shares x Rs. 150 each	450	
	[2,00,00,000/100] i.e. 2,00,000 shares x Rs. 150 each		300
	(b)Equity shareholders:		
	[8,00,00,000 x 5/100] i.e. 40,00,000 shares x Rs. 30 each	1200	
	[7,50,00,000 x 4/100] i.e. 30,00,000 shares x Rs. 30 each		900
	Amount of Purchase Consideration	1,650	1,200
2. Net Assets Taken Over			
	Assets taken over:		
	Land and Building	550	400

Plant and Machinery	350	250
Investments	150	50
Inventories	350	250
Sundry Debtors	250	300
Bills receivables	50	50
Cash and bank	300	200
Less: Liabilities taken over:		
Debentures	(40)	(20)
Sundry Creditors	(270)	(120)
Bills payable	(150)	(70)
Net assets taken over	1,540	1,290
Purchase consideration	1,650	1,200
Goodwill	110	
Capital reserve		90

PROBLEM NO: 6In the books of Gee Ltd.Journal entries

Business purchase A/c (W.N.1) To Liquidator of Pee Ltd. (Being business of Pee Ltd. taken over)	Dr.	25,85,000	25,85,000
Building A/c	Dr.	7,75,000	
Plant and machinery A/c	Dr.	8,50,000	
Furniture and fixtures A/c	Dr.	1,75,000	
Investments A/c	Dr.	2,50,000	
Inventory A/c	Dr.	4,75,000	
Debtors A/c	Dr.	4,60,000	
Bills receivables A/c	Dr.	55,000	
Bank A/c	Dr.	2,60,000	
To General reserve A/c (W.N.2) (2,50,000-2,35,000)			15,000
To Export profit reserve A/c			1,00,000
To Investment allowance reserve A/c			50,000
To Profit and loss A/c			1,25,000
To Liability for 15% Debentures A/c (Rs. 100 each)			1,75,000
To Trade creditors A/c			75,000
To Bills payables A/c			1,00,000
To Other current liabilities A/c			75,000
To Business purchase A/c (Being assets and liabilities taken over)			25,85,000
Liquidator of Pee Ltd.	Dr.	25,85,000	
To Equity share capital A/c			16,50,000
To 15% Preference share capital A/c			9,35,000
(Being purchase consideration discharged)			
General Reserve A/c *	Dr.	10,000	
To Cash at bank			10,000
(Being expenses of amalgamation paid)			
Liability for 15% Debentures in Pee Ltd. A/c	Dr.	1,75,000	
To 15% Debentures A/c			1,75,000
(Being debentures in Pee Ltd. discharged by issuing own 15% debentures)			
Bills payables A/c	Dr.	55,000	
To Bill receivables A/c			55,000
(Cancellation of mutual owing on account of bills of exchange)			

*It can also be adjusted against Profit & Loss A/c

Opening Balance Sheet of Gee Ltd. (after absorption)
as on 1st April, 2015

	Particulars	Notes	Rs.
1.	Equity and Liabilities		
	Shareholders' funds		
	a. Share capital	1	61,85,000
	b. Reserves and Surplus	2	10,55,000
2.	Non-current liabilities		
	a. Long-term borrowings	3	4,25,000
3.	Current liabilities		
	a. Trade Payables	4	3,45,000
	b. Other current liabilities	5	1,75,000
	Total		81,85,000
1.	Assets		
	Non-current assets		
	a. Fixed assets		
	Tangible assets	6	49,62,500
	b. Investments	7	6,00,000
2.	Current assets		
	a. Inventories	8	11,00,000
	b. Trade receivables	9	9,10,000
	c. Cash and cash equivalents	10	6,12,500
	Total		81,85,000

Notes to accounts:

Particulars	Amount	Amount
1. Share Capital		
Equity share capital		
4,15,000 Equity shares of Rs.10 each (Out of above, 1,65,000 shares were issued for consideration other than cash)		41,50,000
Preference share capital		
9,350 15% Preference shares of 100 each (Out of above, 9,350 shares were issued for consideration other than cash)		9,35,000
11,000 14% Preference Shares of Rs.100 each		11,00,000
		61,85,000
2. Reserves and Surplus		
General Reserve		
Opening balance	2,50,000	
Add: Adjustment under scheme of amalgamation	15,000	
Less: Amalgamation expense paid	(10,000)	2,55,000
Export profit reserve		
Opening balance	1,50,000	
Add: Adjustment under scheme of amalgamation	1,00,000	2,50,000
Investment allowance reserve		50,000
Profit and loss account		
Opening balance	3,75,000	
Add: Adjustment under scheme of amalgamation	1,25,000	5,00,000
Total		10,55,000
3. Long-term borrowings		
Secured		
15% Debentures	2,50,000	
Add: Adjustment under scheme of amalgamation	1,75,000	4,25,000
Total		4,25,000

4. Trade payables		
Creditors: Opening balance	1,50,000	
Add: adjustment under scheme of amalgamation	75,000	2,25,000
Bills payable: Opening balance	75,000	
Add: adjustment under scheme of amalgamation	1,00,000	
Less: Cancellation of mutual owings upon amalgamation	(55,000)	1,20,000
		3,45,000
5. Other current liabilities		
Opening balance	1,00,000	
Add: adjustment under scheme of amalgamation	75,000	1,75,000
6. Tangible assets		
Buildings – opening balance	12,50,000	
Add: adjustment under scheme of amalgamation	7,75,000	
Plant and Machinery – Opening balance	16,25,000	
Add: adjustment under scheme of amalgamation	8,50,000	24,75,000
Furniture and fixtures – Opening balance	2,87,500	
Add: adjustment under scheme of amalgamation	1,75,000	4,62,500
	Total	49,62,500
7. Investments		
Opening balance	3,50,000	
Add: adjustment under scheme of amalgamation	2,50,000	6,00,000
8. Inventories		
Opening balance	6,25,000	
Add: adjustment under scheme of amalgamation	4,75,000	11,00,000
9. Trade receivables:		
Debtors - Opening balance	4,00,000	
Add: adjustment under scheme of amalgamation	4,60,000	8,60,000
Bills receivable - Opening balance	50,000	
Add: adjustment under scheme of amalgamation	55,000	
Less: Cancellation of mutual owing on cancellation	(55,000)	50,000
Total		9,10,000
10. Cash and cash equivalents		
Opening balance	3,62,500	
Add: adjustment under scheme of amalgamation	2,60,000	
Less: Amalgamation expenses paid	(10,000)	6,12,500

Working Notes:**1. Calculation of purchase consideration**

Equity shareholders of Pee Ltd. (1,65,000 x 10)	16,50,000
Preference shareholders of Pee Ltd. (8,50,000 x 110%)	9,35,000
Purchase consideration would be	25,85,000

2. Amount to be adjusted from general reserve

The difference between the amount recorded as share capital issued and the amount of share capital of Transferor Company should be adjusted in General Reserve. Thus, General reserve will be adjusted as follows:

Purchase consideration	25,85,000
Less: Share capital issued (15,00,000 + 8,50,000)	(23,50,000)
Amount to be adjusted from general reserve	2,35,000

PROBLEM NO: 7**a) Journal Entries in the Books of P Ltd.**

Particulars		Debit (Rs.)	Credit (Rs.)
Fixed Assets a/c	Dr.	1,05,000	
To Revaluation Reserve a/c			1,05,000
(being Revaluation of fixed assets at 15% above book value)			
Reserves and surplus a/c	Dr.	60,000	
To Equity Dividend a/c			60,000
(Being declaration of equity dividend @ 10%)			
Equity Dividend a/c	Dr.	60,000	
To Bank a/c			60,000
(Being Payment of equity dividend)			
Business Purchases a/c	Dr.	4,90,000	
To Liquidator of Q Ltd.			4,90,000
(Being Consideration payable for the business taken over from Q Ltd.)			
Fixed Assets a/c (115% of Rs.2,50,000)	Dr.	2,87,500	
Inventory (95% of Rs. 3,20,000)	Dr.	3,04,000	
Debtors a/c	Dr.	1,90,000	
Bills Receivables a/c	Dr.	20,000	
Investment a/c	Dr.	80,000	
Cash at Bank a/c	Dr.	10,000	
(Rs.40,000 – Rs.30,000 dividend paid)			
To Provision for Bad Debts a/c (5% of Rs. 1,90,000)			9,500
To Sundry Creditors a/c			1,25,000
To 12% Debentures in Q Ltd. a/c			1,62,000
To Bills Payable a/c			25,000
To Business Purchases a/c			4,90,000
To Capital Reserve a/c (Balancing figure)			80,000
(Being Incorporation of various assets and liabilities taken over from Q Ltd. At agreed values and difference of net assets and purchase consideration being credited to capital reserve)			
Liquidator of Q Ltd. a/c	Dr.	4,90,000	
To Equity Share Capital a/c			4,00,000
To 10% Preference Share Capital a/c			90,000
(Being Discharge of consideration for Q Ltd .’s business)			
12% Debenture in Q Ltd. a/c (Rs. 1,50,000 x 108%)	Dr.	1,62,000	
Discount on issue of debenture a/c	Dr.	18,000	
To 12% Debentures a/c			1,80,000
(being Allotment of 12% Debentures to Debentures holders of Q Ltd. At a discount of 10%)			
Sundry Creditors a/c	Dr.	10,000	
To Sundry Debtors a/c			10,000
(Being Cancellation of mutual owing)			
Goodwill a/c	Dr.	30,000	
To Bank a/c			30,000
(Being liquidation expenses reimbursed to Q Ltd.)			
Capital Reserve a/c	Dr.	30,000	
To Goodwill a/c			30,000
(Being Goodwill set off)			

b) Statement of Consideration payable by P Ltd. for 30,000 shares (payments method)

Shares to be allotted = $30,000/6 \times 8 = 40,000$ shares of P Ltd.

Issued 40,000 shares of Rs. 10 each i.e. Rs. 4,00,000

(i) For 10% preference shares, to be paid at 10% discount

Rs.1,00,000/100 x 90 = Rs. 90,000

(ii) Consideration amount [(i) + (ii)] = Rs. 4,90,000

PROBLEM NO: 8

Books of P Ltd.

Realization Account

Particulars	Rs.	Particulars	Rs.
To Goodwill	1,00,000	By 8% Debentures	2,00,000
To Land & Building	4,50,000	By Trade payables/ Creditors	88,000
To plant & Machinery	6,20,000	By PQ Ltd.(Purchase consideration)	16,02,100
To Furniture & Fitting	1,00,000	By Equity shareholders A/c (Loss)	1,37,900
To Trade receivables/ Debtors	3,25,000		
To Inventory / Stock	2,33,000		
To Cash at bank	1,08,000		
To Cash in hand	54,000		
To Preference share holders (Excess Payment)	38,000		
	20,28,000		20,28,000

Equity shareholders A/c

Particulars	Rs.	Particulars	Rs.
To Realisation A/c (Loss)	1,37,900	By Share capital	8,20,000
To Equity shares in PQ Ltd.	10,82,400	By Profit & Loss A/c	3,52,000
To Cash	1,01,700	By General reserve	1,50,000
	13,22,000		13,22,000

9% Preference shareholders A/c

Particulars	Rs.	Particulars	Rs.
To Preference shares in PQ Ltd.	4,18,000	By Preference share capital	3,80,000
		By Realisation A/c	38,000
	4,18,000		4,18,000

PQ Ltd. A/c

Particulars	Rs.	Particulars	Rs.
To Realisation A/c	16,02,100	By Shares in PQ Ltd.	
		For Equity – 10,82,400	
		For Pref – 4,18,000	15,00,400
		By cash	1,01,700
	16,02,100		16,02,100

8% Debenture holders A/c

Particulars	Rs.	Particulars	Rs.
To 6% Debentures	2,00,000	By 8% Debentures	2,00,000

BOOKS OF Q Ltd.

Realisation A/c

Particulars	Rs.	Particulars	Rs.
To Goodwill	80,000	By 8% Debentures	1,00,000
To Land & Building	3,40,000	By Trade payables/ Creditors	1,60,000
To plant & Machinery	4,50,000	By Unsecured Loan	1,75,000
To Furniture & Fitting	50,000	By PQ Ltd.(Purchase consideration)	7,92,250
To Trade receivables/ Debtors	1,50,000	By Equity shareholders A/c (Loss)	90,750
To Inventory / Stock	1,05,000		
To Cash at bank	95,000		
To Cash in hand	20,000		
To Preference share holders	28,000		
	13,18,000		13,18,000

Equity shareholders A/c

Particulars	Rs.	Particulars	Rs.
To Equity shares in PQ Ltd.	4,22,400	By Share capital	3,20,000
To Realisation	90,750	By Profit & Loss A/c	2,05,000
To Cash	61,850	By General Reserve	50,000
	5,75,000		5,75,000

9% Preference shareholders A/c

Particulars	Rs.	Particulars	Rs.
To Preference shares in PQ Ltd.	3,08,000	By Share capital	2,80,000
		By Realisation	28,000
	3,08,000		3,08,000

PQ Ltd. A/c

Particulars	Rs.	Particulars	Rs.
To Realisation A/c	7,92,250	By Equity Shares in PQ Ltd.	
		For Equity – 4,22,400	
		For Pref. – 3,08,000	7,30,400
		By cash	61,850
	7,92,250		7,92,250

8% Debenture holders A/c

Particulars	Rs.	Particulars	Rs.
To 6% Debentures	1,00,000	By 8% Debentures	1,00,000

Working Notes:

i) Purchase consideration:

Particulars	P Ltd	Q Ltd
Payable to preference shareholders:		
Preference shares at Rs.22 per share	4,18,000	3,08,000
Equity Shares at Rs.22 per share	10,82,400	4,22,400
Cash [See W.N. (ii)]	1,01,700	61,850
	16,02,100	7,92,250

ii) Value of Net Assets :

Particulars	P Ltd.	Q Ltd.
Goodwill	1,00,000	80,000
Land & Building	4,50,000	3,40,000
Plant and Machinery less 10% Depreciation	5,58,000	4,05,000
Furniture & Fitting Less 10% Depreciation	90,000	45,000
Trade receivables less 5%	3,08,750	1,42,500

Inventory less 5%	2,21,350	99,750
Cash at Bank	1,08,000	95,000
Cash in hand	54,000	20,000
	18,90,100	12,27,250
Less: Debentures	(2,00,000)	(1,00,000)
Trade payables	(88,000)	(1,60,000)
Secured Loans	-	(1,75,000)
	16,02,100	7,92,250
Payable in Shares	15,00,400	7,30,400
Payable in Cash	1,01,700	(61,850)

iii)

	P	Q
Plant and Machinery	6,20,000	4,50,000
Less: Depreciation 10%	62,000	45,000
	5,58,000	4,05,000
Furniture & Fixtures	1,00,000	50,000
Less: Depreciation 10%	10,000	5,000
	90,000	45,000

PROBLEM NO. 9

(i) Calculation of number of shares to be allotted

Particulars	Amount (Rs.)
Land and building	10,80,000
Inventory	7,70,000
Bills receivables	30,000
Total	18,80,000
Amount discharged by issue of preference shares	4,10,000
Number of preference shares to be issued ($\frac{4,10,000}{100}$)	4,100 shares
Amount discharged by issue of equity shares (Rs.18,80,000 – Rs.4,10,000)	14,70,000
Number of equity shares to be issued ($\frac{14,70,000}{8}$)	1,83,750

(ii) Ledger Accounts in the books of Mars Limited

Realization Account.

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Land and building a/c	7,64,000	By Provision for doubtful debts a/c	8,000
To Inventory a/c	7,75,000	By Bills payable a/c	40,000
To Debtors a/c	1,60,000	By creditors a/c	2,26,000
To Bills receivables a/c	30,000	By Provision for taxation a/c	2,20,000
To Bank a/c – liquidation expenses	3,000	By Jupiter Ltd. a/c (purchase consideration)	18,80,000
To Bank a/c – bills payable	38,000		
To Bank a/c – income tax	2,22,000		
To Bank a/c – creditors	2,16,000	By Bank a/c – debtors	1,50,000
To Profit (transferred to equity shareholders a/c)	3,16,000		
	25,24,000		25,24,000

Bank Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Balance b/d	3,29,000	By Realisation a/c (liquidation expenses)	3,000
To Realisation a/c (payment received from debtors)	1,50,000	By Jupiter Ltd. a/c	5,000

To Jupiter Ltd. (liquidation expenses)	5,000	By Bills payable a/c	38,000
		By Income tax a/c	2,22,000
		By creditors a/c (Balancing figure)	2,16,000
	4,84,000		4,84,000

Equity Shareholders Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To 10% Preference shares in Jupiter Limited a/c	4,10,000	By Equity shares capital a/c	10,00,000
To Equity shares in Jupiter Limited a/c	14,70,000	By Capital reserve a/c	42,000
		By Contingency reserve a/c	2,70,000
		By Profit and Loss a/c	2,52,000
		By Realisation a/c	3,16,000
	18,80,000		18,80,000

Jupiter Limited Account

Particulars	Amount (Rs.)	Particulars	Amount (Rs.)
To Realisation a/c	18,80,000	By 10% Preference shares in Jupiter Limited a/c	4,10,000
To Bank a/c (Reimbursement exp.)	5,000	By Bank A/c (Liquidation Exp.)	5,000
		By Equity shares in Jupiter Ltd. a/c	14,70,000
	18,85,000		18,85,000

PROBLEM NO.10

In the books of V Ltd.

Realisation Accounts

(Rupees in Lakhs)

Particulars	Amount	Particulars	Amount
To Land and Building a/c	445	By 10% Secured Cumulative Debentures a/c	600
To Plant and Machinery a/c	593		
To Furniture, Fixtures & Fittings a/c	114	By Outstanding Debenture interest a/c	30
To Inventories a/c	380	By Trade payables a/c	170
To Trade Receivables a/c	256	By P Ltd. A/c (Purchase consideration – Refer Working note)	1,150
To Bank a/c	69		
To Cash in Hand a/c	6		
To equity Shareholders a/c (Profit on realisation)	87		
	1,950		1,950

In the books of P Ltd.

Journal Entries

(Rupees in Lakhs)

	Particulars	Debit	Credit
1.	Business Purchases a/c	Dr. 1,150	
	To Liquidator of V Ltd. a/c		1,150

	(Being purchase consideration due)		
2.	Land and building a/c	Dr.	445
	Plant and Machinery a/c	Dr.	593
	Furniture, Fixtures & Fittings A/c	Dr.	114
	Inventory a/c	Dr.	380
	Trade Receivables a/c	Dr.	256
	Bank a/c	Dr.	69
	Cash in Hand a/c	Dr.	6
	Profit and Loss a/c	Dr.	87
	To 10% Debentures a/c		600
	To Outstanding Debenture interest a/c		30
	To Trade payable a/c		170
	To Business Purchase a/c		1,150
	(Being assets and liabilities taken over from V Ltd. Under the scheme of amalgamation in the nature of merger)		
3.	Liquidators of V Ltd. a/c	Dr.	1,150
	To Equity Share Capital a/c		640
	To 13% Cumulative Preference shares a/c		350
	To Securities premium a/c		160
	(Being discharge of consideration, by allotment of 64 Lakhs of equity shares of Rs.10 each at a premium of Rs.2.50Per share and 35 Lakhs 13% cumulative preference shares of Rs. 10 each at par)		
4.	10% Secured Cumulative Debentures a/c	Dr.	600
	To 10.5% Secured Cumulative Debentures a/c		600
	(Being 10% Secured Cumulative Debentures of V Ltd. Convert into 10.5% Secured Cumulative Debentures of P Ltd)		
5.	Outstanding Debentures Interest a/c	Dr.	30
	To Bank a/c		30
	(Being outstanding debentures interest paid in cash by p Ltd)		
6.	Profit and Loss a/c	Dr.	2
	To Bank a/c		2
	(Being amalgamation expenses met by P Ltd.)		
7.	Trade Payable a/c	Dr.	7
	To Trade Receivables a/c		7
	(Being settlement of mutual liability)		
8.	Profit and Loss a/c	Dr.	1
	To Inventory a/c (5 x 20%)		1
	(Being unrealized profit on inventory eliminated from the Inventories of P Ltd.)		

WORKING NOTES:

Calculation of Purchase Consideration payable by P Ltd.

(Rupees in Lakhs)

Particulars	Amount
Payment to preference shareholders: 13% Cumulative Preference Shares of Rs.10 each (35 Lakhs shares x Rs.10)	350
Payment To Equity shareholders: (80 Lakhs shares x 4/5) = 64 Lakhs equity shares @ 10 each Securities Premium (64 Lakhs equity shares @ Rs.2.5)	160
Total Purchase consideration	1,150

PROBLEM NO.11

Calculation of Purchase Consideration

(Amount in rupees)

	Ram Ltd. (Rs.)	Shyam Ltd. (Rs.)
Purchase Consideration		
Goodwill	1,60,000	60,000
Freehold property	2,10,000	1,20,000

Plant and machinery	50,000	30,000
Motor vehicles	60,000	--
Inventory	1,20,000	1,56,000
Trade receivables	1,64,000	--
Cash at Bank	86,000	--
	8,50,000	3,66,000
Less: Liabilities:		
6% Debentures (1,20,000 x 105%)	--	(1,26,000)
Trade payables	(1,50,000)	--
Net Assets taken over	7,00,000	2,40,000
To be satisfied by issue of shares of Ram and Shyam Ltd. @ Rs.10 each	70,000	24,000

Balance Sheet of Ram and Shyam Ltd. As at 1st April, 2015

Particulars	Note No.	Amount (Rs.)
Equity and Liabilities		
1 Shareholder's funds		
a) Share capital	1	9,40,000
b) Reserve and Surplus	2	6,000
2 Non - Current Liabilities		
a) Long-term borrowings	3	1,20,000
3 Current Liabilities		
a) Trade payables		1,50,000
Total		12,16,000
Assets		
1 Non – current assets		
a) Fixed assets		
i) Tangible assets	4	4,70,000
ii) Intangible assets	5	2,20,000
2 Current assets		
a) Inventories (1,20,000 + 1,56,000)		2,76,000
b) Trade receivables		1,64,000
c) Cash and cash equivalents		86,000
Total		12,16,000

NOTE TO ACCOUNTS:

Particulars	Amount (Rs.)
1. Share Capital	
Equity share capital (94,000 shares of Rs. 10 each)	9,40,000
2. Reserves and Surplus	
Securities Premium (W.N.1)	6,000
3. Long Term borrowings	
Secured 6% debentures (assumed to be secured)	1,20,000
4. Tangible assets	
Free hold property (2,10,000 + 1,20,000)	3,30,000
Plant & Machinery	80,000
Motor vehicle	60,000
Total	4,70,000
5. Intangible assets	
Goodwill (1,60,000 + 60,000)	2,20,000

In the books of Shyam Ltd.
Journal Entries

(Amount in Rupees)

	Particulars		Debit	Credit
1.	Realisation a/c	Dr.	3,48,000	
	To Freehold Property a/c			1,20,000
	To Plant and Machinery a/c			30,000
	To Inventory a/c			1,56,000
	To Trade Receivables a/c			42,000
	(Being all assets except cash transferred to Realisation Account)			
2.	6% Debentures a/c	Dr.	1,20,000	
	Trade payables a/c	Dr.	64,000	
	To realisation a/c			1,84,000
	(Being all liabilities transferred to Realisation Account)			
3	Equity Share Capital a/c	Dr.	1,60,000	
	Profit and loss a/c	Dr.	40,000	
	To Equity share holders a/c			2,00,000
	(Being equity transferred to equity shareholders accounts)			
4.	Ram and Shyam Ltd. a/c	Dr.	2,40,000	
	To Realisation a/c			2,40,000
	(Being Purchase consideration)			
5.	Bank a/c	Dr.	42,000	
	To Realisation a/c			42,000
	(Being cash realised from trade receivables in full)			
6.	Realisation a/c	Dr.	64,000	
	To Bank a/c			64,000
	(Being payment made to trade payables)			
7.	Shares in Ram and Shyam Ltd.	Dr.	2,40,000	
	To Ram and Shyam Ltd.			2,40,000
	(Being purchase consideration received in the form of shares of Ram and Shyam Ltd.)			
8.	Realisation a/c	Dr.	54,000	
	To Equity shareholders a/c			54,000
	(Being profit on realisation account transferred to shareholders account)			
9.	Equity shareholders a/c	Dr.	2,54,000	
	To Shares in Ram and Shyam a/c			2,40,000
	To Bank a/c			14,000
	(Being final payment made to shareholders)			

WORKING NOTE:**Calculation of Securities Premium balance**

Debentures issued by Ram and Shyam Ltd. to Shyam Ltd. at 5% Premium

Therefore, securities premium account will be credited with (Rs.1,20,000 x 5%) Rs.6,000.

PROBLEM NO.12

Balance sheet of Huge Ltd. After merger

			Particulars	Notes No.	Rs.
			1	2	3
			<u>EQUITY AND LIABILITIES:</u>		
1	a		Shareholder's funds		
	b		Share capital	1	9,24,000
			Reserves and Surplus	2	14,40,960
2	a		Non-current liabilities		
			Long term borrowings	3	2,00,000
3	a		Current liabilities		
	b		Trade Payable (Creditors)		85,000
			Short term provisions	4	1,60,000
			TOTAL		28,09,960
			<u>ASSETS:</u>		
1	a	(i)	Non current assets		
			Fixed assets		
			Tangible assets		13,50,000
		(ii)	Intangible assets (Good will)	5	3,80,000
	b		Non-current investments		2,50,000
2	a		Current Assets		
	b		Inventories (Stock)		1,70,000
	c		Trade receivables (Debtors)		1,55,000
	d		Cash & Cash equivalents (4,05,000 + 40,000)		4,04,960
			Short term loans and advances	6	1,00,000
			TOTAL		28,09,960

Note to Accounts:

Particulars	Rs.
1. Share capital	
92,400 equity shares of Rs.10 each	9,24,000
(Of which 22,400 shares were issued for consideration other than cash)	
2. Reserves and surplus	
Security premium	6,80,960
General reserve	3,50,000
Profit and loss A/c	2,00,000
Add: Proposed dividend cancelled	1,40,000
Export profit reserve (70,000 + 40,000)	1,10,000
Amalgamation adjustment reserve (40,000)	70,000
3. Long term borrowings	
Secured 12% debentures (1,00,000 + 1,00,000)	2,00,000
4. Short term provision	
Provision for tax (1,00,000 + 60,000)	1,60,000
5. Intangible assets	
Good will (W. No)	3,80,000
6. Short term loans and advances	
(Advance tax 80,000 + 20,000)	1,00,000

WORKING NOTES:**1. Calculation of purchase consideration:**

Equity shares of Big Ltd.	25,000 shares
Intrinsic value per share of Big Ltd. (W.N.2)	Rs. 36.2

Value of shares Rs. 9,05,000

Intrinsic value per share of Huge Ltd. (W.N.2) Rs. 40.4

No. of shares to be issued by Huge Ltd. Rs.9,05,000 / Rs.40.4 = 22,400.99 shares i.e. 22,400 shares and cash for fraction i.e. 0.99 x Rs.40.4= Rs. 40

PURCHASE CONSIDERATION:

i. 22,400 shares @ Rs.40.4

Capital [Rs.10 / Share]	2,24,000	
Premium [Rs.30.4 / Share]	<u>6,80,960</u>	9,04,960

ii. Cash for fraction 40

iii. Total purchase consideration payable 9,05,000

2. Intrinsic Value Per Share:

Particulars	Huge Ltd. (Rs.)		Big Ltd. (Rs.)	
	Rs.	Rs.	Rs.	Rs.
ASSETS:				
i) Goodwill (W.N.3)	13,65,000		3,80,000	
ii) Sundry fixed assets	9,50,000		4,00,000	
iii) Investments	2,00,000		50,000	
iv) Inventory	1,20,000		50,000	
v) Trade receivables	75,000		80,000	
vi) Advance tax	80,000		20,000	
vii) Cash and bank balance	<u>2,75,000</u>	30,65,000	<u>1,30,000</u>	11,10,000
LIABILITIES:				
i) 12% Debentures	1,00,000		1,00,000	
ii) Trade payables	40,000		45,000	
iii) Provision for tax	<u>1,00,000</u>	<u>(2,40,000)</u>	<u>60,000</u>	<u>(2,05,000)</u>
Net assets		<u>28,25,000</u>		<u>9,05,000</u>
No. of shares		70,000		25,000
Intrinsic value per share (upto one decimal)		40.4		36.2

3. Valuation of Goodwill

a. Capital Employed:

Particulars	Huge Ltd. (Rs.)		Big Ltd. (Rs.)	
	Rs.	Rs.	Rs.	Rs.
ASSETS:				
i) Sundry fixed assets	9,50,000		4,00,000	
ii) Investment (Non-trade)	-		-	
iii) Inventory	1,20,000		50,000	
iv) Trade receivables	75,000		80,000	
v) Advance tax	80,000		20,000	
vi) Cash and bank balance	<u>2,75,000</u>	15,00,000	<u>1,30,000</u>	6,80,000
LIABILITIES:				
i) 12% Debentures	1,00,000		1,00,000	
ii) Sundry creditors	40,000		45,000	
iii) Provision for tax	<u>1,00,000</u>	<u>(2,40,000)</u>	<u>60,000</u>	<u>(2,05,000)</u>
Capital employed		12,60,000		4,75,000

b. Average Pre-Tax Profit:

Particulars	Huge Ltd. (Rs.)	Big Ltd. (Rs.)
2010	5,00,000	1,50,000
2011	6,50,000	2,10,000
2012	<u>5,75,000</u>	<u>1,80,000</u>
Total (a + b + c)	<u>17,25,000</u>	<u>5,40,000</u>
Simple Average [Total / 3]	5,75,000	1,80,000

Less: Non-trading income (2,00,000 @ 25%) (50,000 @ 18%) Average profit	(50,000)	(9,000)
	5,25,000	1,71,000

Particulars	Huge Ltd. (Rs.)	Big Ltd. (Rs.)
Capitalized value of average profits(average profit / NRR)	26,25,000	8,55,000
Capital employed	12,60,000	4,75,000
Goodwill	13,65,000	3,80,000

PROBLEM NO.13Balance Sheet of Super Fast Express Ltd as at 1st Jan., 2015

Particulars	Note No.	Amount (Rs.)
Equity and Liabilities		
1 Shareholder's funds		
a) Share capital	1	30,00,000
b) Reserve and Surplus	2	3,60,000
2 Non-Current Liabilities		
a) Long-term borrowings	3	1,00,000
3 current Liabilities		
a) Trade payables		1,00,000
Total		35,60,000
Assets		
4 Non – current assets		
b) Fixed assets		
i) Tangible assets	4	25,00,000
ii) Intangible assets	5	1,00,000
5 Current assets		
a) Inventories		3,40,000
b) Trade receivables		2,80,000
c) Cash and cash equivalents	6	3,40,000
Total		35,60,000

NOTES TO ACCOUNTS:

Particulars	Amount Rs.
1. Share Capital	
Equity share capital Issued, subscribed and paid up 30,000 Equity shares of Rs.100 each	30,00,000
Total	30,00,000
2.Reserves and Surplus	
Reserves account	1,00,000
Surplus	1,00,000
Insurance reserve	1,00,000
Employee profit sharing account	60,000
Total	3,60,000
3. Long Term Provisions	
Provident fund	1,00,000
Total	1,00,000
4. Tangible assets	
Buildings	16,00,000
Machinery	9,00,000
Total	25,00,000

5. Intangible assets	
Goodwill	1,00,000
Total	1,00,000
6. Cash and cash equivalents	
Balance with bank	2,30,000
Cash on hand	1,10,000
Total	3,40,000

The above solution based on pooling of interest method.

PROBLEM NO. 14

In the books of R Ltd.

Sl. No	Particulars	Debit (Rs.)	Credit (Rs.)
1.	Business Purchases A/c Dr.	3,00,00,000	
	To Liquidator of P Ltd A/c		3,00,00,000
	(Being business of P Ltd acquired)		
2.	Liquidator of P Ltd A/c Dr.	3,00,00,000	
	To Equity share capital A/c		2,50,00,000
	To Securities Premium A/c		5,00,00,000
	(Being purchase consideration due to P Ltd discharged)		
3.	Patents A/c Dr.	20,00,000	
	Land & Buildings A/c Dr.	60,00,000	
	Plant and machinery A/c Dr.	1,55,00,000	
	Inventories A/c Dr.	35,00,000	
	Trade Receivables A/c Dr.	8,00,000	
	Bank A/c Dr.	4,50,000	
	Good will A/c (Bal. Fig) Dr.	22,50,000	
	To Trade payables A/c		5,00,000
	To Business purchase A/c		3,00,00,000
	(Being assets & liabilities of P Ltd incorporated in books of accounts of R Ltd.)		
4.	Business purchases A/c Dr.	48,00,000	
	To Liquidator of Q Ltd		48,00,000
	(Being business of Q Ltd Acquired)		
5.	Liquidator of Q Ltd A/c Dr.	48,00,000	
	To Equity share capital A/c		40,00,000
	To Securities Premium A/c		8,00,00,000
	(Being purchase consideration due to Q Ltd discharged)		
6.	Motor vehicles A/c Dr.	6,00,000	
	Furniture A/c Dr.	3,50,000	
	Inventories A/c Dr.	27,90,000	
	Trade Receivables A/c Dr.	6,20,000	
	Bank A/c Dr.	1,70,000	
	Good will A/c (Bal. Fig) Dr.	4,80,000	
	To Trade Payables A/c		2,10,000
	To Business purchase A/c		48,00,000
	(Being assets & liabilities of Q Ltd incorporated in books of accounts of R Ltd.)		

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THE END