6 AMALGAMATION OF COMPANIES (AS 14)

INDEX

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SECTION – A

Questions of Study Material, RTPs, MTPs and Past Exams to be Practiced in the Class

SERIES 100
CALCULATION OF PC

Q.AMG.SM.101(A):

Let us consider the draft Balance Sheet of X Ltd. as on 31st March, 20X1:

		Particulars		Notes	₹ (000)
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital		1	100,00
	B	Reserves and Surplus		2	12,50
2		**Non-current liabilities**			
	A	Long-term borrowings		3	40,00
3		**Current liabilities**			
	A	Trade Payables			20,00
			Total		**172,50**
		Assets			
1		**Non-current assets**			
	A	Property, Plant and Equipment		4	105,50
	B	**Non-current investments**		5	5,00
2		**Current assets**			
	A	Inventories			23,00
	B	Trade receivables			24,00
	C	Cash and Cash equivalents			15,00
			Total		**172,50**

Notes to accounts

1	**Share Capital**		**₹ in ('000)**
	Equity share capital		
	7,50,000 Equity Shares of ₹ 10 each		75,00
	25,000 14% Preference Shares of ₹ 100 each		25,00
			100,00
2	**Reserves and Surplus**		
	General reserve		12,50
			12,50
3	**Long-term borrowings**		
	Secured 14% Debentures		40,00
			40,00
4	**Property, plant and Equipment**		
	Land and Building		50,00
	Plant and machinery		45,00
	Furniture		10,50
			105,50

5	**Non-current investments**		
	Investments at cost		5,00
			5,00

Other Information:

(i) Y Ltd. takes over X Ltd. on 10th April, 20X1.

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

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

(iv) Intrinsic value per share of X Ltd. is ₹ 20 and that of Y Ltd. ₹ 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 ₹ 10.

Compute the purchase consideration.

SOLUTION:

Computation of Purchase consideration	**(₹in '000)**	**Form**
For Preference Shareholders of X Ltd.	3,000	30,000 15% Preference shares in Y Ltd.
For equity shareholders of X Ltd. (2/3 × 7,50,000) × ₹ 10	5,000	5,00,000 Equity shares of Y Ltd. of ₹ 10 each
Total Purchase consideration	**8,000**	

Note: Consideration for debenture holders should not be included above. Such debentures will be taken over by Y Ltd. and then discharged.

Q.AMG.RMP.102(A): (EXAM Nov22)

Star Limited agreed to take over Moon Limited on 1st April,2022. The terms and conditions of takeover were as follows:

(i) Star Limited issued 70,000 Equity shares of ₹ 100 each at a premium of ₹ 10 per share to the equity shareholders of Moon Limited.

(ii) Cash payment of ₹ 1,25,000 was made to the equity shareholders of Moon Limited.

(iii) 25,000 fully paid Preference shares of ₹ 70 each issued at par to discharge the preference shareholders of Moon Limited.

You are required:

(i) to give the meaning of "consideration for the amalgamation' as per AS-14, and

(ii) Calculate the amount of purchase consideration.

SOLUTION

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.

Computation of Purchase consideration	**(₹)**	**Form**
For Preference Shareholders of Moon Ltd. (25,000 × ₹ 70)	17,50,000	25,000
		Preference
For equity shareholders of Moon Ltd. (70,000 × ₹ 110)	77,00,000	70,000
		Equity shares of Star Ltd.
	1,25,000	Cash

Total Purchase consideration	95,75,000	

Q.AMG.RMP.103(A): (EXAM May'23)

X Ltd. and Y Ltd. had been carrying on business independently. They agreed to amalgamate and form a new company XY Ltd. with an Authorized share capital of ₹ 40,00,000 dividend into 8,00,000 equity shares of ₹ 5 each. On 31st March, 2023 the respective information of X Ltd. and Y Ltd. were as follows:

Computation of Purchase consideration	X Ltd. (₹)	Y Ltd. (₹)
Share Capital	34,25,000	36,10,000
Trade Payable	59,70,000	18,02,500
Property, Plant and Equipment	58,25,000	37,40,000
Current Assets	31,45,000	15,99,500

Additional Information:

The following revalued figures of non-current and current assets are:

	X Ltd. (₹)	Y Ltd. (₹)
Property, Plant and Equipment	71,00,000	39,00,000
Current Assets	29,95,000	15,77,500

The debtors and creditors include ₹ 1,37,250 owed by X Ltd. to Y Ltd.

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

6,20,000 equity shares of XY Ltd. to X Ltd. and Y Ltd. in the proportion to the profitability of their respective business based on the average net profit during the last four years which were as follows:

	X Ltd. (₹)	Y Ltd. (₹)
2020 Profit	42,50,000	26,50,000
2021 Profit	44,45,760	27,60,000
2022 (Loss)/Profit	(75,000)	34,00,000
2023 profit	37,79,240	35,90,000

7.5 % Debentures in XY Ltd. at par to provide an income equivalent to 4% return business as on capital employed in their respective business as on 31st March, 2023 after revaluation of assets.

You are required to:

(1) Compute the amount of debenture and shares to be issued to X Ltd. and Y Ltd.

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

Solution

Computation of amount of Debentures and Shares to be issued:

(i) Average Net Profit

	X Ltd.	Y Ltd.
(42,50,000+44,45,760-75,000+37,79,240)/4	31,00,000	
(26,50,000+27,60,000+34,00,000+35,90,000)/4		31,00,000

(ii) Equity Shares Issued

(a) Ratio of distribution

X Ltd. : Y Ltd.

1 1

(b) Number of shares

X Ltd. : 3,10,000

Y Ltd. : 3,10,000

6,20,000

(c) Amount of shares

3,10,000 shares of Rs. 5 each = Rs. 15,50,000

3,10,000 shares of Rs. 5 each = Rs. 15,50,000

(iii)

Capital Employed (after revaluation of assets)	**X Ltd. (Rs.)**	**Y Ltd. (Rs.)**
Property, plant and equipment	71,00,000	39,00,000
Current Assets	29,95,000	15,77,500
	1,00,95,000	**54,77,500**
Less: Current Liabilities	(59,70,000)	(18,02,500)
	41,25,000	**36,75,000**

(iv) Debentures Issued

	X Ltd. (Rs.)	**Y Ltd. (Rs.)**
4% Return on capital employed	1,65,000	1,47,000
7.5% Debentures to be issued to provide equivalent income:	$1,65,000 \times \frac{100}{7.5}$	$1,47,000 \times \frac{100}{7.5}$
	22,00,000	**19,60,000**

Balance Sheet of XY Ltd.

As at 31st March 2023 (after amalgamation)

Particulars		**Note No**	**Rs.**
I.	**Equity and Liabilities**		
(1)	Shareholders' Funds		
(a)	Share Capital	1	31,00,000
(b)	Reserves and Surplus	2	5,40,000
(2)	Non-Current Liabilities		
(a)	Long-term borrowings	3	41,60,000
(3)	Current Liabilities		
(a)	Trade Payables	4	76,35,250
Total			**1,54,35,250**
II.	**Assets**		
(1)	Non-current assets		
(a)	PPE	5	1,10,00,000
(2)	Current assets		
(a)	Other current assets	6	44,35,250
Total			**1,54,35,250**

Notes to Accounts

			Rs.
1	**Share Capital**		
	Authorized		
	8,00,000 Equity Shares of Rs. 5 each		40,00,000
	Issued and Subscribed		
	6,20,000 Equity Shares of Rs. 5 each		31,00,000
	(all the above shares are allotted as fully paid-up pursuant to a contract without payment being received in cash)		
2	**Reserve and Surplus**		
	Capital Reserve		5,40,000
3	**Long-term borrowings**		
	Secured Loans		
	7.5% Debentures		
	X Ltd.	22,00,000	
	Y Ltd.	19,60,000	41,60,000
4	**Current Liabilities:**		
	Trade Payables		

	X Ltd.	59,70,000	
	Y Ltd.	18,02,500	
		77,72,500	
	Less: Mutual Owings	(1,37,250)	76,35,250
5	**Property, Plant and Equipment:**		
	X Ltd.	71,00,000	
	Y Ltd.	39,00,000	1,10,00,000
6	**Other Current Assets:**		
	X Ltd.	29,95,000	
	Y Ltd.	15,77,500	
		45,72,500	
	Less: Mutual Owings	(1,37,250)	44,35,250

Working Notes:

		X Ltd.	**Y Ltd.**	**Total**
		Rs.	**Rs.**	**Rs.**
(1)	**Purchase Consideration**			
	Equity Shares Issued	15,50,000	15,50,000	31,00,000
	7.5% Debentures Issued	22,00,000	19,60,000	41,60,000
		37,50,000	35,10,000	72,60,000
(2)	**Capital Reserve**			
(a)	Net Assets taken over			
	Property, plant & equipment	71,00,000	39,00,000	1,10,00,000
	Current Assets	29,95,000	14,40,250*	44,35,250
		1,00,95,000	**53,40,250**	**1,54,35,250**
	Less: Current Liabilities	(58,32,750**)	(18,02,500)	(76,35,250)
		42,62,250	**35,37,750**	**78,00,000**
(b)	Purchase Consideration	37,50,000	35,10,000	72,60,000
(c)	**Capital Reserve [(a) - (b)]**	**5,12,250**	**27,750**	**5,40,000**

* 15,77,500–1,37,250 = 14,40,250
** 59,70,000–1,37,250 = 58,32,750

Note: In Working note 2 given above, the mutual owings amounting Rs. 1,37,250 included in debtors and creditors of X Ltd. and Y Ltd. have been adjusted. Alternatively, the capital reserve can be computed without adjustment of mutual owings. In that case, this working note will be presented in the following manner:

	Capital Reserve			
(a)	Net Assets taken over			
	Property, plant & equipment	71,00,000	39,00,000	1,10,00,000
	Current Assets	29,95,000	15,77,500	45,72,500
		1,00,95,000	54,77,500	1,55,72,500
	Less: Current Liabilities	(59,70,000)	(18,02,500)	(77,72,500)
		41,25,000	36,75,000	78,00,000
(b)	Purchase Consideration	37,50,000	35,10,0000	72,60,000
(c)	Capital Reserve [(a) - (b)]	3,75,000	1,65,000	5,40,000

Q.AMG.SM.104(A): (Exam May'24)

Intelligent Limited and Diligent Limited are carrying their business independently for last two years. Following financial information in respect of both the companies as at 31st March, 2024 has been given to you:

Particulars	**Intelligent Limited**	**Diligent Limited**
	(Rs.)	(Rs.)
Equity Share Capital of Rs. 100 each	12,00,000	10,00,000
8% Preference shares of Rs. 100 each	3,00,000	2,00,000

Trade Payable	12,00,000	4,00,000
Retirement Gratuity Fund (Long Term)	3,00,000	2,00,000
Profit and Loss Account		
Opening balance	4,50,000	2,50,000
Profit for the current year	2,50,000	1,50000
Land and Buildings	10,00,000	8,00,000
Plant and Machinery	10,00,000	6,00,000
Inventories	7,00,000	4,00,000
Trade Receivables	6,00,000	3,00,000
Cash and Bank	4,00,000	1,00,000

On 1st April 2024, both the companies agreed to amalgamate and form a new company "Genius Limited' with an authorized capital of Rs. 40,00,000 divided into 30,000 equity shares of Rs. 100 each and 10,000 8% preference shares of Rs. 100 each.

The amalgamation has to be carried out on the basis of following agreement:

(1) Assets of both the companies were to be revalued as follows:

Particulars	**Intelligent Limited**	**Diligent Limited**
	(Rs.)	(Rs.)
Land and Buildings	11,00,000	8,50,000
Plant and Machinery	9,00,000	4,00,000
Inventories	6,00,000	3,00,000

(2) Trade payables of Intelligent Limited includes Rs. 1,00,000 due to diligent Ltd. And the trade receivables of Diligent Limited shows Rs. 1,00,000 receivables from Intelligent Limited.

(3) The purchase consideration is to be discharged in the following manner:

(i) Issue 22,0000 Equity shares of Rs. 100 each fully paid up in the proportion of the sum of their profitability in the preceding two financial years.

(ii) Preference shareholders of both companies are issued equivalent number of 10% preference shares of Rs. 100 each of Genius Limited at a price of 125 per share.

(iii) 12% debentures of Rs. 100 each in Genius Limited at per to provide an income equivalent to 10% return on the basis of net assets in their respective business as on 1st April, 2024 after revaluation of assets.

You are required to

(a) Compute the amount of shares & Debentures to be issued to Intelligent Limited and Diligent Limited.

(b) Prepare a Balance Sheet of Genius Limited showing the position immediately after amalgamation.

Solution:

Computation of shares and debentures to be issued

		Intelligent Ltd.	**Diligent Ltd.**
(i) Equity shares	22,000 x 7/11 = 14,000(W.N.1)	14,00,000	
	22,000 x 4/11 =8,000(W.N.1)		8,00,000
(ii)Preference shares	$\left(\frac{3,00,000}{100} x\ 125\right)$	3,75,000	
	$\left(\frac{2,00,000}{100} x\ 125\right)$		2,50,000
(iii) Debentures	Refer (W.N.3)	17,50,000	11,25,000

Total Purchase Consideration (i + ii + iii)	35,25,000	21,75,000

Balance Sheet of Genius Limited
as at 1st April, 2024 (after amalgamation)

		Notes no.	₹
I.	**Equity and Liabilities**		
(1)	Shareholder's fund		
(a)	Share Capital	1	27,00,000
(b)	Reserves & Surplus	2	1,25,000
(2)	Non-current Liabilities		
(a)	Long term borrowings	3	28,75,000
(b)	Other non-current liabilities	4	5,00,000
(3)	Current Liabilities		
(a)	Trade Payables (12,00,000 + 4,00,000 – 1,00,000)		15,00,000
	Total		77,00,000
II.	Assets		
(1)	Non-current Assets		
(a)	Property, Plant & Equipment	5	32,50,000
(b)	Intangible Assets	6	22,50,000
(2)	Current Assets		
(a)	Inventories (6,00,000 + 3,00,000)		9,00,000
(b)	Trade Receivables (6,00,000 + 3,00,000 - 1,00,000)		8,00,000
(c)	Cash & Cash Equivalents		5,00,000
	Total		77,00,000

Notes to Accounts:

Sr. No.	Particular	₹
1.	Share Capital	
	Authorized Share Capital	
	a) Equity Share Capital	
	30,000 Equity Shares of ₹ 100 each	30,00,000
	b) Preference Share Capital	
	10% 10,000 Preference Shares ₹ 100 each	10,00,000
		40,00,000
	Issued, Subscribed & Paid-up Capital	
	a) Equity Share Capital	
	22,000 Equity Shares of ₹100 each	22,00,000

	(out of the above all shares are issued for consideration other than cash)	
	b) Preference Share Capital	
	10% 5,000 Preference Shares of ₹100 each	5,00,000
	(out of the above all shares are issued for consideration other than cash)	27,00,000
2.	Reserves & Surplus	
	Securities Premium	1,25,000
3.	Long term borrowings	
	12% Debentures of ₹100 each	28,75,000
4.	Other Non-current Liabilities	
	Gratuity Fund	5,00,000
5.	Property, Plant & Equipment	
	Land & Building (11,00,000 + 8,50,000)	19,50,000
	Plant & Machinery (9, 00,000 + 4,00,000)	13,00,000
		32,50,000
6.	Intangible Assets	
	Goodwill	22,50,000

Working Notes:

1. Calculation of Ratio of Equity Shares

	Intelligent Ltd.	Diligent Ltd
*Opening balance P&L	4,50,000	2,50,000
Profit for the current year	2,50,000	1,50,000
Total	7,00,000	4,00,000

The total profits- ₹ 7,00,000+ ₹ 4,00,000 = ₹ 11,00,000.
No. of shares to be issued = 22,000 equity shares in the proportion of the preceding 2 years' profits. i.e. in 7:4.

2. Calculation of Net assets as on 31.3.2024

Particulars	**Intelligent Ltd.**	**Diligent Ltd**
Assets (after revaluation)		
Land and Buildings	11,00,000	8,50,000
Plant & Machinery	9,00,000	4,00,000
Inventories	6,00,000	3,00,000
Trade Receivables	6,00,000	3,00,000
Cash & Cash Equivalents	4,00,000	1,00,000
Total (a)	36,00,000	19,50,000
Liabilities		
Trade Payables	12,00,000	4,00,000
Gratuity Fund	3,00,000	2,00,000
Total (b)	15,00,000	6,00,000

Net Assets (a – b)	21,00,000	13,50,000

3. Calculation of 12% Debentures to be issued to Intelligent Ltd. and Diligent Ltd.

	Intelligent Ltd.	Diligent Ltd
	₹	₹
Net assets (Refer working note)	21,00,000	13,50,000
10% return on Net assets	2,10,000	1,35,000
12% Debentures to be issued		
[2,10,000× $\frac{100}{12}$] =17,50,000 of ₹ 100 each	17,500	
[1,35,000× $\frac{100}{12}$] =11,25,000 of ₹ 100 each		11,250

4. Calculation of Goodwill / Capital Reserve

S.No.	Particulars	Intelligent Ltd.	Diligent Ltd.	
(i)	Purchase Consideration Paid	35,25,000	21,75,000	
(ii)	Less: Net Assets	21,00,000	13,50,000	
(iii)	Goodwill	14,25,000	8,25,000	22,50,000

Alternatively:

4. Calculation of Goodwill / Capital Reserve

S.No.	**Particulars**	**Intelligent Ltd.**	**Diligent Ltd.**	
(i)	Purchase Consideration Paid	35,25,000	21,75,000	
(ii)	Less: Net Assets*	22,00,000	12,50,000	
(iii)	Goodwill	13,25,000	9,25,000	22,50,000

* Calculation of Net assets taken over

Particulars	**Intelligent Ltd.**	**Diligent Ltd**
Assets (after revaluation)		
Land and Buildings	11,00,000	8,50,000
Plant & Machinery	9,00,000	4,00,000
Inventories	6,00,000	3,00,000
Trade Receivables	6,00,000	2,00,000*
Cash & Cash Equivalents	4,00,000	1,00,000
Total (a)	36,00,000	18,50,000
Liabilities		
Trade Payables	11,00,000**	4,00,000
Gratuity Fund	3,00,000	2,00,000
Total (b)	14,00,000	6,00,000
Net Assets (a – b)	22,00,000	12,50,000

*₹ 3,00,000 - ₹ 1,00,000= ₹ 2,00,000

**₹ 12,00,000 - ₹ 1,00,000 = ₹ 11,00,000

Q.AMG.SM.105(A):

Following is the balance sheet of A Ltd. as on 31st March, 20X1

		Particulars		Notes	Rs. (000)
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital		1	22,50
	B	Reserves and Surplus		2	9,00
2		**Non-current liabilities**			
	A	Long-term borrowings		3	7,00
3		**Current liabilities**			
	A	Trade Payables			5,00
			Total		**43,50**
		Assets			
1		**Non-current assets**			
	A	Property, Plant and Equipment		4	32,50
		Non-current investments		5	6,00
2		**Current assets**			
	A	Inventories			2,00
	B	Trade receivables			2,00
	C	Cash and Cash equivalents			1,00
			Total		**43,50**

Notes to accounts

1	**Share Capital**	Rs. in ('000)
	Equity share capital	
	1,50,000 Equity Shares of Rs. 10 each	15,00
	7,500 14% Preference Shares of Rs. 100 each	7,50
2	**Reserves and Surplus**	22,50
	General reserve	9,00
3	**Long-term borrowings**	
	Secured	
	15% Debentures	7,00
4	**Property, plant and Equipment**	
	Land and Building	32,50
5	**Non-current investments**	
	Investments at cost	6,00

B Ltd agreed to take over the assets and liabilities on the following terms and conditions:

(a) Discharge 15% debentures at a premium of 10% by issuing 15% debentures of B Ltd.

(b) PPE at 10% above the book value and investments at par value.

(c) Current assets at a discount of 10% and Current liabilities at book value.

(d) Preference shareholders are discharged at a premium of 10% by issuing 15% preference shares of Rs.100 each.

(e) Issue 3 equity shares of Rs. 10 each for every 2 equity shares in A Ltd. and pay the balance in cash.

Calculate Purchase consideration.

Solution

Calculation of Purchase Consideration (Net Asset value Method)

PARTICULARS	(Rs. in '000's)
Value of assets taken over:	
Property, Plant and	35,75
Equipment Non-Current	6,00
Investments Current Assets	4,50
Total Assets (A)	46,25
Less: **Liabilities taken over:**	
15% Debentures	7,70
Current Liabilities	5,00
Total Liabilities (B)	12,70
Purchase consideration (A -B)	**33,55**
Mode of Purchase Consideration	
In the form of 15% Preference	8,25
shares	22,50
In the form of Equity shares	2,80
In the form of Cash (Balance)	**33,55**
Total	

Q.AMG.SM.106(A): (Nov'23 Exams)

Raman Limited and Naman Limited decided to amalgamate and form a new company Rana Limited as on 31st March, 2023 and provided you the following information:

Particulars	As on 31st March, 2023		Revalued figures for amalgamation	
	Raman Limited	Naman Limited	Raman Limited	Naman Limited
Equity shares of Rs. 10 each	6,72,000	2,52,000		
10% Preference Shares of Rs. 100 Each	3,36,000	1,68,000		
Reserves and Surplus	5,44,240	2,65,480		
Trade Payables	84,000	1,76,000	80,640	1,68,960
Property, Plant and Equipment	7,69,000	4,36,400	10,58,100	5,20,100
Goodwill	1,62,000	--	1,62,000	--
Inventories	1,89,000	1,17,600	2,78,620	2,06,780
Trade Receivables	2,81,000	1,47,000	2,47,140	1,38,180
Cash & Cash Equivalents	2,35,240	1,60,480		

The purchase consideration is to be satisfied as follows:

(i) By issue of 4 preference Shares of Rs. 100 each in Rana Limited @ Rs. 85 paid up and at a premium of Rs. 30 per share for every 3 preference shares held in both the companies

(ii) By issue of 5 Equity shares of Rs. 10 each in Rana Limited @ Rs. 7 paid up and at a premium of Rs. 5 per shares for every 3 equity shares held in both the companies.

(iii) In addition, necessary cash should be paid to equity shareholders of both the companies as required to adjust the right of shareholders of both the companies in accordance with the intrinsic value of the shares of both the companies.

You are required to compute the purchase consideration for both the companies.

SOLUTION

Purchase Consideration

	Raman Ltd.	Naman Ltd.
	Rs.	Rs.
Payable to preference shareholders:		
Preference shares at Rs. 115 per share	5,15,200	2,57,600
	$\left(3{,}360\ x\ \frac{4}{3}\right)$	$\left(1{,}680\ x\ \frac{4}{3}\right)$
Equity shares at Rs. 12 per share	13,44,000	5,04,000
	$\left(67{,}200\ x\ \frac{5}{3}\right)$	$\left(25{,}200\ x\ \frac{5}{3}\right)$
Cash [See W.N.]000	41,260	94,980
	19,00,460	8,56,580

Working note:

	Raman Ltd.	Naman Ltd.
	Rs.	Rs.
Goodwill	1,62,000	
PPE	10,58,100	5,20,100
Trade receivables	2,47,140	1,38,180
Inventory	2,78,620	2,06,780
Cash & Cash Equivalent	2,35,240	1,60,480
	19,81,100	10,25,540
Less: Trade payables	(80,640)	(1,68,960)
	19,00,460	8,56,960
Payable is shares	18,59,200	7,61,600
Payable in cash	41,260	98,980

SERIES 200
AMALGAMATION IN NATURE OF PURCHASE

Q.AMG.RMP.201(A): (EXAM May22)

The summarized Balance Sheet of A Ltd. and B Ltd. as at 31st March,2022 are as under:

	A Ltd. (in Rs.)	B Ltd. (in Rs.)
Equity shares of Rs.10 each, fully paid up	30,00,000	24,00,000
Securities Premium Account	4,00,000	
General Reserve	6,20,000	5,00,000
Profit and Loss Account	3,60,000	3,20,000
Retirement Gratuity Fund Account	1,00,000	
10% Debentures	20,00,000	
Unsecured Loan (including loan from A Ltd.)	6,00,000	8,20,000
Trade Payables	1,00,000	3,40,000
	71,80,000	**43,80,000**
Land and Buildings	28,00,000	21,00,000
Plant and Machinery	20,00,000	7,60,000
Long term advance to B Ltd.	2,20,000	
Inventories	10,40,000	7,00,000
Trade Receivables	8,20,000	5,20,000
Cash and Bank	3,00,000	3,00,000
	71,80,000	**43,80,000**

B Ltd. is to declare and pay Rs. 1 per equity share as dividend, before the following amalgamation takes place with Z Ltd.

Z Ltd. was incorporated to take over the business of both A Ltd. and B Ltd.

(a) The authorized share capital of Z Ltd. is Rs. 60 lakhs divided into 6 lakhs equity shares of Rs. 10 each.

(b) As per Registered Valuer the value of equity shares of A Ltd. is Rs. 18 per share and of B Ltd. is Rs. 12 per share respectively and agreed by respective shareholders of the companies.

(c) 10% Debentures of A Ltd. to be issued 12% Debentures of Z Ltd. at par in consideration of their holdings.

(d) A contingent liability of A Ltd. of Rs. 2,00,000 is to be treated as actual liability.

(e) Liquidation expenses including Registered Valuer fees of A Ltd. Rs. 50,000 and B Ltd. Rs. 30,000 respectively to be borne by Z Ltd.

(f) The shareholders of A Ltd. and B Ltd. is to be paid by issuing sufficient number of fully paid-up equity shares of Rs. 10 each at a premium of Rs. 10 per share.

Assuming amalgamation in the nature of purchase, you are required to pass the necessary journal entries (narrations not required) in the books of Z Ltd. and Prepare Balance Sheet of Z Ltd. immediately after amalgamation of both the companies.

SOLUTION

Journal Entries in the books of Z Ltd.

		Rs.	Rs.
Business Purchase A/c	Dr.	54,00,000	
To Liquidator of A Ltd. A/c			54,00,000
Land & Building A/c	Dr.	28,00,000	
Plant & Machinery A/c	Dr.	20,00,000	
Long term advance to B Ltd. A/c	Dr.	2,20,000	
Inventories A/c	Dr.	10,40,000	
Trade Receivables A/c	Dr.	8,20,000	
Cash and Bank A/c	Dr.	3,00,000	
Goodwill A/c	Dr.	12,20,000	
To Retirement Gratuity Fund A/c			1,00,000
To 10% Debentures A/c			20,00,000
To Unsecured Loan A/c			6,00,000
To Trade Payables A/c			1,00,000
To Other liabilities A/c			2,00,000
To Business Purchase A/c			54,00,000
10% Debentures A/c	Dr.	20,00,000	
To 12% Debentures A/c			20,00,000
Liquidator of A Ltd. A/c	Dr.	54,00,000	
To Equity Share Capital A/c			27,00,000
To Securities Premium A/c			27,00,000
Business Purchase A/c	Dr.	28,80,000	
To Liquidator of B Ltd. A/c			28,80,000
Land and Building A/c	Dr.	21,00,000	
Plant & Machinery A/c	Dr.	7,60,000	
Inventories A/c	Dr.	7,00,000	
Trade Receivables A/c	Dr.	5,20,000	
Cash and Bank (less dividend) A/c	Dr.	60,000	
To Unsecured Loan A/c			8,20,000
To Trade Payables A/c			3,40,000
To Business Purchase A/c			28,80,000
To Capital Reserve A/c			1,00,000
Liquidators of B Ltd. A/c	Dr.	28,80,000	
To Equity Share Capital A/c			14,40,000
To Securities Premium A/c			14,40,000
Unsecured Loans A/c	Dr.	2,20,000	
To Long term Advance to B Ltd. A/c			2,20,000
*Capital Reserve A/c	Dr.	1,00,000	
To Cash and Bank A/c (Liquidation expenses)			80,000
To Goodwill A/c			20,000

Goodwill A/c To Cash & Bank A/c (Liquidation expenses of A Ltd.)	Dr.	50,000	 50,000
Capital Reserve A/c To Cash and Bank A/c (Liquidation expenses of B Ltd.)	Dr.	30,000	 30,000
Capital Reserve A/c To Goodwill A/c	Dr.	70,000	 70,000

Note:

1. The journal entries for A Ltd. and B Ltd. have been given separately in the above solution. Alternatively, the entries may be given as combined for both companies.
2. *Alternatively, following set of entries may be given in place of the last entry given in the above solution:

Balance Sheet of Z Ltd. as at 31st March, 2022

Particulars	Note No.	(Rs.)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	41,40,000
(b) Reserves and Surplus	2	41,40,000
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	20,00,000
(b) Long term provisions	4	1,00,000
(3) Current Liabilities		
(a) Short-term borrowings1	5	12,00,000
(b) Trade payables	6	4,40,000
(a) Other liability		2,00,000
Total		**1,22,20,000**
II. Assets		
(1) Non-current assets		
i. Property, plant and equipment	7	76,60,000
ii. Intangible assets (Goodwill 12,20,000-20,000)		12,00,000
(2) Current assets		
(a) Inventories	8	17,40,000
(b) Trade receivables	9	13,40,000
(c) Cash and cash equivalents	10	2,80,000
Total		**1,22,20,000**
ii. Intangible assets (Goodwill 12,20,000-20,000)		12,00,000
(2) Current assets		
(a) Inventories	8	17,40,000
(b) Trade receivables	9	13,40,000
(c) Cash and cash equivalents	10	2,80,000
Total		**1,22,20,000**

1 Unsecured loans have been considered as short-term borrowings. Alternatively, it may be considered as long-term borrowings and presented accordingly.

Notes to Accounts

			(Rs.)	(Rs.)
1.	**Share Capital**			
	Authorized Share Capital			60,00,000
	6,00,000 Equity shares of Rs. 10 each			
	Issued: 4,14,000 Equity shares of Rs. 10 each (all these shares were Issued for consideration other than cash)			41,40,000
2.	**Reserves and surplus**			
	Securities Premium Account (4,14,000 shares × Rs. 10)			41,40,000
3.	**Long-term borrowings**			
	12% Debentures			20,00,000
4	**Long term Provisions**			
	Retirement gratuity fund			1,00,000
5.	**Short-term borrowings**			
	Unsecured loans			
	A Ltd.	6,00,000		
	B Ltd.	8,20,000	14,20,000	
	Less: Mutual		(2,20,000)	12,00,000
6.	**Trade payables**			
	A Ltd.		1,00,000	
	B Ltd.		3,40,000	4,40,000
7.	**Property, plant & equipment**			
	Land and Building			
	A Ltd.		28,00,000	
	B Ltd.		21,00,000	49,00,000
	Plant and Machinery			
	A Ltd.		20,00,000	
	B Ltd.		7,60,000	27,60,000
8.	**Inventories**			76,60,000
	A Ltd.		10,40,000	
	B Ltd.		7,00,000	17,40,000
9	**Trade receivables**			
	A Ltd.		8,20,000	
	B Ltd.		5,20,000	13,40,000
10	**Cash & cash equivalents**			

	A Ltd.	3,00,000	
	B Ltd. [3,00,000-2,40,000(dividend)]	60,000	
		3,60,000	
	Less: Liquidation Expenses	(80,000)	2,80,000

Working Note:

Calculation of amount of Purchase Consideration

	A Ltd.	B Ltd.
Existing shares	3,00,000	2,40,000
Agreed value per share	Rs. 18	Rs. 12
Purchase consideration	54,00,000	28,80,000
No. of shares to be issued of Rs. 20 each (including Rs. 10 premium)	2,70,000	1,44,000
Face value of shares at Rs. 10	27,00,000	14,40,000
Premium of shares at Rs. 10	27,00,000	14,40,000

Q.AMG.SM.202(A):

The following are the Balance Sheets of P Ltd. and Q Ltd. as at 31st March, 20X1:

		Particulars	Notes	₹ P Ltd	₹ Q Ltd
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital	1	8,00,000	4,00,000
	B	Reserves and Surplus		3,00,000	2,00,000
2		**Non-current liabilities**			
	A	Long-term borrowings	2	2,00,000	1,50,000
3		**Current liabilities**			
	A	Trade Payables		2,50,000	1,50,000
		Total		**15,50,000**	**9,00,000**
		Assets			
1		**Non-current assets**			
	A	Property, Plant and Equipment		7,00,000	2,50,000
	B	Non-current investments		80,000	80,000
2		**Current assets**			
	A	Inventories		2,40,000	3,20,000
	B	Trade receivables		4,20,000	2,10,000
	C	Cash and Cash equivalents		1,10,000	40,000
		Total		**15,50,000**	**9,00,000**

Notes to Accounts

		P Ltd.	Q Ltd.
1	**Share Capital**		
	Equity shares of ₹ 10 each	6,00,000	3,00,000
	10% Preference Shares of ₹ 100 each	2,00,000	1,00,000
		8,00,000	**4,00,000**
2	**Long term borrowings**		

	12% Debentures	2,00,000	1,50,000
		2,00,000	**1,50,000**

Details of Trade receivables and trade payables are as under:

	P Ltd. (₹)	Q Ltd. (₹)
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**

Property, plant and equipment of both the companies are to be revalued at 15% above book value. Both the companies are to pay 10% Equity dividend, but Preference dividend having been already paid.

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

(i) 8 Equity Shares of ₹ 10 each will be issued by P Ltd. at par against 6 shares of Q Ltd.

(ii) 10% Preference Shareholders of Q Ltd. will be paid at 10% discount by issue of 10% Preference Shares of ₹ 100 each at par in P Ltd.

(iii) 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%.

(iv) ₹ 30,000 is to be paid by P Ltd. to Q Ltd. for Liquidation expenses. Sundry Creditors of Q Ltd. include ₹ 10,000 due to P Ltd.

(v) Inventory in Trade and Debtors are taken over at 5% lesser than their book value by P Ltd.

Prepare:

(a) Journal entries in the books of P Ltd.

(b) Statement of consideration payable by P Ltd.

SOLUTION

Journal Entries in the Books of P Ltd.

		Dr. ₹	Cr, ₹
Property, Plant & Equipment	Dr.	1,05,000	
To Revaluation Reserve			1,05,000
(Revaluation of PPE at 15% above book value)			
Reserve & Surplus	Dr.	60,000	
To equity Dividend			60,000
(Declaration of Equity Dividend @10%)			
Equity Dividend	Dr.	60,000	
To Bank Account			60,000
(Payment of Equity Dividend)			
Business Purchase Account	Dr.	4,90,000	
To Liquidator of Q Ltd.			4,90,000
(Consideration payable for the business taken over from Q Ltd.)			
PPE (115% of ₹2,50,000)	Dr.	2,87,500	
Inventory (95% of ₹3,20,000)	Dr.	3,04,000	
Debtors	Dr.	1,90,000	
Bills Receivable	Dr.	20,000	
Investment	Dr.	80,000	
Cash at Bank (₹40,000 – ₹ 30,000 dividend paid)	Dr.	10,000	

To Provision for Bad Debts (5% of ₹ 1,90,000)			9,500
To Sundry Creditors			1,25,000
To 12% Debentures in Q Ltd.			1,62,000
To Bills Payable			25,000
To Business Purchase Account			4,90,000
To Capital Reserve (Balancing figure)			80,000
(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.	Dr.	4,90,000	
To Equity Share Capital			4,00,000
To 10% Preference Share Capital			90,000
(Discharge of consideration for Q Ltd.'s business)			
12% Debentures in Q Ltd. (₹ 1,50,000 × 108%)	Dr.	1,62,000	
Discount on Issue of Debentures	Dr.	18,000	
To 12% Debentures			1,80,000
(Allotment of 12% Debentures to debenture holders of Q Ltd. at a discount of 10%)			
Sundry Creditors of Q Ltd.	Dr.	10,000	
To Sundry Debtors of P Ltd.			10,000
(Cancellation of mutual owing)			
Goodwill	Dr.	30,000	
To Bank			30,000
(Being liquidation expenses reimbursed to Q Ltd.)			
Capital Reserve	Dr.	30,000	
To Goodwill			30,000
(Being goodwill set off)			

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

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

Issued 40,000 shares of ₹ 10 each i.e. ₹ 4,00,000 (i)

For 10% preference shares, to be paid at 10% discount

$\frac{1,00,00 \times 90}{100}$ ₹ 90,000 (ii)

Consideration amount [(i) + (ii)] ₹ 4,90,000

Q.AMG.RMP.203(A): (RTP Nov'22)

The balance sheets of Truth Limited and Myth Limited as at 31.03.2021 is given below. Myth Limited is to be amalgamated with Truth Limited from 1.04.2021. The amalgamation is to be carried out in the nature of purchase.

Particulars	Note No.	Truth Ltd. (Rs.)	Myth Ltd. (Rs.)
(1) Equity and Liabilities			
1. Shareholders' Funds			
(a) Share Capital	1	10,00,000	4,00,000
(b) Reserves and Surplus	2	11,35,000	4,13,000
2. Non -Current Liabilities	3	-	1,50,000
3. Current Liabilities	4	1,40,000	1,82,000
Total		**22,75,000**	**11,45,000**

(2) Assets			
1. Non -Current Assets			
(a) Property, Plant & Equipment		15,75,000	6,80,000
(b) Investments		1,87,500	1,00,000
2. Current Assets	5	5,12,500	3,65,000
Total		**22,75,000**	**11,45,000**

Notes to Accounts:

Note No.	Particulars	Truth Limited (Rs.)	Myth Limited (Rs.)
1	**Share Capital**		
	Equity shares of Rs. 10 each	10,00,000	4,00,000
2	**Reserves & Surplus**		
	General Reserve	5,05,000	2,30,000
	Profit & Loss A/c	4,45,000	1,58,000
	Export Profit Reserve	1,85,000	25,000
3	**Non- Current Liabilities**	**11,35,000**	**4,13,000**
	14% Debentures	---	1,50,000
4	**Current Liabilities**		
	Trade Payables	90,000	1,42,000
	Other Current Liabilities	50,000	40,000
5	**Current Assets**	**1,40,000**	**1,82,000**
	Inventory	2,15,000	85,000
	Trade Receivables	2,02,500	1,75,000
	Cash and Cash equivalents	95,000	1,05,000
		5,12,500	**3,65,000**

Truth Limited would issue 12% debentures to discharge the claim of the debenture holders of Myth Limited so as to maintain their present annual interest income. Non-trade investment, which constitute 80% of their respective total investments yielded income of 20% to Truth Limited and 15% to Myth Limited. This income is to be deducted from profits while computing average profit for the purpose of calculating goodwill. Profit before tax of both the companies during the last 3 years were as follows:

	Truth Limited (Rs.)	Myth Limited (Rs.)
2018-2019	8,20,000	2,55,000
2019-2020	7,45,000	2,15,000
2020-2021	6,04,000	2,14,000

Goodwill is to be calculated on the basis of simple average of three years profit by using Capitalization method taking 18% as normal rate of return. Ignore taxation. Purchase consideration is to be discharged by Truth Limited on the basis of intrinsic value per share. Prepare Balance Sheet of Truth Limited after the amalgamation.

SOLUTION

Balance Sheet of Truth Ltd. (after amalgamation with Myth Ltd.) as at 1.4.2021

Particulars	Note No.	(Rs.)
I. Equity and liabilities		
(1) Shareholder's funds		
(a) Share capital	1	13,13,750
(b) Reserves and surplus	2	20,76,250
(2) Non-current liabilities		
12% Debentures	3	1,75,000
(3) Current liabilities		
(a) Trade payables	4	2,32,000
(b) Other current liabilities	5	90,000
Total		**38,87,000**
II. Assets		
(1) Non-current assets		
(a) Property, plant and equipment	6	22,55,000
(b) Intangible assets (Goodwill) [WN 1]		4,67,000
(c) Non-current investments	7	2,87,500
(2) Current assets		
(a) Inventories (2,15,000 + 85,000)		3,00,000
(b) Trade receivables (2,02,500 + 1,75,000)		3,77,500
(c) Cash & cash equivalents (95,000 + 1,05,000)		2,00,000
Total		**38,87,000**

Notes to Accounts

		(Rs.)	(Rs.)
1.	**Share Capital**		
	1,31,375 Equity Shares of Rs. 10 each [1,00,000 + 31,375]		13,13,750
	(of the above shares, 31,375 shares were issued to the vendors otherwise than for cash)		
2.	**Reserves and surplus**		
	General Reserve	5,05,000	
	Profit and Loss A/c	4,45,000	
	Securities Premium [31,375 x 30]	9,41,250	
	Export profit reserve 1,85,000		
	Add: Balance of Myth Ltd. 25,000	2,10,000	
	Amalgamation Adjustment Reserve	(25,000)	20,76,250
3.	**Long Term Borrowings**		
	12% Debentures issued to Myth Ltd.		1,75,000
4.	**Trade payables**		

	Trade payables	90,000	
	Add: Taken over	1,42,000	2,32,000
5	**Other Current Liabilities**		
	Truth Ltd.	50,000	
	Myth Ltd.	40,000	90,000
6.	**Property, Plant & Equipment**		
	Truth Ltd.	15,75,000	
	Myth Ltd.	6,80,000	22,55,000
7.	**Investment**		
	Truth Ltd.	1,87,500	2,87,500
	Myth Ltd.	1,00,000	

Working Notes:

(1) Valuation of Goodwill

(i) Capital Employed

	Truth Ltd.		**Myth Ltd.**	
	Rs.	**Rs.**	**Rs.**	**Rs.**
Assets as per Balance Sheet		22,75,000		11,45,000
Less: Non-trade Investment		(1,50,000)		(80,000)
Less: Liabilities:		21,25,000		10,65,000
14% Debentures	-		1,50,000	
Trade payables	90,000		1,42,000	
Other current liabilities	50,000	(1,40,000)	40,000	(3,32,000)
Capital Employed		**19,85,000**		**7,33,000**

(ii) Average Profit before Tax

	Truth Ltd.		**Myth Ltd.**	
2018-2019		8,20,000		2,55,000
2019-2020		7,45,000		2,15,000
2020- 2021		6,04,000		2,14,000
Total profit of 3 years (a)		21,69,000		6,84,000
Simple Average [(a)/3]		7,23,000		2,28,000
Less: Non-trading income*		(30,000)		(12,000)
(iii) Goodwill	[(6,93,000 / 18) x 100]	6,93,000	[(2,16,000 / 18) x 100]	2,16,000
Capitalised value of average profit		38,50,000		12,00,000
Less: Capital Employed [From (i) above]		(19,85,000)		(7,33,000)
Goodwill		**18,65,000**		**4,67,000**

* For Truth Ltd. = 1,87,500 x 80% x 20% = 30,000; and
Myth Ltd. = 1,00,000 x 80% x 15% = 12,000

(2) Intrinsic Value per Share

	Truth Ltd.		Myth Ltd.	
		Rs.		Rs.
Goodwill [W.N. 1]	18,65,000		4,67,000	
Other Assets	22,75,000	41,40,000	11,45,000	16,12,000
Less: Liabilities				
12% Debentures	-		1,75,000**	
Trade payables	90,000		1,42,000	
Provision for Tax	50,000	(1,40,000)	40,000	(3,57,000)
Net Assets		40,00,000		12,55,000
Intrinsic value per share [Net Assets / No. of Shares]		40,00,000 / 1,00,000		12,55,000 / 40,000
		= Rs. 40		**= Rs. 31.375**

** 1,50,000 x 14%/12% = 1,75,000

(3) Purchase Consideration & manner of its discharge

Intrinsic Value of Myth Ltd. [a]	Rs. 31.375 per share
No. of shares [b]	40,000 shares
Purchase Consideration c= [a x b]	Rs. 12,55,000
Intrinsic Value of Truth Ltd. [d]	Rs. 40 per share
No. of shares to be issued [c / d]	31,375 shares

Q.AMG.RMP.204(A): (Exam Jan'21)

Galaxy Ltd. and Glory Ltd., are two companies engaged in the same business of chemicals. To mitigate competition, a new company Glorious Ltd, is to be formed to which the assets and liabilities of the existing companies, with certain exception, are to be transferred. The summarized Balance Sheet of Galaxy Ltd. and Glory Ltd. as at 31st March, 2020 are as follows:

			Galaxy ltd. Rs.	Glory ltd. Rs.
(I)		**Equity and liabilities**		
	1	**Shareholders' fund**		
		Share capital		
		Equity shares of Rs. 10 each	8,40,000	4,55,000
		Reserves and surplus		
		General reserve	4,48,000	40,000
		Profit & Loss A/C	1,12,000	72,000
	2	**Non-Current liabilities**		
		Secured loan		
		6% Debentures	-	3,30,000
	3	**Current liabilities**		
		Trade payables	4,20,000	1,83,000
		Total	**18,20,000**	**10,80,000**
(II)		**Assets**		
	1	**Non-current Assets**		
		Property, Plant & Equipment		
		Freehold property, at cost	5,88,000	3,36,000

		Plant & Machinery, at cost less depreciation	1,40,000	84,000
		Motor vehicles, at cost less depreciation	56,000	-
	2	**Current Assets**		
		Inventories	3,36,000	4,38,000
		Trade Receivables	4,62,000	1,18,000
		Cash at bank	2,38,000	1,04,000
		Total	**18,20,000**	**10,80,000**

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

(i) The Debentures of Glory Ltd. are to be discharged, by the issue of 8% Debentures of Glorious Ltd. at a premium of 10%.

(ii) Plant and Machinery of Galaxy Ltd. are to be valued at Rs. 2,52,000.

(iii) Goodwill is to be valued at:
Galaxy Ltd. Rs. 4,48,000 Glory Ltd. Rs. 1,68,000

(iv) Liquidator of Glory Ltd. is appointed for collection from trade debtors and payment to trade creditors. He retained the cash balance and collected Rs. 1,10,000 from debtors and paid Rs. 1,80,000 to trade creditors. Liquidator is entitled to receive 5% commission for collection and 2.5% for payments. The balance cash will be taken over by new company.

You are required to:

(1) Compute the number of shares to be issued to the shareholders of Galaxy Ltd. and Glory Ltd, assuming the nominal value of each share in Glorious Ltd. is Rs. 10.

(2) Prepare Balance Sheet of Glorious Ltd., as on 1st April, 2020 and also prepare notes to the accounts as per Schedule III of the Companies Act, 2013.

SOLUTION

(i) Calculation of Purchase consideration (or basis for issue of shares of Glorious Ltd.

	Galaxy Ltd.	Glory Ltd.
Purchase Consideration:	**Rs.**	**Rs.**
Goodwill	4,48,000	1,68,000
Freehold property	5,88,000	3,36,000
Plant and Machinery	2,52,000	84,000
Motor vehicles	56,000	-
Inventory	3,36,000	4,38,000
Trade receivables	4,62,000	-
Cash at Bank	2,38,000	24,000
	23,80,000	**10,50,000**
Less: Liabilities:		
6% Debentures (3,00,000 x 110%)	(4,20,000)	(3,30,000)
Trade payables	19,60,000	7,20,000
Net Assets taken over to be satisfied by issue of shares of Glorious. Ltd. @ Rs. 10 each	1,96,000	72,000

(ii) Balance Sheet of Glorious Ltd. as at 1st April, 2020

Particulars	Note. no	Amount
		Rs.
EQUITY AND LIABILITIES		
Shareholders' funds		
Share capital	1	26,80,000
Reserves and surplus	2	30,000
Non-current liabilities		
Long-term borrowings	3	3,00,000

Current liabilities		
Trade payables		4,20,000
Total		**34,30,000**
ASSETS		
Non-current assets		
Property, plant and equipment	4	13,16,000
Intangible assets	5	6,16,000
Current assets		
Inventories	6	7,74,000
Trade receivables		4,62,000
Cash and cash equivalents	7	2,62,000
Total		**34,30,000**

Notes to accounts:

		Rs.	Rs.
1.	Share Capital Equity share capital 2,68,000 shares of Rs. 10 each (All the above shares are issued for consideration other than cash)		26,80,000
2.	Reserves and surplus Securities Premium (10% premium on debentures of Rs.3,00,000)		30,000
3.	Long-term borrowings Secured 8% 3,000 Debentures of Rs.100 each		3,00,000
4.	Property Plant and Equipment Freehold property Galaxy Ltd. Glory Ltd. Plant and Machinery Galaxy Ltd. Glory Ltd. Motor vehicles - Galaxy Ltd.	 5,88,000 3,36,000 2,52,000 84,000	9,24,000 3,36,000
5	Intangible assets Goodwill Galaxy Ltd. Glory Ltd.		56,000 13,16,000
6	Inventories Galaxy Ltd. Glory Ltd.	 4,48,000 1,68,000	6,16,000 7,74,000
7	Cash and cash equivalents Galaxy Ltd. Glory Ltd.(As per working note)	 3,36,000 4,38,000 2,38,000 24,000	 2,62,000

Working note:

Calculation of cash balance of Glory Limited to be taken over by Glorious Limited

	Rs.
Cash balance as at 31st March,2020	1,04,000
Add: Received from debtors	1,10,000
	2,14,000

Less: paid to creditors	(1,80,000)
	34,000
Less: Commission to liquidators	
On Debtors @ 5% 5,500	
On Creditors @ 2.5% 4,500	(10,000)
	24,000

Note:

1. It is assumed that the nominal value of debentures of Glory Ltd. is Rs. 100 each.

As per the information given in the question, debentures of Glory Ltd. are to be discharged by the issue of debentures of Glorious Ltd. at premium of 10%. It is assumed in the above solution that the debentures are issued at premium of Rs. 10 for discharge of debentures of Rs. 3,30,000. Alternative answer considering other reasonable assumption is also possible.

Q.AMG.RMP.205(A): (RTP May'22)

The following are the Balance Sheets of Aakash Limited and Ganga Limited as at March 31, 2021:

Particulars	Note No.	Aakash Limited (Rs.)	Ganga Limited (Rs.)
I. Equity and Liabilities:			
(1) Shareholder's Funds:			
(a) Share Capital	1	80,00,000	20,00,000
(b) Reserves and Surplus	2	(3,24,00,000)	56,00,000
(2) Non-Current Liabilities:			
(a) Secured Loans	3	3,20,00,000	1,60,00,000
(b) Unsecured Loans	4	1,72,00,000	-
(3) Current Liabilities:			
(a) Trade Payables		56,00,000	36,00,000
(b) Other Current Liabilities	5	2,04,00,000	56,00,000
Total		**5,08,00,000**	**3,28,00,000**
II. Assets:			
(1) Non-Current Assets:			
Property, Plant & Equipment		68,00,000	1,36,00,000
(2) Current Assets:			
(a) Inventories		3,68,00,000	-
(b) Other Current Assets		72,00,000	1,92,00,000
Total		**5,08,00,000**	**3,28,00,000**

Notes to Accounts:

		Aakash Limited (Rs.)	Ganga Limited (Rs.)
1.	**Share Capital**		

	Authorized, Issued, Subscribed & Paid up:		
	6,00,000 Equity Shares of Rs.10 each	60,00,000	-
	20,000 Preference Shares of Rs. 100 each	20,00,000	-
	2,00,000 Equity Shares of Rs. 10 each	-	20,00,000
		80,00,000	**20,00,000**
2.	**Reserves and Surplus**		
	General Reserve	8,00,000	56,00,000
	Surplus	(3,32,00,000)	-
		(3,24,00,000)	**56,00,000**
3.	**Secured Loans** (Secured Loans of Aakash Limited are secured against pledge of Inventories)	3,20,00,000	1,60,00,000
4.	**Unsecured Loans**	**1,72,00,000**	**-**
5.	**Other Current Liabilities**		
	Statutory Liabilities	1,44,00,000	20,00,000
	Liability to Employees	60,00,000	36,00,000
		2,04,00,000	**56,00,000**

Both the companies go into liquidation and a new company 'Aakash Ganga Limited' is formed to take over their business. The following information is given:

(i) All Current Assets of two companies, except pledged inventory are taken over by Aakash Ganga Limited. The realizable value of all the Current Assets (including pledged inventory) is 80% of book value in case of Aakash Limited and 70% for Ganga Limited.

(ii) Property, Plant and Equipment of both the companies are taken over at book value by AakashGanga Limited.

(iii) Secured Loans include Rs. 32,00,000 accured interest in case of Ganga Limited.

(iv) 4,00,000 Equity Shares of Rs. 10 each are allotted by AakashGanga Limited at par against cash payment of entire face value to the shareholders of Aakash Limited and Ganga Limited in the ratio of shares held by them in Aakash Limited and Ganga Limited.

(v) Preference Shareholders in Aakash Limited are issued Equity Shares in AakashGanga Ltd. worth Rs. 4,00,000 in lieu of their present holdings.

(vi) Secured Loan agree to continue the balance amount of their loans to AakashGanga Limited after adjusting realizable value of pledged asset in case of Aakash Limited and after waiving 50% of interest due in the case of Ganga Limited.

(vii) Unsecured Loans are taken over by AakashGanga Limited at 25% of loan amounts.

(viii) Employees are issued fully paid Equity Shares in AakashGanga Limited in full settlement of their dues.

(ix) Statutory Liabilities are taken over by AakashGanga Limited at full value and Trade Payables are taken over at 80% of the book value.

You are required to prepare the opening Balance Sheet of AakashGanga Limited as at 1.4.2021.

SOLUTION

Balance sheet of AakashGanga Ltd. as at 1st April, 2021

Particulars	Note No.	(Rs.)
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	1,40,00,000

(2) Non-Current Liabilities		
(a) Long term borrowings	2	2,12,60,000
(3) Current Liabilities		
(a) Trade Payables	3	73,60,000
(b) Other current liabilities	4	1,64,00,000
Total		**5,90,20,000**
II. Assets		
(1) Non-current assets		
(a) Property, Plant & Equipment	5	2,04,00,000
(b) Intangible assets	6	1,54,20,000
(2) Current assets		
(a) Cash and cash equivalents		40,00,000
(b) Other current assets	7	1,92,00,000
Total		**5,90,20,000**

Notes to Accounts

			(Rs.)
1.	**Share Capital**		
	Issued, subscribed & paid up:		
	14,00,000 equity shares of Rs. 10 each, fully paid up (W.N.4)		1,40,00,000
	(Of the above 10,00,000 shares have been issued for consideration other than cash)		
2.	**Long Term borrowings**		
	Secured Loans		
	Aakash Limited 25,60,000		
	Ganga Limited 1,44,00,000	1,69,60,000	
	Unsecured Loans	43,00,000	2,12,60,000
3.	**Trade Payables (W.N.1)**		
	Aakash Limited	44,80,000	
	Ganga Limited	28,80,000	73,60,000
4.	**Other current liabilities**		
	Statutory Liabilities		
	Aakash Limited	1,44,00,000	
	Ganga Limited	20,00,000	1,64,00,000
5.	**Property, Plant & Equipment**		
	Aakash Limited	68,00,000	
	Ganga Limited	1,36,00,000	2,04,00,000
6.	**Intangible assets**		
	Goodwill (W.N.3)		1,54,20,000
7.	**Other Current Assets**		
	Aakash Limited	57,60,000	
	Ganga Limited	1,34,40,000	1,92,00,000

Working Notes:

1. Value of total liabilities taken over by Aakash Ganga Ltd.

(Rs.)

	Aakash Limited		Ganga Limited	
Current liabilities				
Statutory liabilities	1,44,00,000		20,00,000	
Liability to employees	60,00,000		36,00,000	
Trade payables @ 80%	44,80,000	2,48,80,000	28,80,000	84,80,000
Secured loans				
Given in Balance Sheet	3,20,00,000		1,60,00,000	
Interest waived	-		16,00,000	1,44,00,000
Value of Inventory (80% of Rs. 3,68,00,000)	2,94,40,000	25,60,000		
Unsecured Loans (25% of Rs.1,72,00,000)		43,00,000		-
		3,17,40,000		**2,28,80,000**

2. Assets taken over by Aakash Ganga Ltd. (Rs.)

	Aakash Limited	Ganga Limited
	Rs.	**Rs.**
Property, Plant & Equipment	68,00,000	1,36,00,000
Current Assets (80% and 70% respectively of book value)	57,60,000	1,34,40,000
	1,25,60,000	**2,70,40,000**

3. Goodwill / Capital Reserve on amalgamation (Rs.)

Liabilities taken over (W.N. 1)		3,17,40,000	2,28,80,000
Equity shares to be issued to Preference Shareholders		4,00,000	-
	A	3,21,40,000	2,28,80,000
Less: Total assets taken over (W.N. 2)	B	(1,25,60,000)	(2,70,40,000)
	A-B	1,95,80,000	(41,60,000)
		Goodwill	Capital Reserve
Net Goodwill (1,95,80,000- 41,60,000)		**1,54,20,000**	

4. Equity shares issued by Aakash Ganga Ltd.

(i)	For Cash		40,00,000
	For consideration other than cash		
(ii)	In Discharge of Liabilities to Employees	96,00,000	
(iii)	To Preference shareholders	4,00,000	1,00,00,000

			1,40,00,000
	No. of shares @ Rs. 10		**14,00,000**

Q.AMG.206(A): (Sep' 24 Exam)

The following are the summarized Balance Sheets of Well Ltd. and Nice Ltd. as at 31st March, 2024 :

		Particulars	**Notes**	**Nice Ltd. (Rs. in '000)**	**Well Ltd. (Rs. in '000)**
		Equity and Liabilities			
1.		Shareholder's funds			
	a.	Share capital	1	41,000	14,300
	b.	Reserves and Surplus	2	19,500	(7,350)
2.		Non-current liabilities			
	a.	Long-term borrowings	3	20,500	5,425
3.		Current Liabilities			
	a.	Trade Payables		15,740	4,850
	b.	Short-term Borrowings		-	1,975
		Total		**96,740**	**19,200**
		Assets			
1.		Non-current Assets			
	a.	Property, plant, and equipment	4	62,550	16,380
	b.	Non-current Investments		22,500	-
2.		Current assets			
	a.	Inventories		300	870
	b.	Trade Receivables		6,590	1,950
	c.	Cash and Cash equivalents		4,800	-
		Total		**96,740**	**19,200**

Notes to Accounts

		Nice Ltd. (Rs. in '000)	**Well Ltd. (Rs. in '000)**
1.	Share Capital		
	Equity Share Capital		
	Issued, subscribed & paid up capital		
	Equity Shares of Rs. 100 each	31,500	12,500
	Preference Share Capital		
	Issued, subscribed & paid up capital		
	9% Preference Shares of Rs. 100 each	9,500	

	10% Preference Shares of Rs. 100 each		1,800
	Total	**41,000**	**14,300**
2.	**Reserves and Surplus**		
	Balance of Profit and Loss A/c	19,500	(7,350)
3.	**Long-term borrowings**		
	9% Debentures of Rs. 100 each	11,200	
	10% Debentures of Rs. 100 each		900
	Loan from Banks	9,300	4,525
		20,500	5,425

Details of Trade receivables and Trade payables are as under :

		Nice Ltd. (Rs. in '000)	Well Ltd. (Rs. in '000)
1.	Trade receivables Debtors	6,200	1,800
	Bills Receivables	390	150
		6,590	1,950
2.	Trade payables		
	Creditors	14,750	4,400
	Bills Payables	990	450
		15,740	4,850

On 31.03.2024, Nice Ltd. absorbs the business of Well Ltd. on the following terms:

- For every five equity shares held by the equity shareholders of Well Ltd., they receive three equity shares of Nice Ltd. issued at a premium of Rs. 20 per share.
- The 10% debenture-holders of Well Ltd. were to be allotted such 9% debentures in Nice Ltd. as would bring the same amount of interest.
- 10% Preference Shareholders of Well Ltd. are to be paid at 10% discount by issue of 9% Preference Shares at par in Nice Ltd.
- Banks agreed to waive off the loan of Rs. 270 thousand of Well Ltd.
- Expenses of Liquidation of Well Ltd. are to be reimbursed by Nice Ltd. Rs. 55 thousand.
- Inventory of Well Ltd. is taken over at 10% more than their book value by Nice Ltd.
- Debtors of Nice Ltd. include Rs. 215 thousand receivables from Well Ltd.
- Property, Plant, and Equipment of Well Ltd. are revalued at 20% abo their book value.
- The remaining Assets and Liabilities of Well Ltd. are taken over at book value by Nice Ltd.

You are required to:
1. Record Journal Entries in the books of Nice Ltd.
2. Prepare Balance Sheet of Nice Ltd. after absorption as at 31 March, 2024.

Answer

Journal Entries in the Books of Nice Ltd.

		Dr. Rs. in '000	Cr. Rs. in '000
Business Purchase Account	Dr.	10,620	
To Liquidator of Well Ltd.			10,620
(Consideration payable for the business taken over from Well Ltd.)			
Property, Plant and Equipment (120% of Rs. 16,380)	Dr.	19,656	
Inventory (110% of Rs. 870)	Dr.	957	
Trade receivables	Dr.	1,950	
Goodwill A/c (Balancing figure)	Dr.	137	
To Trade payables			4,850
To Debenture Holders Account			1,000
To Loan from bank (4,525-270)			4,255
To Short term borrowings			1,975
To Business Purchase Account			10,620
(Incorporation of various assets and liabilities taken over from Well Ltd. at agreed values and difference of net assets and purchase consideration debited to Goodwill A/c))			
Liquidator of Well Ltd.	Dr.	10,620	
To Equity Share Capital (75,000x 100)			7,500
To 9% Preference Share Capital			1,620
To Securities premium (7,5000x 20)			1,500
(Discharge of consideration for Well Ltd.'s business)			
Debenture holders A/c	Dr.	1,000	
To 9% Debentures A/c			1,000
(Being 9% debentures issued to 10% debenture holders)			
Sundry Creditors of Well Ltd.	Dr.	215	
To Sundry Debtors of Nice Ltd.			215
(Cancellation of mutual owing)			
Goodwill	Dr.	55	
To Bank			55
(Being liquidation expenses reimbursed to Well Ltd.)			

Working Note:

The purchase consideration will be:

		Rs.	Form
Preference shareholders:	16,200 × 100	16,20,000	9% Pref. shares
Equity shareholders:	1,25,000 × 3/5 × 120	90,00,000	Equity shares
			1,06,20,000
10 % Preference shares			18,00,000
Less: 10% discount			1,80,000

16,20,000

Debenture calculation

		Interest
10% Debenture	9,00,000	90,000
Therefore 9% debentures	90,000/9% = 10,00,000	

Balance Sheet of Nice Ltd. (After absorption) as at 31st March 2024

		Particulars	Notes	Rs. in '000
	I	Equity and Liabilities		
1		Shareholders' funds		
	(a)	Share capital	1	50,120
	(b)	Reserves and Surplus	2	21,000
2		Non-current liabilities		
	(a)	Long-term borrowings	3	25,755
3		Current liabilities		
	(a)	Trade payables	4	20,375
	(b)	Short term borrowing		1,975
		Total		1,19,225
	II	Assets		
1		Non-current assets		
	(a)	Property, Plant and Equipment and Intangibles	5	
		(i) Property, plant and equipment		82,206
		(ii) Intangible assets		192
	(b)	Non-current investments		22,500
2		Current assets		
	(a)	Inventories	6	1,257
	(b)	Trade receivables	7	8,325
	(c)	Cash and Cash equivalents	8	4,745
		Total		1,19,225

Notes to accounts

			Rs. in '000
1	**Share Capital**		
	Equity share capital		
	Issued, subscribed and paid up		
	3,90,000 Equity shares of Rs. 100 each (out of above 75,000 shares are issued for consideration other than cash)		39,000
	Preference Shares		
	Issued, subscribed and paid up		
	1,11,200 9% Preference Shares of Rs. 100 each (9,500 + 1,620)		11,120
	(out of above 16,200 shares are issued for consideration other than cash)		50,120
2	**Reserves and Surplus**		
	Securities premium	1,500	

	Reserves and surplus	19,500	21,000
3	**Long-term borrowings**		
	9 % Debentures (11,200+1,000)	12,200	
	Loan from bank (9,300+4255)	13,555	25,755
4	**Trade Payable**		
	Nice Limited	15,740	
	Well Limited	4,850	
		20,590	
	Less: Inter Company holdings	(215)	20,375
5	**Property, Plant and Equipment and Intangibles**		
	Property, Plant and Equipment	62,550	
	Acquired during the year	19,656	82,206
	Intangibles		
	Goodwill (137+55)		192
6	**Inventories**	300	
	Acquired during the year	957	1,257
7	**Trade receivables**	6,590	
	Acquired during the year (1,585+150)	1,735	8,325
8	**Cash and Cash Equivalents**		
	Nice Limited	4,800	
	Less: Expenses on liquidation	(55)	4,745

Q.AMG.207(A): (Jan'25 Exam)

Following are the summarized Balance Sheets of Light Limited and Bright Limited as at 31st March, 2024:

Particulars	Notes	Light Limited (Rs. In Lakhs)	Bright Limited (Rs. In Lakhs)
Equity and Liabilities			
Shareholders' Funds			
(a) Share Capital	1	50.00	40.00
(b) Reserves and Surplus	2	27.00	24.00
Non-Current Liabilities			
Long Term Provisions		1.50	-
Current Liabilities			
Trade Payables		3.40	2.00
Total		**81.90**	**66.00**
Assets			
Non-Current Assets			
Property, Plant and Equipment	3	68.70	50.25
Current Assets			
(a) Inventories		5.75	7.10
(b) Trade Receivables		4.30	5.80
(c) Cash and Cash equivalents		3.15	2.85
Total		**81.90**	**66.00**

Notes to Accounts:

Particulars	Light Limited (Rs. In Lakhs)	Bright Limited (Rs. In Lakhs)
1. Share Capital		
50,000 Equity Shares of Rs. 100 each	50.00	40.00
2. Reserves and Surplus		
Statutory Reserve	2.00	-
General Reserve	18.00	15.00
Securities Premium	-	5.00
Profit and loss	7.00	4.00
	27.00	24.00
3. Property, Plant and Equipment		
Land and Building	58.00	44.00
Plant and machinery	7.50	4.50
Other Assets	3.20	1.75
	68.70	**50.25**

Other Information

(a) A company Rainbow Limited is formed to acquire the Assets and Liabilities of both the companies. Assets were acquired at book values except Land and Building of Light Limited, which is revalued at Rs. 62 lakhs.

(b) Other Assets of Bright Limited are obsolete and are scrapped and sold for Rs. 50,000 by Bright Limited it self before acquisition of its assets and liabilities by Rainbow Limited.

(c) Light Limited and Bright Limited will be issued 80,000 and 64,000 equity shares of Rs. 100 each respectively of new company Rainbow Limited in lieu of purchase consideration due to them.

You are required to Prepare:

(a) Realization Account and Equity Shareholders Account in the books of Light Limited and Bright Limited;

(b) Opening Balance Sheet of Rainbow Limited as at 31st March, 2024.

SERIES 300
AMALGAMATION IN NATURE OF MERGER

Q.AMG.SM.301(A):

The following are the Balance Sheets of A Ltd. and B Ltd. as at 31.3.20X1:

		Particulars	Notes	₹ A Ltd (in'000)	₹ B Ltd (in'000)
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital	1	2,000	1,000
	B	Reserves and Surplus	2	1,000	(800)
2		**Non-current liabilities**			
	A	Long-term borrowings	3	750	450
3		**Current liabilities**			
	A	Trade Payables		300	300
	B	Short term Borrowings – Bank overdraft		--	50
		Total		**4,050**	**1,000**
		Assets			
1		**Non-current assets**			
	A	Property, Plant and Equipment		2,700	850
	B	Non-current investments		700	--
2		**Current assets**			
	A	Trade receivables		400	150
	B	Cash and Cash equivalents (cash at bank)		250	--
		Total		**4050**	**1000**

Notes to Accounts

1	**Share capital**	**A Ltd. ('000)**	**B Ltd. ('000)**
	Equity shares of ₹ 100 each	2000	1000
		2000	**1000**
2	**Reserves and Surplus**		
	General reserve	1000	--
	Profit and loss A/c (debit balance)	--	(800)
		1000	**(800)**
3	**Long term borrowings**		
	10% debentures	500	--
	Loan from banks	250	450
		750	**450**

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 ₹ 60 thousands of B Ltd.

(ii) B Ltd. will reduce its shares to ₹ 10 per share and then consolidate 10 such shares into one share of ₹ 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) Trade payables of B Ltd. includes ₹ 100 thousands payable to A Ltd.

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

SOLUTION:

Calculation of purchase consideration

One share of B Ltd. will be issued in exchange of every share of A Ltd. (i.e. 20,000 equity shares of B Ltd. will be issued against 20,000 equity shares of A Ltd.)	20,000 shares

Journal Entries in the books of B Ltd.

Date		(₹in thousands)	
20X1		**Dr. ₹**	**Cr. ₹**
March,31	Loan from bank A/c Dr.	60	
	To Capital reduction A/c		60
	(Being loan from bank waived off to the extent of ₹ 60 thousand)		
	Equity share capital A/c (₹ 100) Dr.	1,000	
	To Equity share capital A/c (₹10)		100
	To Capital reduction A/c		900
	(Being equity shares of ₹100 each reduced to ₹ 10 each)		
	Equity share capital A/c (₹ 10) Dr.	100	
	To Equity share capital A/c (₹ 100 each)		100
	(Being 10 equity shares of ₹ 10 each consolidated to one share of ₹100 each)		
	Capital reduction A/c Dr.	960	
	To Profit and loss A/c		800
	To Capital reserve A/c		160
	(Being accumulated losses set off against reconstruction A/c and balance transferred to capital reserve account)		
	Property, Plant & Equipment A/c Dr.	2,700	
	Investment A/c Dr.	700	
	Trade receivables A/c Dr.	400	
	Cash at bank A/c Dr.	250	
	To Trade payables A/c		300
	To Loans from bank A/c		250
	To 10% Debentures A/c		500
	To Business purchase A/c		2,000
	To Reserves A/c		1,000
	(Being assets, liabilities and reserves taken over under pooling of interest method)		
	Liquidator of A Ltd. A/c Dr.	2,000	
	To Equity share capital A/c		2,000
	(Being payment made to liquidators of A Ltd. by allotment of 20,000 new equity shares)		
	Trade payables A/c Dr.	100	
	To Trade receivables A/c		100
	(Being mutual owing cancelled)		

Balance Sheet of B Ltd. after merger as on 31.3.20X1

		Particulars	Notes	₹ in '000
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	2,100
	B	Reserves and Surplus	2	1,160

2		**Non-current liabilities**		
	A	Long term borrowings	3	1,140
3		**Current liabilities**		
	A	Trade payables		500
	B	Short term borrowings	4	50
		Total		**4,950**
		Assets		
1		**Non-current assets**		
	A	Property, Plant and Equipment		3,550
	B	Non-current investments		700
2		**Current assets**		
	A	Trade receivables		450
	B	Cash and cash equivalents		250
		Total		**4,950**

Notes to accounts

			₹ in '000
1	**Share Capital**		
	21,000, Equity shares of ₹ 100 each fully paid		2,100
	(Out of the above, 20,000 shares have been issued for consideration other than cash)		
2	**Reserves and Surplus**		
	Capital reserve	160	
	General reserve	1,000	
	Total		**1,160**
3	**Long Term Borrowings**		
	10% Debentures	500	
	Loan from Bank (250+450-60)	640	1,140
4	**Short term borrowings**		
	Bank overdraft		50

Q.AMG.RMP.302(A): (MTP – May 20, May 21 & May 22)

Sulpher Ltd. and Diamond Ltd. give the following information as at 31.03.2022:

	Sulpher Ltd. (Rs. in lakhs)	Diamond Ltd. (Rs. in lakhs)
Equity Share Capital (Fully paid shares of Rs. 10 each)	22,500	9,000
Securities Premium	4,500	-
Foreign Project Reserve	-	465
General Reserve	14,250	4,800
Profit and Loss Account	4,305	1,162.5
12% Debentures	-	1,500
Trade payables	1,800	694.5
Provisions	2,745	1,053
Land and Buildings	9,000	-

Plant and Machinery	21,000	7,500
Furniture, Fixtures and Fittings	3,456	2,550
Inventory	11,793	6,061.5
Trade receivables	3,180	1,650
Cash at Bank	1,671	913.5

All the bills receivable held by Diamond Ltd. were Sulpher Ltd.'s acceptances.

On 1st April 2022, Sulpher Ltd. took over Diamond Ltd. in an **amalgamation in the nature of merger**. It was agreed that in discharge of consideration for the business, Sulpher Ltd. would allot three fully paid equity shares of Rs. 10 each at par for every two shares held in Diamond Ltd. It was also agreed that 12% debentures in Diamond Ltd. would be converted into 13% debentures in Sulpher Ltd. of the same amount and denomination.

Details of trade receivables and trade payables are as under:

Particulars	**Sulpher Ltd.**	**Diamond Ltd.**
	(Rs. in lakhs)	
Trade Payables:		
Creditors	1,620	694.5
Bills Payable	180	-
Trade receivables:	**1,800**	**694.5**
Debtors	3,180	1,530
Bills Receivables	-	120
	3,180	**1,650**

Expenses of amalgamation amounting to Rs. 1.5 lakhs were borne by Sulpher Ltd. You are required to:

(i) Pass journal entries in the books of Sulpher Ltd. And

(ii) Prepare Sulpher Ltd.'s Balance Sheet immediately after the merger.

SOLUTION

Books of Sulpher Ltd.

Journal Entries

		(Rs. in Lacs)	**(Rs. in Lacs)**
Business Purchase A/c	Dr.	13,500	
To Liquidator of Diamond Ltd.			13,500
(Being business of Diamond Ltd. taken over for consideration settled as per agreement)			
Plant and Machinery	Dr.	7,500	
Furniture & Fittings	Dr.	2,550	
Inventory	Dr.	6,061.5	
Debtors	Dr.	1,530	
Cash at Bank	Dr.	913.5	
Bills Receivable	Dr.	120	
To Foreign Project Reserve			465

To General Reserve Rs. (4,800 - 4,500)			300
To Profit and Loss A/c			1,162.5
To Liability for 12% Debentures			1,500
To Creditors			694.5
To Provisions			1,053
To Business Purchase A/c			13,500
(Being assets & liabilities taken over from Diamond Ltd.)			
Liquidator of Diamond Ltd. A/c	Dr.	13,500	
To Equity Share Capital A/c			13,500
(Purchase consideration discharged in the form of equity shares)			
Profit & Loss A/c	Dr.	1.5	
To Bank A/c			1.5
(Liquidation expenses paid and charged to P& L A/c)			
Liability for 12% Debentures A/c	Dr.	1,500	
To 13% Debentures A/c			1500
(12% debentures discharged by issue of 13% debentures)			
Bills Payable A/c	Dr.	120	
To Bills Receivable A/c			120
(Cancellation of mutual owing on account of bills)			

Balance Sheet of Sulpher Ltd. as at 1st April, 2022 (after merger)

	Particulars	Notes	Rs. (in lakhs)
	Equity and Liabilities		
1	**Shareholders' funds**		
A	Share capital	1	36,000
B	Reserves and Surplus	2	24,981
2	**Non-current liabilities**		
A	Long-term borrowings	3	1,500
3	**Current liabilities**		
A	Trade Payables (1,800+694.5-120)		2,374.5
B	Short-term provisions (2,745+1,053)		3,798
	Total		**68,653.5**
	Assets		
1	**Non-current assets**		
A	Property, Plant & Equipment	4	43,506
2	**Current assets**		
A	Inventories (11,793+6,061.5)		17,854.5
B	Trade receivables (3,180+1,650-120)		4,710

C	Cash and cash equivalents (1,671+913.5-1.5)		2,583
	Total		**68,653.5**

Notes to Accounts

		Rs.
1.	**Share Capital**	
	Equity share capital	
	Authorized, issued, subscribed and paid-up: 36 crores equity shares of Rs. 10 each (out of these shares, 13.5 crores shares have been issued for consideration other than cash)	36,000
2.	**Reserves and Surplus**	
	General Reserve	14,550
	Securities Premium	4,500
	Foreign Project Reserve	465
	Profit and Loss Account Rs. (4,305 +1,162.5-1.5)	5,466
	Total	**24,981**
3.	**Long-term borrowings**	
	Secured	
	13% Debentures	1,500
4.	**PPE**	
	Land & Buildings	9,000
	Plant & Machinery	28,500
	Furniture & Fittings	6,006
	Total	**43,506**

Working Note:

Computation of purchase consideration

Purchase consideration was discharged in the form of three equity shares of Sulpher Ltd. for every two equity shares held in Diamond Ltd.

Purchase consideration = Rs. 9,000 lacs × 3/2 = Rs. 13,500 lacs

SERIES 400
BOOKS OF TRANSFEROR

Q.AMG.SM.401(A):

Wye Ltd. acquires the business of Zed Ltd. whose balance sheet as at 31st March, 20X1 is as under:

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	12,00,000
	B	Reserves and Surplus	2	1,58,000
2		**Non-current liabilities**		
	A	Long-term borrowings	3	2,00,000
3		**Current liabilities**		
	A	Trade Payables		1,20,000
	B	Other current liabilities (Interest payable on debentures)		12,000
		Total		**16,90,000**
		Assets		
1		**Non-current assets**		
	A	Property, Plant and Equipment	4	10,00,000
	B	Intangible assets	5	2,90,000
2		**Current assets**		
	A	Inventories		1,50,000
	B	Trade receivables		1,80,000
	C	Cash and Cash equivalents		70,000
		Total		**16,90,000**

Notes to Accounts

		₹
1	**Share Capital**	
	Equity Share capital (₹ 100 each)	8,00,000
	6% Preference Share capital (₹ 100 each)	4,00,000
		12,00,000
2	**Reserves and Surplus**	
	Capital reserve	1,00,000
	Profit and loss A/c	50,000
	Workmen compensation reserve (Expected liability ₹ 5,000)	8,000
		1,58,000
3	**Long-term borrowings**	
	6% Debentures	2,00,000
		2,00,000
4	**Property, Plant and Equipment**	

	Land and Building	4,00,000
	Plant and machinery	6,00,000
		10,00,000
5	**Intangible assets**	
	Goodwill	2,40,000
	Patents	50,000
		2,90,000

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

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

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

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

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

Wye Ltd. valued Land and building at ₹ 5,50,000 Plant and Machinery at ₹ 6,50,000 and patents at ₹ 20,000 of Zed Ltd for the purpose of amalgamation.

SOLUTION

Purchase Consideration:

		₹	Form
(i)	Preference Shares: ₹ 10 per share 40,000		Cash
	Preference shares 4,00,000	4,40,000	Preference shares
(ii)	Equity shares: ₹ 20 per share 1,60,000		Cash
	8,000 equity shares in Wye Ltd. @ ₹ 140 11,20,000	12,80,000	Equity shares
		17,20,000	

Steps to close the Books of the Vendor Company

1. Open Realization Account and transfer all assets at book value.

Exception: If cash is not taken over by the purchasing company, it should not be transferred.

Note: Profit and Loss Account (Dr.) and expenses not written off are not assets and should not be transferred to the Realization Account

The Journal entries in the above Case is**:**

Realization A/c	Dr.	16,20,000	
To Sundries —			
Goodwill			2,40,000
Land & Building			4,00,000
Plant & Machinery			6,00,000
Patents			50,000
Inventory			1,50,000
Trade receivables			1,80,000

(Transfer of assets to Realization Account on sale of business to Wye Ltd.)

2. **Transfer to the Realization Account the liabilities which the purchasing company is to take over**. In case of the provisions, the portion which represents liability expected to arise in future should be so transferred and the portion which is not required (i.e., the reserve portion) should be treated as profit. Accordingly, the following entry will be recorded:

		₹	₹	
6% Debentures in Wye Ltd.		Dr.	2,00,000	
Workmen's Compensation Reserve		Dr.	5,000	
Trade payables		Dr.	1,20,000	
To Realization A/c				3,25,000

(Transfer of liabilities taken over by Wye Ltd. to Realization A/c)

For liabilities not take over by the purchasing company, the profit or loss on discharge of such liabilities shall be transferred to Realization Account.

3. Debit purchasing company and credit Realization Account with the purchase consideration.

Wye Ltd. A/c	Dr.	17,20,000	
To Realisation A/c			17,20,000

(Amount receivable from Wye Ltd. for sale of business)

4. On receipt of the purchase consideration debit what is received (cash, debentures, shares etc.) and credit the purchasing company. Thus —

Cash	Dr.	2,00,000	
9% Preference shares in Wye Ltd.	Dr.	4,00,000	
Equity shares in Wye Ltd.	Dr.	11,20,000	
To Wye Ltd.			17,20,000

(Receipt of purchase consideration from the purchase company)

5. **Expenses of liquidation have to be dealt with according to the circumstances of each case.**

(a) If the vendor company has to bear and pay them:
Realization Account should be debited and Cash Account credited.

(b) If the expenses are to be borne by the purchasing company, the question may be dealt within one of the two ways mentioned below:

(i) It may be ignored in the books of the vendor company.

(ii) If the expenses are to be paid first by the vendor company and afterwards reimbursed by the purchasing company, the following two entries will be passed:

(a) Debit Purchasing company and credit Cash Account when expenses are paid by the vendor company; and

(b) Debit Cash Account and credit purchasing company (on the expenses being reimbursed).

In the above-mentioned case Wye Ltd. has to pay maximum of ₹ 10,000 only whereas, the amount spent is ₹ 12,500. Hence ₹ 2,500 is to be borne by Zed Ltd.; the entries required will be:

		₹	₹
Wye Ltd.	Dr.	10,000	
Realization A/c	Dr.	2,500	
To Cash A/c			12,500

(Liquidation expenses out of which ₹ 10,000 is payable by Wye Ltd.)

Cash A/c	Dr.	10,000	
To Wye A/c			10,000

(Account reimbursed by Wye Ltd. for expense)

6. Liabilities not assumed by the purchasing company, have to be paid off. On payment, debit the liability concerned and credit cash. Any difference between the amount actually paid and the book figure must be transferred to the Realization Account. Zed Ltd. shall pass the following entries in this respect:

		₹	₹
Interest Outstanding A/c	Dr.	12,000	
To Debenture Holders A/c			12,000
(Amount due to Debenture holders for Debenture interest)			
Debenture Holders A/c	Dr.	12,000	
To cash A/c			12,000
(Debenture holders paid Cash ₹ 12,000 for outstanding interest)			

7. Credit the preference shareholders with the amount payable to them, debiting Preference Share Capital with the amount shown in the books, transferring the difference between the two, if any, to the Realization Account. Thus —

6% Preference Share Capital A/c	Dr.	4,00,000	
Realisation A/c	Dr.	40,000	
To Preference Shareholder A/c			4,40,000

(The amount due to preference shareholders for capital and the extra amount payable under the scheme of absorption)

Note: In the absence of any indication to the contrary, preference shareholders will be entitled only to the capital contributed by them. But if funds available after paying off creditors are not sufficient to satisfy the claim of preference shareholders fully, they will have to suffer a loss to the extent of the deficit.

8. Pay off preference shareholders by debiting them and crediting whatever is given to them. The entry in the above case is:

Preference Shareholder A/c	Dr.	4,40,000	
To Cash A/c			40,000
To 9% Preference Share Capital A/c			4,00,000

(Cash and preference shares in Wye Ltd. given to preference shareholders)

9. Transfer equity share capital and account representing profit or loss (including the balance in Realization Account) to Equity Shareholders Account. This will determine the amount receivable by the equity shareholders. Zed Ltd. shall pass the following entries in this regard:

		₹	₹
Equity Share Capital A/c	Dr.	8,00,000	
Capital Reserve A/c	Dr.	1,00,000	
Profit and Loss A/c	Dr.	50,000	
Workmen's Compensation Reserve A/c	Dr.	3,000	
Realization A/c	Dr.	3,82,500	
To Equity Shareholders A/c			13,35,500

(Various accounts representing capital and profit transferred to Equity Shareholders Account)

10. On satisfaction of the claims of the equity shareholders, debit their account and credit whatever is given to them. Hence:

Equity Share Holders A/c	Dr.	13,35,500	
To Equity Share in Wye Ltd.			11,20,000

To cash A/c (W.N.2)		2,15,500

Working Notes:

1. Realisation A/c

		₹			₹
To	Sundry Assets	16,20,000	By	Sundry Liabilities	3,25,000
To	Cash (excess expenses of liquidation)	2,500	By	Wye Ltd.	17,20,000
To	Preference Shareholders	40,000			
To	Equity Shareholders A/c - profit transferred	3,82,500			
		20,45,000			**20,45,000**

2. Cash A/c

	₹		₹
To Balance b/d	70,000	By Realization	2,500
To Wye Ltd. (consideration for amalgamation)	2,00,000	By Wye Ltd.	10,000
To Wye Ltd. (liquidation expenses reimbursed)	10,000	By Debenture-holders	12000
		By Preference shareholder	40000
		By Equity Shareholder (B/F)	215500
	280000		**280000**

Q.AMG.SM.402(A):

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

		Particulars	Notes	₹ K Ltd.	₹ L Ltd.
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital	1	12,00,000	6,00,000
	B	Reserves and Surplus	2	3,71,375	1,97,175
2		**Non-current liabilities**			
	A	Long-term borrowings	3	2,00,000	2,00,000
3		**Current liabilities**			
	A	Trade Payables		1,00,000	2,10,000
		Total		**18,71,375**	**12,07,175**
		Assets			
1		**Non-current assets**			
	A	Property, Plant and Equipment	4	11,30,000	8,20,000
	B	Intangible assets	5	80,000	-
2		**Current assets**			

	A	Inventories		2,25,000	1,40,000
	B	Trade receivables		2,75,000	1,75,000
	C	Cash and Cash equivalents	6	1,61,375	72,175
		Total		**18,71,375**	**12,07,175**

Notes to accounts

1	**Share Capital**		**K Ltd.**	**L Ltd.**
	Equity shares of ₹ 100 each		8,00,000	3,00,000
	7% Preference Shares of ₹ 100 each		4,00,000	3,00,000
			12,00,000	**6,00,000**
2	**Reserves and Surplus**			
	General reserve		-	1,00,000
	Profit and loss account		3,71,375	97,175
			3,71,375	**1,97,175**
3	**Long-term borrowings**			
	5% Debentures		2,00,000	-
	Secured loan		-	2,00,000
			2,00,000	**2,00,000**
4	**Property, plant and Equipment**			
	Land and Building		4,50,000	3,00,000
	Plant and machinery		6,20,000	5,00,000
	Furniture and fittings		60,000	20,000
			11,30,000	**8,20,000**
5	**Intangible assets**			
	Goodwill		80,000	-
			80,000	**-**
6	**Cash and Cash Equivalents**			
	Cash at Bank		1,20,000	55,000
	Cash in hand		41,375	17,175
			1,61,375	**72,175**

The terms of amalgamation are as under:

(A) (1) The assumption of liabilities of both the Companies.

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

(3) Issue of 6 Equity shares of ₹ 20 each in LK Ltd. @ ₹ 18 paid up at a premium of ₹ 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. include ₹ 20,000 due from L Ltd.

(C) The LK Ltd. is to issue 15,000 new equity shares of ₹ 20 each, ₹ 18 paid up at premium of ₹ 4 per share so as to have sufficient working capital.

Prepare ledger accounts in the books of K Ltd. and L Ltd. to close their books.

SOLUTION:

Books of K Ltd. Realisation Account

	₹		₹
To Goodwill	80,000	By 5% Debentures	2,00,000
To Land & Building	4,50,000	By Trade payables	1,00,000
To Plant & Machinery	6,20,000	By LK Ltd. (Purchase consideration)	15,60,000
To Furniture & Fitting	60,000	By Equity shareholders A/c (loss)	51,375
To Trade receivables	2,75,000		
To Stores & inventory	2,25,000		
To Cash at Bank	1,20,000		
To Cash in hand	41,375		
To Preference Shareholders (excess payment)	40,000		
	19,11,375		**19,11,375**

Equity Shareholders Account

	₹		₹
To Realisation A/c (loss)	51,375	By Share Capital A/c	8,00,000
To Equity Shares in LK Ltd.	10,56,000	By Profit & Loss A/c	3,71,375
To Cash	64,000		
	11,71,375		**11,71,375**

7% Preference Shareholders Account

	₹		₹
To Preference Shares in LK Ltd.	4,40,000	By Share capital	4,00,000
		By Realization A/c	40,000
	4,40,000		**4,40,000**

LK Ltd. Account

	₹		₹
To Realisation A/c	15,60,000	By Equity Shares in LK Ltd. For Equity 10,56,000 Pref 4,40,000	14,96,000
		By cash	64,000
	15,60,000		**15,60,000**

Books of L Ltd.
Realisation Account

	₹		₹
To Land & Building	3,00,000	By Trade payables	2,10,000
To Plant & Machinery	5,00,000	By Secured loan	2,00,000
To Furniture & Fittings	20,000	By LK Ltd. (Purchase consideration)	7,90,000
To Trade receivables	1,75,000	By Equity shareholders A/c Loss	31,175
To Inventory of stores	1,40,000		

To Cash at bank	55,000		
To Cash in hand	17,175		
To Pref. shareholders	30,000		
	12,37,175		**12,37,175**

Equity Shareholders Account

	₹		₹
To Equity shares in LK Ltd.	3,96,000	By Share Capital	3,00,000
To Realisation	37,175	By Profit & Loss A/c	97,175
To Cash	64,000	By Reserve	1,00,000
	4,97,175		**4,97,175**

7% Preference Shareholders Account

	₹		₹
To Preference Shares in LK Ltd.	3,30,000	By Share capital	3,00,000
		By Realization A/c	30,000
	3,30,000		**3,30,000**

LK Ltd. Account

	₹		₹
To Realisation A/c	7,90,000	By Equity Shares in LK Ltd. For Equity 3,96,000 Pref 3,30,000	7,26,000
		By cash	64,000
	7,90,000		**7,90,000**

Working Notes:

(i) Purchase consideration

	K Ltd. ₹	L Ltd. ₹
Payable to preference shareholders:		
Preference shares at ₹ 22 per share	4,40,000	3,30,000
Equity Shares at ₹ 22 per share	10,56,000	3,96,000
Cash [See W.N. (ii)]	64,000	64,000
	15,60,000	**7,90,000**

(ii) Value of Net Assets

		K Ltd. ₹		L Ltd. ₹
Goodwill		80,000		
Land & Building		4,50,000		3,00,000
Plant & Machinery		6,20,000		5,00,000
Furniture & Fittings		60,000		20,000
Trade receivables less 2.5%		2,68,125		1,70,625
Inventory less 2%		2,20,500		1,37,200
Cash at Bank		1,20,000		55,000
Cash in hand		41,375		17,175
		18,60,000	–	**12,00,000**
Less: Debentures	2,00,000			
Trade payables	1,00,000		2,10,000	

Secured Loans		(3,00,000)	2,00,000	(4,10,000)
		15,60,000		7,90,000
Payable in shares		14,96,000		7,26,000
Payable in cash		64,000		64,000

SERIES 500
MISC. CATEGORY

Q.AMG.RMP.501(A): (RTP – May18 & Nov21)

P Ltd. and Q Ltd. agreed to amalgamate their business. The scheme envisaged a share capital, equal to the combined capital of P Ltd. and Q Ltd. for the purpose of acquiring the assets, liabilities and undertakings of the two companies in exchange for share in PQ Ltd.

The Summarized Balance Sheets of P Ltd. and Q Ltd. as on 31st March, 2017 (the date of amalgamation) are given below:

Summarized balance sheets as at 31-03-2017

Liabilities	P Ltd. Rs	Q Ltd. Rs	Assets	P Ltd. Rs	Q Ltd. Rs
Equity & liabilities:			**Assets:**		
Shareholders Fund			**Non-current Assets**		
a. Share Capital	6,00,000	8,40,000	Fixed Assets (excluding Goodwill)	7,20,000	10,80,000
b. Reserves	10,20,000	6,00,000	Current Assets		
Current Liabilities			a. Inventories	3,60,000	6,60,000
Bank Overdraft	-	5,40,000	b. Trade receivables	4,80,000	7,80,000
Trade payables	2,40,000	5,40,000	c. Cash at Bank	3,00,000	-
	18,60,000	**25,20,000**		**18,60,000**	**25,20,000**

The consideration was to be based on the net assets of the companies as shown in the above Balance Sheets, but subject to an additional payment to P Ltd. for its goodwill to be calculated as its weighted average of net profits for the three years ended 31st March, 2017. The weights for this purpose for the years 2014-15, 2015-16 and 2016-17 were agreed as 1, 2 and 3 respectively.

The profit had been:

2014-15 Rs 3,00,000; 2015-16 Rs 5,25,000 and 2016-17 Rs 6,30,000.

The shares of PQ Ltd. were to be issued to P Ltd. and Q Ltd. at a premium and in proportion to the agreed net assets value of these companies.

In order to raise working capital, PQ Ltd proceeded to issue 72,000 shares of Rs 10 each at the same rate of premium as issued for discharging purchase consideration to P Ltd. and Q Ltd.

You are required to:

(ii) Calculate the number of shares issued to P Ltd. and Q Ltd; and

(iii) Prepare required journal entries in the books of PQ Ltd.; and

(iv) Prepare the Balance Sheet of PQ Ltd. as per Schedule III after recording the necessary journal entries.

SOLUTION

(i) Calculation of number of shares issued to P Ltd. and Q Ltd.:

Amount of Share Capital as per balance sheet	Rs
P Ltd.	6,00,000
Q Ltd.	8,40,000
	14,40,000

Share of P Ltd. = Rs 14,40,000 x [21,60,000/ (21,60,000 + 14,40,000)]

= Rs 8,64,000 or 86,400 shares

Securities premium = Rs 21,60,000 – Rs 8,64,000 = Rs 12,96,000

Premium per share = Rs 12,96,000 / Rs 86,400 = Rs 15

Issued 86,400 shares @ Rs 10 each at a premium of Rs 15 per share

Share of Q Ltd. = Rs 14,40,000 x [14,40,000/ (21,60,000 + 14,40,000)]

= Rs 5,76,000 or 57,600 shares

Securities premium = Rs 14,40,000 – Rs 5,76,000 = Rs 8,64,000

Premium per share = Rs 8,64,000 / Rs 57,600 = Rs 15

Issued 57,600 shares @ Rs 10 each at a premium of Rs 15 per share

(ii) Journal Entries in the books of PQ Ltd.

		Dr.	Cr.
Particulars		**Amount (Rs)**	**Amount (Rs)**
Business purchase account	Dr.	36,00,000	
To Liquidator of P Ltd. account			21,60,000
To Liquidator of Q Ltd. account			14,40,000
(Being the amount of purchase consideration payable to liquidator of P Ltd. and Q Ltd. for assets taken over)			
Goodwill	Dr.	5,40,000	
Fixed assets account	Dr.	7,20,000	
Inventory account	Dr.	3,60,000	
Trade receivables account	Dr.	4,80,000	
Cash at bank	Dr.	3,00,000	
To Trade payables account			2,40,000
To Business purchase account			21,60,000
(Being assets and liabilities of P Ltd. taken over)			
Fixed assets account	Dr.	10,80,000	
Inventory account	Dr.	6,60,000	
Trade receivables account	Dr.	7,80,000	
To bank overdraft account			5,40,000
To Trade payables account			5,40,000
To Business purchase account			14,40,000
(Being assets and liabilities of Q Ltd. taken over)			
Liquidator of P Ltd. Account	Dr.	21,60,000	
To Equity share capital account (86,400 x Rs 10)			8,64,000
To Securities premium (86,400 x Rs 15)			12,96,000
(Being the allotment of shares as per agreement for discharge of purchase consideration)			
Liquidator of Q Ltd. account	Dr.	14,40,000	
To Equity share capital account (57,600 x Rs 10)			5,76,000
To Securities premium (57,600 x Rs 15)			8,64,000
(Being the allotment of shares as per agreement for discharge of purchase consideration)			
Bank A/c		18,00,000	
To Equity share capital account			7,20,000
To Securities premium			10,80,000

(Equity share capital issued to raise working capital)		

(iii) Balance Sheet of PQ Ltd. on 31st March, 2017 after amalgamation

Particulars		Notes	Rs
Equity and Liabilities			
1	**Shareholders' funds**		
a	Share capital	1	21,60,000
b	Reserves and Surplus	2	32,40,000
2	**Current liabilities**		
a	Trade payables (2,40,000 + 5,40,000)		7,80,000
	Total		**61,80,000**
Assets			
1	**Non-current assets**		
a	Fixed assets		
	Tangible assets (7,20,000 + 10,80,000)		18,00,000
	Intangible assets (goodwill)	4	5,40,000
2	**Current assets**		
a	Inventories (3,60,000 + 6,60,000)		10,20,000
b	Trade receivables (4,80,000 +7,80,000)		12,60,000
c	Cash and cash equivalents	3	15,60,000
	Total		**61,80,000**

Notes to accounts

		Rs
1	**Share Capital**	
Issued, subscribed and paid-up share capital 2,16,000 Equity shares of Rs10 each (Out of the above 1,44,000 shares issued for non-cash consideration under scheme of amalgamation)		21,60,000
2	**Reserves and Surplus**	
Securities premium (@Rs 15 for 2,16,000 shares)		32,40,000
3	**Cash and cash equivalents**	
Cash at Bank		15,60,000
4	**Intangible Assets**	
Goodwill		5,40,000

Working Notes:

1. Calculation of goodwill of P Ltd.

Particulars	Amount Rs	Weight	Weighted amount Rs
2014-15	3,00,000	1	3,00,000
2015-16	5,25,000	2	10,50,000
2016-17	6,30,000	3	18,90,000
Total (a+b+c)	14,55,000	6	32,40,000
weighted Average = [Total weighted amount/Total of weight] [Rs 32,40,000/6]			
Goodwill			**5,40,000**

2. Calculation of Net assets

	P Ltd. Rs	Q Ltd. Rs
Assets		
Goodwill	5,40,000	
Fixed assets	7,20,000	10,80,000
Inventory	3,60,000	6,60,000
Trade receivable	4,80,000	7,80,000
Cash at bank	3,00,000	
Less: Liabilities		
Bank overdraft		5,40,000
Trade payables	2,40,000	5,40,000
Net assets or Purchase consideration	**21,60,000**	**14,40,000**

3. New authorized capital

= Rs 14,40,000 + Rs 12,00 000 = Rs 26,40,000

4. Cash and Cash equivalents

	Rs
P Ltd. Balance	3,00,000
Cash received from Fresh issue (72,000 X Rs 25)	18,00,000
	21,00,000
Less: Bank Overdraft	5,40,000
	15,60,000

*The balance of cash and cash equivalents has been shown after setting off overdraft amount.

Q.AMG.RMP.502(A): (Exam July'21)

The summarized Balance Sheets of Black Limited and White Limited as on 31st March, 2020 is as follows:

Particulars	**Notes**	**Black Limited (Rs. In 000)**	**White Limited (Rs. In 000)**
Equity and Liabilities			
Shareholders' Funds			
(a) Share Capital	1	6,000	3,600
(b) Reserves and Surplus	2	1,080	660
Current Liabilities			
Trade payables		600	360
Total		**7,680**	**4,620**
Assets			
Non-current assets			
Property, Plant and Equipment		3,600	2,400
Current assets			
(a) Inventories		960	720
(b) Trade receivables		1,680	1,080
(c) Cash and Cash Equivalents		1,440	420
Total		**7,680**	**4,620**

Note No.	Particulars	Black Limited (Rs. in 000)	White Limited (Rs. in 000)
1.	Share Capital Equity Shares of Rs. 100 each	6,000	3,600
2.	Reserves and Surplus		
	General Reserve	360	180
	Profit and Loss Account	720	480
	Total	**1,080**	**660**

Black Limited takes over White Limited on 1st July, 2020.

No Balance Sheet of White Limited is available as on that date. It is, however estimated that White Limited earned profit of Rs. 2,40,000 after charging proportionate depreciation @ 10% p.a. on Property Plant and Equipment, during April-June, 2020.

Estimated profit of Black Limited during these 3 months was Rs. 4,80,000 after charging proportionate depreciation @ 10% p.a. on Property Plant and Equipment.

Both the companies have declared and paid 10% dividend within this 3 months' period.

Goodwill of White Limited is valued at Rs. 2,40,000 and Property Plant and Equipment are valued at Rs. 1,20,000 above the depreciated book value on the date of takeover.

Purchase consideration is to be satisfied by Black Limited by issuing shares at par. Ignore income tax. You are required to:

i. Compute No. of shares to be issued by Black Limited to White Limited against purchase consideration.

ii. Calculate the balance of Net Current Assets of Black Limited and White Limited as on 1st July, 2020.

iii. Give balance of Profit or Loss of Black Limited as on 1st July, 2020

iv. Give balance of Property Plant and Equipment as on 1st July, 2020 after takeover.

SOLUTION

(i) No. of shares issued by Black Ltd. to White Ltd. against purchase consideration

White Ltd.	Rs.	Rs.
Goodwill		2,40,000
Property, plant and equipment	24,00,000	
Less: Depreciation [24,00,000 · 10 % · 3/12]	(60,000)	
	23,40,000	
Add: Appreciation	1,20,000	24,60,000
Inventory		7,20,000
Trade receivables		10,80,000
Cash and Bank balances	4,20,000	
Add: Profit after depreciation 2,40,000		
Add: Depreciation (non-cash) 60,000	3,00,000	
Less: Dividend [36,00,000 · 10%]	(3,60,000)	3,60,000
		48,60,000
Less: Trade payables		(3,60,000)
Purchase Consideration		45,00,000

Number of shares to be issued by Black Ltd. @ Rs. 100 each	**45,000 shares**

ii. Calculation of Net Current Assets as on 01.07.2020

		Black Ltd.		White Ltd.
		Rs.		Rs.
Current assets:				
Inventory		9,60,000		7,20,000
Trade receivables		16,80,000		10,80,000
Cash and Bank	14,40,000		4,20,000	
Less: Dividend	(6,00,000)		(3,60,000)	
Add: Profit after depreciation	4,80,000		2,40,000	
Add: Depreciation being non cash	90,000	14,10,000	60,000	3,60,000
		40,50,000		21,60,000
Less: Trade payables		(6,00,000)		(3,60,000)
		34,50,000		**18,00,000**

iii. Profit and Loss Account balance of Black Ltd. as on 1.07.2020

	Rs.
P & L A/c balance as on 31.03.2020	7,20,000
Less: Dividend paid	(6,00,000)
	1,20,000
Add: Estimated profit for 3 months after charging depreciation	4,80,000
	6,00,000

iv. Property, plant and equipment as on 01.07.2020

Property, plant and equipment of Black Ltd. as on 31.03.2020		36,00,000
Less: Depreciation for 3 months [36,00,000 x 10% x 3/12]		(90,000)
Property, plant and equipment of White Ltd. Taken over as on 31.03.2020	24,00,000	35,10,000
Less: Proportionate depreciation for 3 months on fixed assets	(60,000)	
	23,40,000	
Add: Appreciation above the estimated book value	1,20,000	24,60,000
Total Property, plant and equipment as on 1.7.2020		**59,70,000**

Q.AMG.RMP.503(A): (RTP – Nov19 & Nov23, MTP Nov21)

The following is the summarized Balance Sheet of A Ltd. as at 31st March, 2019:

Liabilities	Amount	Assets	Amount
8,000 Equity shares of 100 each	8,00,000	Building	3,40,000
10% Debentures	4,00,000	Machinery	6,40,000
Loans	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
		Patent	1,30,000
		Share issue Expenses	34,000
Total	**17,60,000**	**Total**	**17,60,000**

B Ltd. agreed to absorb A Ltd. on the following terms and conditions:

- B Ltd. would take over all assets, except bank balance and Patent 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.
- B Ltd. is to take over trade payables at book value.
- The purchase consideration is to be paid in cash to the extent of 6,00,000/- and the balance in fully paid equity shares of 100/- each at 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, 2018 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, 2018.
- 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, 2019 after the takeover.

SOLUTION

Books of A Limited

Realization Account

Particulars	Rs.	Particulars	Rs.
To Building	3,40,000	By Trade payables	3,20,000
To Machinery	6,40,000	By B Ltd.	12,10,000
To Inventory	2,20,000	By Equity Shareholders (Loss)	76,000
To Trade receivables	2,60,000		
To Patent	1,30,000		
To Bank (Exp.)	16,000		
	16,06,000		**16,06,000**

Bank Account

To Balance b/d	1,36,000	By Realization (Exp.)	16,000
To B Ltd.	6,00,000	By 10% Debentures	4,00,000
		By Loan	1,60,000
		By Equity shareholders	1,60,000
	7,36,000		**7,36,000**

Equity Share Holders Account

To Realization Account	76,000	Equity share capital	8,00,000
To Share issue Expenses	34,000	General reserve	80,000
To Equity shares in B Ltd.	6,10,000		
To Bank	1,60,000		
	8,80,000		**8,80,000**

B Ltd

Balance Sheet as on 1st April, 2019 (An extract)

	Particulars	Notes	Rs.
	EQUITY AND LIABILITIES		
1	**Shareholders' funds**		
a	Share capital	1	4,88,000
b	Reserves and Surplus	2	1,07,000
2	**Current liabilities**		
a	Trade Payables	3	2,80,000
b	Bank overdraft		6,00,000
			14,75,000
	ASSETS		
1	**Non-current assets**		
	Property, Plant and Equipment		
A	Tangible assets	4	8,82,000
B	Intangible assets	5	2,16,000
2	**Current assets**		
a	Inventories	6	1,83,000
b	Trade receivables	7	1,94,000
			14,75,000

Notes to Accounts

Sr. No.	Particulars		Rs.
1	**Share Capital**		
	Equity share capital		
	4,880 Equity shares of 100 each (Shares have been issued for consideration other than cash)		4,88,000
	Total		4,88,000
2	**Reserves and Surplus (an extract)**		
	Securities Premium		1,22,000
	Profit and loss account		
	Less: Unrealized profit	(15,000)	(15,000)
	Total		1,07,000
3	**Trade payables**		
	Opening balance	3,20,000	
	Less: Inter-company transaction cancelled upon amalgamation	(40,000)	2,80,000
4	**Tangible assets**		
	Buildings		3,06,000
	Machinery		5,76,000
	Total		8,82,000
5	**Intangible assets**		
	Goodwill		2,16,000
6	**Inventories**		
	Opening balance	1,98,000	
	Less: Cancellation of profit upon amalgamation	(15,000)	1,83,000

7	**Trade receivables**		
	Opening balance	2,34,000	
	Less: Intercompany transaction cancelled upon amalgamation	(40,000)	1,94,000

Working Notes:

1. Valuation of Goodwill	**Rs.**
Average profit	1,24,400
Less: 8% of Rs. 8,80,000	(70,400)
Super profit	54,000
Value of Goodwill = 54,000 x 4	2,16,000
1. Net Assets for purchase consideration	
Goodwill as valued in W.N.1	2,16,000
Building	3,06,000
Machinery	5,76,000
Inventory	1,98,000
Trade receivables (2,60,000-26,000)	2,34,000
Total Assets	15,30,000
Less: Trade payables	(3,20,000)
Net Assets	**12,10,000**

Out of this Rs. 6,00,000 is to be paid in cash and remaining i.e., (12,10,000 – 6,00,000) Rs. 6,10,000 in shares of 125/-. Thus, the number of shares to be allotted 6,10,000/125 = 4,880 shares.

3. Unrealized Profit on Inventory	**Rs.**
The Inventory of A Ltd. includes goods worth Rs. 1,00,000 which was sold by B Ltd. on profit. Unrealized profit on this Inventory will be 40,000. 40000 x 100000 / 160000	25,000
As B Ltd purchased assets of A Ltd. at a price 10% less than the book value, 10% need to be adjusted from the Inventory i.e., 10% of Rs. 1,00,000.	(10,000)
Amount of unrealized profit	**15,000**

Q.AMG.RMP.504(A): (RTP – May'21)

Mohan Ltd. gives you the following information as on 31st March, 2020:

	Rs.
Share capital:	
Equity shares of Rs. 10 each	3,00,000
6,000, 9% cumulative preference shares of Rs. 10 each	60,000
Profit and Loss Account (Dr. balance)	1,70,000
10% Debentures of Rs. 100 each	2,00,000
Interest payable on Debentures	20,000
Trade Payables	1,50,000
Property, Plant and Equipment	3,40,000
Goodwill	10,000
Inventory	80,000
Trade Receivables	1,10,000

Bank Balance	20,000

A new company Ravi Ltd. is formed with authorised share capital of Rs. 4,00,000 divided into 40,000 Equity Shares of Rs. 10 each. The new company will acquire the assets and liabilities of Mohan Ltd. on the following terms:

i)

a) Mohan Ltd.'s debentures are paid by similar debentures in new company and for outstanding accrued interest on debentures, equity shares of equal amount are issued at par.

b) The trade payables are paid by issue of 12,000 equity shares at par in full and final settlement of their claims.

c) Preference shareholders are to get equal number of equity shares issued at par. Dividend on preference shares is in arrears for three years. Preference shareholders to forgo dividend for two years. For balance dividend, equity shares of equal amount are issued at par.

d) Equity shareholders are issued one share at par for every three shares held in Mohan Ltd.

ii) Current Assets are to be taken at book value (except inventory, which is to be reduced by 10%). Goodwill is to be eliminated. The Property, plant and equipment is taken over at Rs. 3,08,400.

iii) Remaining equity shares of the new company are issued to public at par fully paid up.

iv) Expenses of Rs. 5,000 to be met from bank balance of Mohan Ltd. This is to be adjusted from the bank balance of Mohan Ltd. before acquisition by Ravi Ltd.

You are required to prepare:

(a) Realisation account and Equity Shareholders' account in the books of Mohan Ltd.

(b) Bank Account and Balance Sheet with notes to accounts in the books of Ravi Ltd.

SOLUTION

In the books of Mohan Ltd.

i) Realisation Account

	Rs.		Rs.
To Goodwill	10,000	By 10% Debentures	2,00,000
To Property, plant and Equipment	3,40,000	By Interest accrued on	20,000
To Inventory	80,000	By Trade payables	1,50,000
To Trade receivables	1,10,000	By Ravi Ltd. (Purchase consideration) (W.N. 1)	1,65,400
To Bank (20,000 - 5,000)	15,000	By Equity shareholders A/c (loss on realization) (Bal. fig.)	25,000
To Preference shareholders A/c (W.N.2)	5,400		
	5,60,400		**5,60,400**

ii) Equity shareholders' Account

	Rs.		Rs.
To Profit & loss A/c	1,70,000	By Equity Share capital	3,00,000
To Expenses*	5,000		
To Equity shares in Ravi Ltd.	1,00,000		
To Realization A/c	25,000		
	3,00,000		**3,00,000**

*Alternatively, expenses may be routed through Realization account.

In the books of Ravi Ltd.

i) Bank Account

	Rs.		Rs.
To Business Purchase	15,000	By Balance c/d (Bal. fig.)	1,09,600
To Equity shares application & allotment A/c (W.N. 3)	94,600		
	1,09,600		**1,09,600**

ii) Balance Sheet as at 31st March, 2020

Particulars	Note No.	Rs.
I. Equity and Liabilities		
(1) Shareholder's Funds		
Share Capital	1	4,00,000
(2) Non-Current Liabilities		
Long-term borrowings	2	2,00,000
Total		**6,00,000**
II. Assets		
(1) Non-current assets		
(a) Property, plant and equipment		3,08,400
(2) Current assets		
(a) Inventories		72,000
(b) Trade receivables		1,10,000
(c) Cash and cash equivalents		1,09,600
Total		**6,00,000**

Notes to Accounts

		Rs.
1	Share Capital Authorised share capital 40,000 equity shares of Rs. 10 each Issued and Subscribed 40,000 shares of Rs. 10 each fully paid up (Out of the above, 30,540 (W.N.3) shares have been allotted as fully paid-up pursuant to contract without payment being received in cash)	 4,00,000 4,00,000
2	Long Term Borrowings 10% Debentures	 2,00,000

Working Notes:

1. Calculation of Purchase consideration

	Rs.
Payment to preference shareholders	
6,000 equity shares @ Rs. 10	60,000
For arrears of dividend: (6,000 x Rs. 10) x 9%	5,400
Payment to equity shareholders	
(30,000 shares x 1/3) @ Rs. 10	1,00,000
Total purchase consideration	1,65,400

2. Preference shareholders' Account in books of Mohan Ltd.

	Rs.		Rs.
To Equity Shares in Ravi Ltd.	65,400	By Preference Share capital	60,000
		By Realization A/c (Bal. fig.)	5,400
	65,400		**65,400**

3. Calculation of number of Equity shares issued to public

	Number of shares	
Authorized equity shares		40,000
Less: Equity shares issued for		
Interest accrued on debentures	2,000	
Trade payables of Mohan Ltd.	12,000	
Preference shareholders of Mohan Ltd.	6,000	
Arrears of preference dividend	540	
Equity shareholders of Mohan Ltd.	10,000	(30,540)
Number of equity shares issued to public at par for cash		9,460

SECTION B – HOMEWORK QUESTIONS

Questions of Study Material, RTPs, MTPs and Past Exams to be Practiced at Home

SERIES 100
CALCULATION OF PC

Q.AMG.SM.101(B):

S. Ltd. is absorbed by P. Ltd. S ltd. gives the following information on the date of absorption:

Sundry Assets	13,00,000
Share capital:	
2,000 7% Preference shares of ₹ 100 each (fully paid-up)	2,00,000
5,000 Equity shares of ₹ 100 each (fully paid-up)	5,00,000
Reserves	3,00,000
6% Debentures	2,00,000
Trade payables	1,00,000

Additional information:

P. Ltd. has agreed:

(i) to issue 9% Preference shares of ₹ 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 ₹ 96 in lieu of 6% Debentures in S. Ltd. which are to be redeemed at a premium of 20%;

(iii) To pay ₹ 20 per share in cash and to issue six equity shares of ₹ 100 each issued at the market value ₹ 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.

SOLUTION

The purchase consideration will be

	₹	Form
Preference shareholders: 2,000 × 3/4 × 100	1,50,000	9% Pref. shares
Equity shareholders:		
5,000 × 20	1,00,000	Cash
5,000 × 6/5 × 125	7,50,000	Equity shares
	10,00,000	

Note-

1. According to AS 14, 'consideration' excludes the any amount payable to debenture-holders. 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.
2. The issue of the equity shares is done at ₹ 125 (market value) as it has been mentioned in the question. The face value shall not be considered for this purpose.

Q.AMG.SM.102(B): (Similar to Q103A)

Neel Ltd. and Gagan Ltd. amalgamated to form a new company on 1.04.20X1. Following is the Balance Sheet of Neel Ltd. and Gagan Ltd. as at 31.3.20X1:

		Particulars	Notes	Neel	Gagan
		Equity and Liabilities			
1		**Shareholders' funds**			

	A	Share capital		7,75,000	8,55,000
2		**Current liabilities**		6,23,500	5,57,600
		Total		**13,98,500**	**14,12,600**
		Assets			
1		**Non-current assets**			
	A	Property, Plant and Equipment	1	12,35,000	12,54,000
2		**Current assets**		1,63,500	1,58,600
		Total		**13,98,500**	**14,12,600**

Notes to accounts:

1	**Property, plant and Equipment**		
	Land and Building	7,50,000	6,40,000
	Plant and machinery	4,85,000	6,14,000
		12,35,000	12,54,000

Following is the additional information:

(i) The assets of Neel Ltd. and Gagan Ltd. are to be revalued as under:

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

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

(a) Issue 24,000 equity shares of ₹ 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:

	Neel	Gagan
	₹	₹
1st year	2,62,800	2,75,125
IInd year	2,12,200	2,49,875
Total	4,75,000	5,25,000

(c) Issue 12% preference shares of ₹ 10 each fully paid up at par to provide income equivalent to 8% return on net assets in the business as on 31.3.20X1 after revaluation of assets of Neel Ltd. and Gagan Ltd. respectively.

You are required to compute the

(i) Equity and preference shares issued to Neel Ltd. and Gagan Ltd.,

(ii) Purchase consideration.

SOLUTION

Calculation of equity shares to be issued to Neel Ltd. and Gagan Ltd.

Profits of	**Neel ₹**	**Gagan ₹**
I year	2,62,800	2,75,125
II year	2,12,200	2,49,875
Total	**4,75,000**	**5,25,000**

The total profits – ₹ 4,75,000 + ₹ 5,25,000 = ₹ 10,00,000

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

	Neel	**Gagan**
24,000 x 475/1000	11,400 equity shares	

24,000 x 525/1000		12,600 equity shares

Calculation of 12% Preference shares to be issued to Neel Ltd. and Gagan Ltd.

	Neel ₹	Gagan ₹
Net assets (Refer working note)	8,40,000	9,24,000
8% return on Net assets	67,200	73,920
12% Preference shares to be issued $\left[67,200 \times \frac{100}{12}\right]$= 5,60,000 @ 10 each	56,000 shares	
$\left[73,920 \times \frac{100}{12}\right]$= 6,16,000 @ 10 each		61,600 shares

(ii) Total Purchase Consideration

	Neel ₹	Gagan ₹
Equity shares @ of ₹ 25 each	2,85,000	3,15,000
12% Preference shares @ of ₹ 10 each	5,60,000	6,16,000
Total	**8,45,000**	**9,31,000**

Working Note:

Calculation of Net assets as on 31.3.20X1

	Neel ₹	Gagan ₹
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000
Current assets	1,63,500	1,58,600
Less: Current liabilities	(6,23,500)	(5,57,600)
	8,40,000	**9,24,000**

Note: - Since the income from the preference shares shall be equal to the 8% return on assets, the shares are computed in such way that 12% dividend on them shall be equal to 8% of the return on Net assets.

Q.AMG.SM.103(B): (RTP Jan'25)

Astha Ltd. is absorbed by Nistha Ltd.; the consideration being the takeover of liabilities, the payment of cost of absorption not exceeding
Rs. 10,000 (actual cost Rs. 9,000); the payment of the 9% debentures of
Rs. 50,000 at a premium of 20% through 8% debentures issued at a premium of 25% of face value and the payment of Rs.15 per share in cash and allotment of three 11% preference shares of Rs. 10 each and four equity shares of Rs.10 each at a premium of 20% fully paid for every five shares in Astha Ltd.
The number of shares of the vendor company are 1,50,000 of Rs. 10 each fully paid. Calculate purchase consideration as per AS 14.

SOLUTION

As per AS 14 'Accounting for Amalgamations', the term 'consideration' has been defined as 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.
The payment made by transferee company to discharge the Debenture holders and outside liabilities and cost of winding up of transferor company shall not be considered as part of purchase consideration.

Computation of Purchase Consideration

	Rs.
Cash payment Rs.15 x 1,50,000	22,50,000
11% Preference Shares of Rs. 10 each [(1,50,000 x 3/5) x Rs. 10]	9,00,000
Equity shares of Rs. 10 each @ 20% premium [(1,50,000 x 4/5) x Rs. 12]	14,40,000
Total Purchase consideration	45,90,000

SERIES 200
AMALGAMATION IN NATURE OF PURCHASE

Q.AMG.RMP.201(B): (MTP Nov'22)

Black Limited and White Limited have been carrying their business independently from 01/04/2022. Because of synergy in business, they amalgamated on and from 1st April, 2022 and formed a new company Grey Limited to take over the business of Black Limited and White Limited. The information of Black Limited and White Limited as on 31st March, 2022 are as follows:

	Black Ltd. (Rs.)	White Ltd. (Rs.)
Share Capital:		
Equity shares of Rs. 10 each	15,00,000	14,50,000
10% Preference shares of Rs. 100 each	2,00,000	1,40,000
Revaluation Reserve	1,00,000	2,00,000
General Reserve	1,65,000	85,000
Profit & Loss Account:		
Opening balance (Credit balance)	1,50,000	1,20,000
Profit for the Year	2,00,000	1,30,000
15% Debentures of Rs. 100 each (Secured)	4,00,000	5,00,000
Trade payables	3,10,000	1,20,000
Land and Buildings	3,20,000	7,40,000
Plant and Machinery	18,00,000	14,00,000
Investments	1,00,000	60,000
Inventory	2,20,000	1,50,000
Trade Receivables	4,25,000	2,65,000
Cash at Bank	1,60,000	1,30,000

Additional Information:

(i) The authorized capital of the new company will be Rs. 54,00,000 divided into 2,00,000 equity shares of Rs. 25 each, and 4,000 preference shares of Rs. 100 each.

(ii) Trade payables of Black Limited includes Rs. 15,000 due to White Limited and trade receivables of White Limited shows Rs. 15,000 receivable from Black Limited.

(iii) Land & Buildings and inventory of Black Limited and White Limited are to be revalued as under:

	Black Ltd. (Rs.)	White Ltd. (Rs.)
Land and Buildings	5,20,000	10,40,000
Inventory	1,80,000	1,25,000

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

(a) Issue 1,80,000 equity shares of Rs. 25 each fully paid up in proportion of their profitability in the preceding two financial years.

(b) Preference shareholders of two companies are issued equivalent number of 12% preference shares of Grey Limited at a price of Rs. 120 per share (face value Rs. 100).

(c) 15% Debenture holders of Black Limited and White Limited are discharged by Grey Limited issuing such number of its 18% Debentures of Rs. 100 each so as to maintain the same

amount of interest.

You are required to prepare the Balance Sheet of Grey Limited after amalgamation. The amalgamation took place in the nature of purchase.

SOLUTION

Balance Sheet of Grey Ltd. as at 1st April, 2022

Particulars	Note No.	(Rs.)
I. Equity and Liabilities		
(1) Shareholder's Funds	1	48,40,000
(a) Share Capital		
(b) Reserves and Surplus	2	1,85,000
(2) Non-Current Liabilities		
Long-term borrowings	3	7,50,000
(3) Current Liabilities		
Trade payables		4,15,000
Total		**61,90,000**
II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment	4	47,60,000
(b) Non-current investments		1,60,000
(2) Current assets		
(a) Inventory		3,05,000
(b) Trade receivables		6,75,000
(c) Cash and bank balances		2,90,000
Total		**61,90,000**

Notes to Accounts:

		(Rs.)	(Rs.)
1.	**Share Capital**		
	Authorized: 2,00,000 equity shares of Rs. 25 each		50,00,000
	4,000 preference share of Rs. 100 each		4,00,000
	Issued, subscribed, and paid-up share capital:		
	1,80,000 Equity shares of Rs. 25 each	45,00,000	
	3,400 Preference shares of Rs. 100 each	3,40,000	
	(All the above shares are allotted as fully paid-up pursuant to contracts without payment being received in cash)		48,40,000
2.	**Reserves and surplus**		
	Securities Premium (3,400 x Rs. 20)	68,000	
	Capital Reserve	1,17,000	1,85,000
3.	**Long-term borrowings**		
	18% Debentures		7,50,000

4.	**Property, plant and equipment**		
	Land and Building	15,60,000	
	Plant and Machinery	32,00,000	47,60,000

Working Notes:

		(Rs.)	
		Black Ltd.	**Grey Ltd.**
1.	**Computation of Purchase consideration**		
	(a) Preference shares:		
	Shares at Rs. 120 each	2,40,000	1,68,000
	(b) Equity shares:		
	Preceding 2 years profitability		
	Year 1	1,50,000	1,20,000
	Year 2	2,00,000	1,30,000
		3,50,000	2,50,000
	Shares (in ratio 35: 25)		
	1,05,000 shares at Rs. 25	26,25,000	
	75,000 shares at Rs. 25	_____	18,75,000
	Amount of purchase consideration (a + b)	28,65,000	20,43,000
2.	**Net Assets Taken Over**		
	Assets taken over:		
	Land and Building	5,20,000	10,40,000
	Plant and Machinery	18,00,000	14,00,000
	Investments	1,00,000	60,000
	Inventory	1,80,000	1, 25,000
	Trade receivables	4,25,000	2,50,000
	Cash and bank	1,60,000	1,30,000
		31,85,000	30,05,000
	Less: Liabilities taken over:		
	Debentures 3,33,333		
	Trade payables 2,95,000		
		6,28,333	5,36,667
	Net assets taken over	25,56,667	24,68,333
	Purchase consideration	28,65,000	20,43,000
	Goodwill	3,08,333	
	Capital reserve		4,25,333
Net amount of capital reserve			**Rs. 1,17,000**

1.	**Black Limited**	**White Limited**
Existing Debentures	₹ 4,00,000 x 15% = ₹ 60,000	₹ 5,00,000 x 15% = ₹ 75,000
Debentures to be issued in Grey Limited @ 18% to maintain the same amount of interest	₹ 60,000 x 100/18 = ₹ 3,33,333	₹ 75,000 x 100/18 = ₹ 4,16,667

SERIES 300
AMALGAMATION IN NATURE OF MERGER

Q.AMG.SM.301(B):

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

		Particulars	Notes	Super Express Ltd. ₹	Fast Express Ltd. ₹
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital	1	20,00,000	10,00,000
	B	Reserves and Surplus	2	1,00,000	2,60,000
2		**Non-current liabilities**			
	A	Long term provisions	3	1,00,000	--
3		**Current liabilities**			
	A	Trade Payables		60,000	40,000
		Total		**22,60,000**	**13,00,000**
		Assets			
1		**Non-current assets**			
	A	Property, Plant and Equipment	4	14,00,000	11,00,000
	B	Intangible assets	5	--	1,00,000
2		**Current assets**			
	A	Inventories		3,00,000	40,000
	B	Trade receivables		2,40,000	40,000
	C	Cash and Cash equivalents	6	3,20,000	20,000
		Total		**22,60,000**	**13,00,000**

Notes to Accounts

		Super Express Ltd. ₹	Fast Express Ltd.₹
1	**Share Capital**		
	Equity shares of ₹ 100 each	20,00,000	10,00,000
2	**Reserves and Surplus**		
	Insurance reserve	1,00,000	--
	Employee profit sharing reserve	--	60,000
	Reserve account	--	1,00,000
	Surplus	--	1,00,000
		1,00,000	**2,60,000**
3	**Long term provisions**		
	Provident fund	1,00,000	--
	Total	**1,00,000**	**--**

4	**Property, Plant and Equipment**		
	Land and Building	10,00,000	6,00,000
	Plant and machinery	4,00,000	5,00,000
		14,00,000	**11,00,000**
5	**Intangible assets**		
	Goodwill	--	1,00,000
		--	**1,00,000**
6	**Cash and Cash Equivalents**		
	Cash at Bank	2,20,000	10,000
	Cash in hand	1,00,000	10,000
		3,20,000	**20,000**

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 ₹ 100 each in lieu of purchase consideration of 30,000 No. of Shares (20,000 for Super- Fast Express Ltd and 10,000 for Fast Express Ltd.). Prepare opening balance sheet of Super-Fast Express Ltd. considering pooling method.

SOLUTION:

Balance Sheet of Super Fast Express Ltd as at 1st Jan., 20X2

Particulars			Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	30,00,000
	B	Reserves and Surplus	2	3,60,000
2		**Non-current liabilities**		
	A	Long-term provisions	3	1,00,000
3		**Current liabilities**		
	A	Trade Payables		1,00,000
		Total		**35,60,000**
		Assets		
1		**Non-current assets**		
	A	Property, Plant and Equipment		
		Tangible assets	4	25,00,000
		Intangible assets	5	1,00,000
2		**Current assets**		
		Inventories		3,40,000
		Trade receivables	6	2,80,000
		Cash and cash equivalents		3,40,000
		Total		**35,60,000**

Notes to accounts

		₹
1	**Share Capital**	
	Equity share capital	
	Issued, subscribed and paid up	
	30,000 Equity shares of ₹ 100 each	30,00,000
	Total	**30,00,000**

2	**Reserves and Surplus**	
	Reserve account	1,00,000
	Surplus	1,00,000
	Insurance reserve	1,00,000
	Employees 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**	
	Balances with banks	2,30,000
	Cash on hand	1,10,000
	Total	**3,40,000**

Q.AMG.RMP.302(B): (MTP – May19 & Nov18)

The following were the summarized Balance Sheets of P Ltd. and V Ltd. as at 31 -3-20X1:

Liabilities	**P Ltd. (Rs. in lakhs)**	**V Ltd. (Rs. in Lakhs)**
Equity Share Capital (Fully paid shares of Rs. 10 each)	15,000	6,000
Securities Premium	3,000	–
Foreign Project Reserve	–	310
General Reserve	9,500	3,200
Profit and Loss Account	2,870	825
12% Debentures	–	1,000
Trade payables	1,200	463
Provisions	1,830	702
	33,400	**12,500**
Assets	**P Ltd. (Rs. in lakhs)**	**V Ltd. (Rs. in lakhs)**
Land and Buildings	6,000	–
Plant and Machinery	14,000	5,000
Furniture, Fixtures and Fittings	2,304	1,700
Inventory	7,862	4,041
Trade receivables	2,120	1,100
Cash at Bank	1,114	609

Cost of Issue of Debentures	—	50
	33,400	**12,500**

All the bills receivable held by V Ltd. were P Ltd.'s acceptances.

On 1st April 20X1, P Ltd. took over V Ltd in an **amalgamation in the nature of merger**. It was agreed that in discharge of consideration for the business P Ltd. would allot three fully paid equity shares of Rs. 10 each at par for every two shares held in V Ltd. It was also agreed that 12% debentures in V Ltd. would be converted into 13% debentures in P Ltd. of the same amount and denomination.

Details of trade receivables and trade payables as under:

Assets	**P Ltd. (Rs. in lakhs)**	**V Ltd. (Rs. in lakhs)**
Trade payables		
Bills Payable	120	-
Creditors	1,080	463
	1,200	**463**
Trade receivables		
Debtors	2,120	1,020
Bills Receivable	-	80
	2,120	**1,100**

Expenses of amalgamation amounting to Rs. 1 lakh were borne by P Ltd. You are required to:

(i) Prepare journal entries in the books of P Ltd. and

(ii) Prepare P Ltd.'s Balance Sheet immediately after the merger considering that the cost of issue of debentures shown in the balance sheet of the V Ltd. company is not transferred to the P Ltd. company.

SOLUTION

		(Rs. in lacs) Debit	(Rs. In lacs) Credit
Business Purchase A/c	Dr.	9,000	
To Liquidator of V Ltd.			9,000
(Being business of V Ltd. taken over for consideration settled as per agreement)			
Plant and Machinery	Dr.	5,000	
Furniture & Fittings	Dr.	1,700	
Inventory	Dr.	4,041	
Debtors	Dr.	1,020	
Cash at Bank	Dr.	609	
Bills Receivable	Dr.	80	
To Foreign Project Reserve			310
To General Reserve (3,200 - 3,000)			200
To Profit and Loss A/c (825 – 50*)			775
To Liability for 12% Debentures			1,000
To Creditors			463
To Provisions			702
To Business Purchase			9,000
(Being assets & liabilities taken over from V Ltd.)			
Liquidator of V Ltd. A/c	Dr.	9,000	
To Equity Share Capital A/c			9,000
(Purchase consideration discharged in the form of equity shares)			
Profit & loss A/c	Dr.	1	

To Bank A/c (Liquidation expenses paid by P Ltd.)			1
Liability for 12% Debentures A/c To 13% Debentures A/c (12% debentures discharged by issue of 13% debentures)	Dr.	1,000	1,000
Bills Payable A/c To Bills Receivable A/c (Cancellation of mutual owing on account of bills)	Dr.	80	80

Balance Sheet of P Ltd. as at 1st April, 20X1 (after merger)

Particulars			Notes	Rs. (in lakhs)
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	24,000
	B	Reserves and Surplus	2	16,654
2		**Non-current liabilities**		
	A	Long-term borrowings	3	1,000
3		**Current liabilities**		
	A	Trade Payables (1,543 + 40)		1,583
	B	Short-term provisions		2,532
		Total		**45,769**
		Assets		
1		**Non-current assets**		
	A	Fixed assets		
		Tangible assets	4	29,004
2		**Current assets**		
	A	Inventories		11,903
	B	Trade receivables		3,140
	C	Cash and cash equivalents		1,722
		Total		**45,769**

Notes to accounts

		Rs.
1.	**Share Capital**	
	Equity share capital	
	Authorised, issued, subscribed and paid up	
	24 crores equity shares of Rs. 10 each (Of the above shares, 9 crores shares have been issued for consideration other than cash)	24,000
	Total	**24,000**
2.	**Reserves and Surplus**	
	General Reserve	9,700
	Securities Premium	3,000
	Foreign Project Reserve	310
	Profit and Loss Account	3,644
	Total	**16,654**

3.	**Long-term borrowings**	
	Secured	
	13% Debentures	1,000
4.	**Tangible assets**	
	Land & Buildings	6,000
	Plant & Machinery	19,000
	Furniture & Fittings	4,004
	Total	**29,004**

Working Note:

Computation of purchase consideration

The purchase consideration was discharged in the form of three equity shares of P Ltd. for every two equity shares held in V Ltd.

Purchase consideration = Rs 6,000 lacs $\times \frac{3}{2}$ = Rs. 9,000 lacs.

* Cost of issue of debenture adjusted against P & L Account of V Ltd.

SERIES 400
BOOKS OF TRANSFEROR

Q.AMG.SM.401(B):

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

		Particulars	Notes	₹ X Ltd.	₹ Y Ltd.
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital	1	1,00,000	50,000
	B	Reserves and Surplus	2	10,000	(10,000)
2		**Non-current liabilities**			
	A	Long term borrowings	3	--	15,000
3		**Current liabilities**			
	A	Trade Payables		25,000	5,000
		Total		**135,000**	**60,000**
		Assets			
1		**Non-current assets**			
	A	Property, Plant and Equipment		1,20,000	60,000
	B	Non-current investments	4	15,000	--
		Total		**135,000**	**60,000**

Notes to Accounts

1	**Share Capital**	**X Ltd.**	**Y Ltd.**
	Equity share capital	1,00,000	50,000
		1,00,000	**50,000**
2	**Reserves and Surplus**		
	Profit and loss A/c	10,000	--
	Profit and loss A/c (debit balance)	--	(10,000)
		10,000	**(10,000)**
3	**Long term borrowings**		
	Loan from X Ltd.	--	15,000
4	**Non-current investments**		
	Loan to Y Ltd.	15,000	--
		15,000	**--**

A new company XY Ltd. is formed to acquire the sundry assets and trade payables of X Ltd. and Y Ltd. and for this purpose, the sundry assets of X Ltd. are revalued at ₹ 1,00,000. The debt due to X Ltd. is also to be discharged in shares of XY Ltd.

Show the Ledger Accounts to close the books of X Ltd.

SOLUTION

Books of X Ltd.

Realisation Account

	₹		₹
To Sundry Assets	1,20,000	By Trade payables	25,000
		By XY Ltd. (Purchase consideration)	75,000

		By Shareholders (Loss on Realisation)	20,000
	1,20,000		**1,20,000**

Shareholders Account

	₹		₹
To Realisation Account (Loss)	20,000	By Equity Share Capital	1,00,000
To Shares in XY Ltd.	90,000	By Profit and Loss Account	10,000
	1,10,000		**1,10,000**

Loan Y Ltd.

	₹		₹
To Balance b/d	15,000	By Shares in XY Ltd.	15,000
	15,000		**15,000**

Shares in XY Ltd.

	₹		₹
To XY Ltd.	75,000	By Shareholders	90,000
To Loan Y Ltd.	15,000		
	90,000		**90,000**

XY Ltd.

	₹		₹
To Realisation Account	75,000	By Shares in XY Ltd.	75,000
	75,000		**75,000**

SERIES 500
MISC. CATEGORY

Q.AMG.SM.501(B):

Consider the following balance sheets of X Ltd. and Y Ltd. as at 31st March, 20X1:

		Particulars	Notes	₹ X Ltd ('000)	₹ Y Ltd. ('000)
1		**Equity and Liabilities Shareholders' funds**			
	A	Share capital	1	72,00	47,00
	B	Reserves and Surplus	2	15,50	10,50
2		**Non-current liabilities**			
	A	Long-term borrowings	3	5,00	3,50
3		**Current liabilities**			
	A	Trade Payables		4,50	3,50
	B	Other current liabilities		2,00	1,50
		Total		**99,00**	**66,00**
		Assets			
1		**Non-current assets**			
	A	Property, Plant and Equipment	4	63,25	36,00
	B	Non-current investments	5	7,00	5,00
2		**Current assets**			
	A	Inventories		12,50	9,50
	B	Trade receivables		9,00	10,30
	C	Cash and Cash equivalents		7,25	5,20
		Total		**99,00**	**66,00**

Notes to accounts

		X Ltd ('000)	Y Ltd ('000)
1	**Share Capital**		
	Equity share capital (₹ 10 each)	50,00	30,00
	14% Preference Shares capital ₹ 100 each	22,00	17,00
		72,00	**47,00**
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 account	7,50	5,00
		15,50	**10,50**
3	**Long-term borrowings**		
	13% Debentures of ₹ 100 each	5,00	3,50
		5,00	**3,50**
4	**Property, Plant and Equipment**		
	Land and Building	25,00	15,50
	Plant and machinery	32,50	17,00

	Furniture	5,75	3,50
		63,25	**36,00**
5	**Non-current investments**		
	Investments at cost	7,00	5,00
		7.00	**5,00**

X Ltd. takes over Y Ltd. on 1st April, 20X1. X Ltd. discharges the purchase consideration as below:

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

(ii) Issued 15% preference shares of ₹ 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.

SOLUTION

(a) Amalgamation in the nature of merger:

Balance Sheet of X Ltd.

		Particulars	**Notes**	**₹ in '000**
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	12,570
	b	Reserves and Surplus	2	1,930
2		**Non-current liabilities**		
	a	Long-term borrowings	3	850
3		**Current liabilities**		
	a	Trade Payables		800
	b	Other current liabilities		350
		Total		**16,500**
		Assets		
1		**Non-current assets**		
	a	Property, Plant and Equipment	4	9,925
	b	Non-current investments		1,200
2		**Current assets**		
	a	Inventories		2,200
	b	Trade receivables		1,930
	c	Cash and cash equivalents		1,245
		Total		**16,500**

Notes to accounts

			₹ in '000
1	**Share Capital**		
	Equity share capital		
	8,50,000 Equity Shares of ₹ 10 each		8,500
	Preference share capital		
	18,700, 15% Preference Shares of ₹ 100 each		1,870
	22,000, 14% Preference Shares of ₹ 100 each		2,200
	Total		12,570

2	**Reserves and Surplus**			
	General Reserve of X Ltd.	500		
	Add: General reserve of Y Ltd.	250	750	
	Less: Adjustment for amalgamation*		(670)	80
	Export Profit Reserve of X Ltd.		300	
	Add: Export Profit Reserve of Y Ltd.		200	500
	Investment Allowance Reserve			100
	Profit & Loss A/c of X Ltd.		750	
	Add: Profit & Loss A/c of Y Ltd.		500	1,250
	Total			1,930
3	**Long-term borrowings**			
	Secured			850
	8,500 13% Debentures of ₹ 100 each			
	Total			850
4	**Property, Plant and Equipment**			
	Land & Buildings			4,050
	Plant & Machinery			4,950
	Furniture & Fittings			925
	Total			9,925

*The difference between the amount recorded as share capital issued and the amount of share capital of transferor-company should be adjusted in reserves. Thus, Adjustment for amalgamation = ₹ '000 (53,70 – 47,00) = ₹ ('000) 670

(b) Amalgamation in the nature of purchase:

Balance Sheet of X Ltd.

		Particulars	**Notes**	**₹ in'000**
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	12,570
	b	Reserves and Surplus	2	1,930
2		**Non-current liabilities**		
	a	Long-term borrowings	3	850
3		**Current liabilities**		
	a	Trade Payables		800
	b	Other current liabilities		350
		Total		**16,500**
		Assets		
1		**Non-current assets**		
	a	Property, Plant and Equipment	4	9,925
	b	Non-current investments		1,200
2		**Current assets**		
	a	Inventories		2,200
	b	Trade receivables		1,930
	c	Cash and cash equivalents		1,245
		Total		**16,500**

Notes to Accounts

		₹ in'000
1	**Share Capital**	
	Equity share capital	
	8,50,000 Equity Shares of ₹ 10 each	8,500
	Preference share capital	
	18,700, 15% Preference Shares of ₹ 100 each	1,870
	22,000, 14% Preference Shares of ₹ 100 each	2,200
	Total	**12,570**
2	**Reserves and Surplus**	
	Capital Reserve	380
	General Reserve	500
	Amalgamation adjustment reserve	(300)
	Export Profit Reserve	500
	Investment Allowance Reserve	100
	Surplus (Profit & Loss A/c)	750
	Total	**1,930**
3	**Long-term borrowings**	
	Secured	
	8,500 13% Debentures of ₹ 100 each	850
	Total	**850**
4	**Property, Plant and Equipment**	
	Land & Buildings	4,050
	Plant & Machinery	4,950
	Furniture & Fittings	925
	Total	**9,925**

Workings Notes:

Capital Reserve arising on Amalgamation:

		₹ ('000)	₹ ('000)
(A)	**Net Assets taken over:**		
	Sundry Assets		66,00
	Less: 13% Debentures	3,50	
	Trade payables	3,50	
	Other current liabilities	1,50	(8,50)
			57,50
(B)	**Purchase consideration:**		
	To Equity Shareholders of Y Ltd.		35,00
	To Preference Shareholders of Y Ltd.		18,70
			53,70
(C)	**Capital Reserve (A – B)**		**3,80**

Q.AMG.SM.502(B):

The financial position of two companies Hari Ltd. and Vayu Ltd. as at 31st March, 20X1 was as under:

		Particulars	Notes	Hari Ltd.	Vayu Ltd.
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital	1	11,00,000	4,00,000
	B	Reserves and Surplus	2	70,000	70,000
2		**Non-current liabilities**			
	A	Long term provisions	3	50,000	20,000
3		**Current liabilities**			
	A	Trade Payables		1,30,000	80,000
		Total		**13,50,000**	**5,70,000**
		Assets			
1		**Non-current assets**			
	A	Property, Plant and Equipment	4	8,00,000	2,50,000
	B	Intangible assets	5	50,000	25,000
2		**Current assets**			
	A	Inventories		2,50,000	1,75,000
	B	Trade receivables		2,00,000	1,00,000
	C	Cash and Cash equivalents		50,000	20,000
		Total		**13,50,000**	**5,70,000**

Notes to Accounts

			Hari Ltd.	Vayu Ltd.
1	**Share Capital**			
	Equity shares of ₹ 10 each		10,00,000	3,00,000
	9% Preference Shares of ₹ 100 each		1,00,000	--
	10% Preference Shares of ₹ 100 each		--	1,00,000
			11,00,000	4,00,000
2	**Reserves and Surplus**			
	General reserve		70,000	70,000
			70,000	70,000
3	**Long term Provisions**			
	Retirement gratuity fund		50,000	20,000
			50,000	20,000
4	**Property, plant and Equipment**			
	Land and Building		3,00,000	1,00,000
	Plant and machinery		5,00,000	1,50,000
			8,00,000	2,50,000
5	**Intangible assets**			
	Goodwill		50,000	25,000
			50,000	25,000

Hari Ltd. absorbs Vayu Ltd. on the following terms:

(a) 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of Hari Ltd.

(b) Goodwill of Vayu Ltd. is valued at ₹ 50,000, Buildings are valued at ₹ 1,50,000 and the

Machinery at ₹ 1,60,000.

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

(d) Equity Shareholders of Vayu Ltd. will be issued necessary 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, 20X1.

SOLUTION:

In the Books of Vayu Ltd.

Realisation Account

	₹		₹
To Sundry Assets	5,70,000	By Retirement Gratuity Fund	20,000
To Preference Shareholders (Premium on Redemption)	10,000	By Trade payables	80,000
To Equity Shareholders (Profit on Realisation)		By Hari Ltd. (Purchase Consideration)	5,30,000
	50,000		
	6,30,000		**6,30,000**

Equity Shareholders Account

	₹		₹
To Equity Shares of Hari Ltd.	4,20,000	By Share Capital	3,00,000
		By General Reserve	70,000
		By Realization Account (Profit on Realization)	50,000
	4,20,000		**4,20,000**

Preference Shareholders Account

	₹		₹
To 9% Preference Shares of Hari Ltd.	1,10,000	By Preference Share Capital	1,00,000
		By Realisation Account (Premium on Redemption of Preference Shares)	10,000
	1,10,000		**1,10,000**

Hari Ltd. Account

	₹		₹
To Realisation Account	5,30,000	By 9% Preference Shares	1,10,000
		By Equity Share	4,20,000
	5,30,000		**5,30,000**

In the Books of Hari Ltd.

Journal Entries

		Dr. ₹	Cr, ₹
Business Purchase A/c	Dr.	5,30,000	
To Liquidators of Vayu Ltd. Account			5,30,000
(Being business of Vayu Ltd. taken over)			
Goodwill Account	Dr.	50,000	
Building Account	Dr.	1,50,000	
Machinery Account	Dr.	1,60,000	

Inventory Account	Dr.	1,57,500	
Trade receivables Account	Dr.	1,00,000	
Bank Account	Dr.	20,000	
To Retirement Gratuity Fund Account			20,000
To Trade payables Account			80,000
To Provision for Doubtful Debts Account			7,500
To Business Purchase A/c			5,30,000
(Being Assets and Liabilities taken over as per agreed valuation).			
Liquidators of Vayu Ltd. A/c	Dr.	5,30,000	
To 9% Preference Share Capital A/c			1,10,000
To Equity Share Capital A/c			4,00,000
To Securities Premium A/c			20,000
(Being Purchase Consideration satisfied as above).			

Balance Sheet of Hari Ltd. (after absorption) as at 31st March, 20X1

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	16,10,000
	B	Reserves and Surplus	2	90,000
2		**Non-current liabilities**		
	A	Long-term provisions	3	70,000
3		**Current liabilities**		
	A	Trade Payables		2,10,000
		Total		**19,80,000**
		Assets		
1		**Non-current assets**		
	A	Property, Plant and Equipment		
		Tangible assets	4	11,10,000
		Intangible assets	5	1,00,000
2		**Current assets**		
	A	Inventories		4,07,500
	B	Trade receivables	6	2,92,500
	C	Cash and cash equivalents		70,000
		Total		**19,80,000**

Notes to accounts

		₹
1	**Share Capital**	
	Equity share capital 1,40,000 Equity Shares of ₹10 each fully paid(Out of above 40,000 Equity Shares were issued in consideration other than for cash)	14,00,000
	Preference share capital 2,100 9% Preference Shares of ₹100 each (Out of above 1,100 Preference Shares were issued in consideration other than for cash)	2,10,000
	Total	**16,10,000**
2	**Reserves and Surplus**	
	Securities Premium	20,000

	General Reserve	70,000
	Total	**90,000**
3	**Long-term provisions**	
	Gratuity fund	70,000
	Total	**70,000**
4	**Tangible assets**	
	Buildings	4,50,000
	Machinery	6,60,000
	Total	**11,10,000**
5	**Intangible assets**	
	Goodwill	1,00,000
	Total	**1,00,000**
6	**Trade receivables**	3,00,000
	Less: Provision for Doubtful Debts	7,50,000
	Total	**2,92,5000**

Working Notes:

Purchase Consideration:	₹
Goodwill	50,000
Building	1,50,000
Machinery	1,60,000
Inventory	1,57,500
Trade receivables	92,500
Cash at Bank	20,000
Less: Liabilities:	**6,30,000**
Retirement Gratuity	(20,000)
Trade payables	(80,000)
Net Assets/ Purchase Consideration	5,30,000
To be satisfied as under:	
10% Preference Shareholders of Vayu Ltd.	1,00,000
Add: 10% Premium	10,000
1,100 9% Preference Shares of Hari Ltd.	1,10,000
Equity Shareholders of Vayu Ltd. to be satisfied by issue of 40,000	
Equity Shares of Hari Ltd. at 5% Premium	4,20,000
Total	**5,30,000**

Q.AMG.RMP.503(B): (Exam May'18 and RTP Nov'20)

The financial position of X Ltd. and Y Ltd. as on 31st March, 2018 was as under:

	X Ltd. (Rs)	**Y Ltd. (Rs)**
Equity and Liabilities		
Equity Shares of Rs 10 each	30,00,000	9,00,000
9% Preference Shares of Rs 100 each	3,00,000	-
10% Preference Shares of Rs 100 each	-	3,00,000
General Reserve	2,10,000	2,10,000
Retirement Gratuity Fund (long term)	1,50,000	60,000
Trade Payables	3,90,000	2,40,000
Total	**40,50,000**	**17,10,000**

Assets		
Goodwill	1,50,000	75,000
Land & Buildings	9,00,000	3,00,000
Plant & Machinery	15,00,000	4,50,000
Inventories	7,50,000	5,25,000
Trade Receivables	6,00,000	3,00,000
Cash and Bank	1,50,000	60,000
Total	**40,50,000**	**17,10,000**

X Ltd. absorbs Y Ltd. on the following terms:

(i) 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of X Ltd.

(ii) Goodwill of Y Ltd. on absorption is to be computed based on two times of average profits of preceding three financial years (2016-17: Rs 90,000; 2015-16: Rs 78,000 and 2014-15: Rs 72,000). The profits of 2014 -15 included credit of an insurance claim of Rs 25,000 (fire occurred in 2013-14 and loss by fire Rs 30,000 was booked in Profit and Loss Account of that year). In the year 2015 -16, there was an embezzlement of cash by an employee amounting to Rs 10,000.

(iii) Land & Buildings are valued at Rs 5,00,000 and the Plant & Machinery at Rs 4,00,000.

(iv) Inventories are to be taken over at 10% less value and Provision for Doubtful Debts is to be created @ 2.5%.

(v) There was an unrecorded current asset in the books of Y Ltd. whose fair value amounted to Rs 15,000 and such asset was also taken over by X Ltd.

(vi) The trade payables of Y Ltd. included Rs 20,000 payable to X Ltd.

(vii) Equity Shareholders of Y Ltd. will be issued Equity Shares @ 5% premium.

You are required to

(i) Prepare Realisation A/c in the books of Y Ltd.

(ii) Show journal entries in the books of X Ltd.

(iii) Prepare the Balance Sheet of X Ltd. after absorption as at 31st March, 2018.

SOLUTION

In the Books of Y Ltd. Realisation Account

	Rs			**Rs**
To Sundry Assets:			By Retirement Gratuity Fund	60,000
Goodwill	75,000			
Land & Building	3,00,000		By Trade payables	2,40,000
Plant & Machinery	4,50,000		By X Ltd. (Purchase	15,90,000
Inventory	5,25,000		Consideration)	
Trade receivables	3,00,000			
Bank	60,000	17,10,000		
To Preference Shareholders		30,000		
(Premium on Redemption)				
To Equity Shareholders				
(Profit on Realisation)		1,50,000		
		18,90,000		**18,90,000**

In the Books of X Ltd. Journal Entries

		Dr. Rs	**Cr. Rs**
Business Purchase A/c	Dr.	15,90,000	
To Liquidators of Y Ltd. Account			15,90,000

(Being business of Y Ltd. taken over)			
Goodwill Account	Dr.	1,50,000	
Land & Building Account	Dr.	5,00,000	
Plant & Machinery Account	Dr.	4,00,000	
Inventory Account	Dr.	4,72,500	
Trade receivables Account	Dr.	3,00,000	
Bank Account	Dr.	60,000	
Unrecorded assets Account	Dr.	15,000	
To Retirement Gratuity Fund Account			60,000
To Trade payables Account			2,40,000
To Provision for Doubtful Debts Account			7,500
To Business Purchase A/c (Being Assets and Liabilities taken over as per agreed valuation).			15,90,000
Liquidators of Y Ltd. A/c	Dr.	15,90,000	
To 9% Preference Share Capital A/c			3,30,000
To Equity Share Capital A/c			12,00,000
To Securities Premium A/c (Being Purchase Consideration satisfied as above).			60,000

Balance Sheet of X Ltd. (after absorption) as at 31st March, 2018

Particulars		Notes	Rs
Equity and Liabilities			
1	Shareholders' funds		
A	Share capital	1	48,30,000
B	Reserves and Surplus	2	2,70,000
2	**Non-current liabilities**		
A	Long-term provisions	3	2,10,000
3	**Current liabilities**		
A	Trade Payables	4	6,10,000
B	Short term provision	5	7,500
Total			**59,27,500**
Assets			
1	**Non-current assets**		
A	Fixed assets		
Tangible assets		6	33,00,000
Intangible assets		7	3,00,000
2	**Current assets**		
A	Inventories	8	12,22,500
B	Trade receivables	9	8,80,000
C	Other current Assets	10	15,000
D	Cash and cash equivalents	11	2,10,000
Total			**59,27,500**

Notes to accounts

		Rs
1	**Share Capital**	
Equity share capital		

4,20,000 Equity Shares of Rs. 10 each fully paid (Out of above 1,20,000 Equity Shares were issued in consideration other than for cash)		42,00,000
Preference share capital		
6,300 9% Preference Shares of Rs. 100 each (Out of above 3,300 Preference Shares were issued in consideration other than for cash)		6,30,000
Total		**48,30,000**
2	**Reserves and Surplus**	
Securities Premium		60,000
General Reserve		2,10,000
Total		**2,70,000**
3	**Long-term provisions**	
Retirement Gratuity fund		2,10,000
4	**Trade payables** (3,90,000 + 2,40,000 - 20,000*) *** Mutual Owings eliminated.**	6,10,000
5	**Short term Provisions**	
Provision for Doubtful Debts		7,500
6	**Tangible assets**	
Land & Buildings		14,00,000
Plant & Machinery		19,00,000
Total		**33,00,000**
7	**Intangible assets**	
Goodwill (1,50,000 +1,50,000)		3,00,000
8	**Inventories** (7,50,000 + 4,72,500)	12,22,500
9	**Trade receivables** (6,00,000 + 3,00,000 - 20,000)	8,80,000
10	**Other current Assets**	15,000
11	**Cash and cash equivalents** (1,50,000 +60,000)	2,10,000

Working Notes:

1. Computation of goodwill

	Rs
Profit of 2016-17	90,000
Profit of 2015-16 adjusted Rs 78,000 + 10,000)	88,000
Profit of 2014-15 adjusted (Rs 72,000 – 25,000)	47,000
	2,25,000
Average profit	**75,000**

Goodwill to be valued at 2 times of average profits = Rs 75,000 x 2 = RS 1,50,000

2.

Purchase Consideration:		**Rs**
Goodwill		1,50,000
Land & Building		5,00,000
Plant & Machinery		4,00,000
Inventory		4,72,500
Trade receivables		3,00,000
Unrecorded assets		15,000
Cash at Bank		60,000
		18,97,500
Less: Liabilities:		
Retirement Gratuity	60,000	
Trade payables	2,40,000	(3,07,500)

Provision for doubtful debts	7,500	
Net Assets/ Purchase Consideration		15,90,000
To be satisfied as under:		
10% Preference Shareholders of Y Ltd.		3,00,000
Add: 10% Premium		30,000
9% Preference Shares of X Ltd.		3,30,000
Equity Shareholders of Y Ltd. to be satisfied by issue of 1,20,000		
equity Shares of X Ltd. at 5% Premium		12,60,000
Total		**15,90,000**

Q.AMG.RMP.504(B): (MTP Nov21)

Explain the difference between pooling of interest and purchase method of accounting for amalgamations.

SOLUTION

Pooling of Interest Method

Under pooling of interests method, the assets, liabilities and reserves of the Transferor Company will be taken over by Transferee Company at existing carrying amounts unless any adjustment is required due to different accounting policies followed by these companies. As a result, the difference between the amount recorded as share capital issued (plus any additional consideration in the form of cash or other assets) and the amount of share capital of Transferor Company should be adjusted in reserves.

Purchase Method

The assets and liabilities of the transferor company should be incorporated at their existing carrying amounts or the purchase consideration should be allocated to individual identifiable assets and liabilities on the basis of their fair values at the date of amalgamation. No reserves, other than statutory reserve, of the transferor company should be incorporated in the financial statements of transferee company.