Question 8 :- Calculation of Purchase Consideration (Payment Method)

To Equity Shareholders of V ltd.

Equity Share Capital of Pltd. = 900 Lakh × 10 = 9000 lakhs.

P	V
3	2
x	600

x = 900 lakh

Total Purchase Consideration = 9000 Lakhs

(2) Discharge = same as calculation

(3) Nature = merger.

(4) Accounting for Amalgamation (₹lakhs)

Business Purchase	a/c	Dr.	9000	
To, Liquidators of V ltd.				9000

Land & Building	a/c	Dr.	–	
Plant & Machine	a/c	Dr.	5000	
Furniture	a/c	Dr.	1700	
Inventory	a/c	Dr.	4041	
Trade Receivables	a/c	Dr.	1100	
Cash at Bank	a/c	Dr.	609	
To, 12% Debentures of V ltd.	a/c			1000
To, Trade Payables				463
To, provisions				702
To, foreign project reserve				310
To, general reserve (3200 − 50 − 3000)				150
To, P&L : surplus				825
To, business purchase				9000

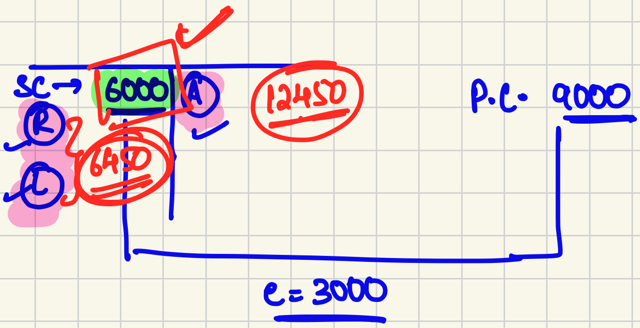
A = 12450

L&R = 6450

(GR = 3150 → consider)

A − L − R = 6000 → TD

9000 → PC



Liquidators of V ltd.		Dr.	9000	
To, Equity Share Capital				9000

Bills payable	a/c	Dr.	80	
To, bills receivable	a/c			80

} mutual debt cancelled.

12% Debentures in Y ltd.	Dr.	1000	
To, 13% Debentures			1000

P&L	Dr.	1	
To, Cash/Bank			1

If it is given in the question that expenses of liquidation are reimbursed by Purchasing Company to the Vendor Company the JE for the same will be as follows :-

Goodwill a/c Dr.
To, Cash/Bank

If however, capital reserve is visible in the question, then the entry for the same would be

Capital Reserve a/c Dr.
To, Cash/Bank a/c

STUDENT NOTES

Question 9 **Category:-**

The financial position of two companies Hari Ltd. and Vayu Ltd. as on 31st March, 20 15 was as under:

Assets	Hari Ltd. (₹)	Vayu Ltd. (₹)
Goodwill	50,000	25,000
Building	3,00,000	1,00,000
Machinery	5,00,000	1,50,000
Inventory	2,50,000	1,75,000
Trade receivables	2,00,000	1,00,000
Cash at Bank	50,000	20,000
	13,50,000	5,70,000

Liabilities	Hari Ltd. (₹)	Vayu Ltd. (₹)
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
General Reserve	70,000	70,000
Retirement Gratuity fund	50,000	20,000
Trade payables	1,30,000	80,000
	13,50,000	5,70,000

P V

Hari Ltd. absorbs Vayu Ltd. on the following terms: 100000 + 10% = 110000/100 = 1100PS

Vayu kya thing

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

PSH PSC ✓

- Goodwill of Vayu Ltd. is valued at ₹ 50,000, Buildings are valued at ₹ 1,50,000 and the Machinery at ₹ 1,60,000

ESH ESC

- Inventory to be taken over at 10% less value and Provision for Doubtful Debts to be created @ 7.5%.
- Equity Shareholders of Vayu Ltd. will be issued Equity Shares @ 5% premium.

10 + 5% = 10.5

$\frac{x}{10.5}$ No x

Prepare necessary Ledger Accounts to close the books of Vayu Ltd. and show the acquisition entries in the books of Hari Ltd.

Also draft the Balance Sheet after absorption as at 31st March, 2015.

Imp

CA Tejas Suchak

Class fees = 10000

Pay fees @ 10% premium = 10000 + (10% × 10000) = 11000

Pay normal = 10000

Issue ESC (FV=10) @ 10% premium = 11

No. of shares = 10000/11 = 909 sh.

Question 9 :- Calculation of Purchase Consideration (NATO)

Particulars	Amount
1) Goodwill	50000
2) Building	150000
3) Machine	160000
4) Inventory	157500
5) Trade Receivables	100000
6) less: Provision for doubtful debts	(7500)
7) Cash at Bank	20000
8) less: Retirement Gratuity fund	(20000)
9) less: Trade payables	(80000)
Purchase consideration	530000

2. Discharge of Purchase Consideration

Total Purchase Consideration 530000

a. Payment to Preference SH of Vayu ltd = 110000

100000 + (10% × 100000)
= 110000 / 100
= 1100 Preference Shares.

b. Payment to Equity SH of Vayu ltd = 420000

420000 / 10.5
∴ 40000 Equity shares.

3. Nature of Amalgamation :- Purchase

4. Accounting for amalgamation :- Hari ltd.

a.	Business Purchase a/c	Dr.	530000	
	To Liquidators of Vayu ltd. a/c			530000

b. Goodwill → NCA : IA Dr. 50000
Building → NCA : PPE Dr. 150000
Machine → NCA : PPE Dr. 160000
Inventory → CA Dr. 157500
Trade Receivables → CA Dr. 100000
Cash at Bank → CA : C&CE Dr. 20000

A = 637500

To provision for D.D. → CA : TR(−) 7500
To Retirement Gratuity fund → NCL : LTP/ONCL 20000
To Trade Payables → CL 80000
✓ To Business Purchase 530000 → PC

L = 107500

"A-L" 530000 | PC 530000

E/S = 0

c. ✓ Liquidators of Vayu ltd. Dr. 530000
To 9% Preference Share Capital → SC 110000
To Equity Share Capital (40000 x10) → SC 400000
To Securities Premium → Res 20000

Balance Sheet = Hari + Vayu → Homework

Question 10 :- Calculation of Purchase Consideration (NATO)

Particulars	Amount
1. Building	306000
2. Machine	576000
3. Inventory	198000
4. Trade Receivables	234000
5. Goodwill	216000
6. less : Trade Payables	(320000)
Purchase Consideration	1210000

W/N :-1 – Calculation of Goodwill

	Altd.		Industry
Capital Emp (SC+GR)	880000		880000
		NRR =	8%

Average Profit = 124400 Normal P = 70400

SP = 54000
x 4

G/W 216000

Exam presentation :-

Goodwill = (Actual / Average Profits - Normal Profits) × Number of years purchase

= (124400 - 70400) × 4

= 216000

Super Profits

	Ultimate CA		Teaching Industry
Capital emp →	1000000	same to same →	1000000
		NRR	20%
Actual / Average Profits	600000	Normal P =	200000

Super Profit 400000 × 5 = 2000000 = GW

Discharge of Purchase Consideration

1. Total purchase consideration = 1210000

To Equity Shareholders of A ltd.

Cash = 600000

Equity Share Capital (balance) = 610000

610000 / 125 = 4880 E.S

Nature of Amalgamation = Purchase

Accounting for Amalgamation

		Dr.	Cr.
1. Business Purchase	Dr.	1210000	
To, Liquidators of A ltd.			1210000
2. Building	Dr.	306000	
Machine	Dr.	576000	
Trade Receivables	Dr.	198000	
Inventory	Dr.	234000	
Goodwill	Dr.	216000	
To, Trade Payables			320000
To, Business Purchase			1210000
3. Liquidators of A ltd.	Dr.	1210000	
To, Cash / Bank			600000
To, Equity share capital (4880 × 100)			488000
To, Securities Premium (4880 × 25)			122000

4. Trade Payables	Dr.	40000	
To, Trade Receivables			40000
5. P&L	Dr.	25000 - 10000	
To, Closing Stock Reserve			25000 - 10000

Papa		TS		Outsider
B	→	A	→	
C	P	SP	P = 15000	
120000	40000	160000	→	60000
		↓ CS	realised	
		100000		
		(P = 25000)		
		unrealised profit		

Realised Profit

	SP	P
	160000	40000
	60000	x = 15000

B $\xrightarrow{\text{sell}}$ A → Closing Stock = 100,000 (C + unrealised Profit)

C = 75000 | UP = 25000 - 10000 = 15000

↓ eliminate

↓ closing Stock Cr.

Sales Cr. 160000

↓

Profit recog = 40000

↓

Reverse = 25000 - 10000 = 15000

(P&L Dr.)

B ltd ← Assets Takenover 90% — A ltd.

$\boxed{\text{Inv} = 90000}$ ← Inv = 100,000

-10000

Inv = -10000 | Profits = -10000

STUDENT NOTES

Question 10 Category:-

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

Liabilities	₹	Assets	₹
8,000 equity shares of ₹ 100 each	8,00,000	Building	3,40,000
10% debentures	4,00,000	Machinery	6,40,000
Loan from A	1,60,000	Inventory	2,20,000
Trade payables	3,20,000	Trade receivables	2,60,000
General Reserve	80,000	Bank	1,36,000
		Goodwill	1,30,000
		Share issue Expenses	34,000
	17,60,000		17,60,000

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

- ***B Ltd. would take over all assets, except bank balance at their book values less 10%.***
- ***Goodwill is to be valued at 4 year's purchase of super profits, assuming that the normal rate of return be 8% on the combined amount of share capital and general reserve.***
- ***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 ₹ 1,24,400. The liquidation expenses amounted to ₹ 16,000.*** A Ltd.
- ***B Ltd. sold prior to 31st March, 2015 goods costing ₹ 1,20,000 to A Ltd. for ₹ 1,60,000. ₹ 1,00,000 worth of goods are still in Inventory of A Ltd. on 31st March, 2015.***
- ***Trade payables of A Ltd. include ₹ 40,000 still due to B Ltd.***

Show the necessary Ledger Accounts to close the books of A Ltd. and prepare the Balance Sheet of B Ltd. as at 1st April, 2015 after the takeover

Question 11 **Category:-**

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

Liabilities	₹	Assets	₹
Equity share capital(₹ 100 each)	15,00,000	Land and building	10,00,000
11% Pref. share capital	5,00,000	Plant and machinery	7,00,000
General reserve	3,00,000	Furniture and fittings	2,00,000
trade payables	2,00,000	Inventory in trade	3,00,000
		Trade receivables	2,00,000
		Cash in hand and at bank	1,00,000
	25,00,000		**25,00,000**

Y Co. Ltd. agreed to take over X Co. Ltd. on the following terms:

- **Each equity share in X Co. Ltd. for the purpose of absorption is to be valued at ₹ 80.**
- **Equity shares will be issued by Y Co. Ltd. by valuing its each equity share s of ₹ 100 each at ₹ 120 per share.**
- **11% Preference shareholders of X Co. Ltd. will be given 11% redeemable debentures of Y Co. Ltd. at equivalent value.**
- **All the Assets and Liabilities of X Co. Ltd. will be recorded at the same value in the books of Y Co. Ltd.**

Calculate Purchase consideration.

Pass Journal entries in the books of Y Co. Ltd. for absorbing X Co. Ltd

STUDENT NOTES

15000
×80
1200000
120
= 10000 ES

Question 12 → Homework **Category:-**

Summarised Balance Sheets as on 31st March, 2015

Liabilities	Gee Ltd. ₹	Pee Ltd ₹	Assets	Gee Ltd. ₹	Pee Ltd. ₹
Equity share capital(₹ 10 per share)	25,00,000	15,00,000	Buildings	12,50,000	7,75,000
14% Preference share capital(₹ 100 each)	11,00,000	8,50,000	Plant and machinery	16,25,000	8,50,000
General reserve	2,50,000	2,50,000	Furniture and fixtures	2,87,500	1,75,000
Export profit reserve	1,50,000	1,00,000	Investments	3,50,000	2,50,000
Investment allowance Reserve	-	50,000	Inventory	6,25,000	4,75,000

Question 11 :- PC

ESH :- 15000 x 80 = 1200000

$\frac{1200000}{120}$ = 10000 ES

PSH : 11% Debentures = 500000

500000/100 = 5000 D

1700000

Nature : merger

Accounting

BP Dr.		1700000	
To Liq		1700000	
LB Dr.		10L	
PM Dr.		7L	
F Dr.		2L	
Inv Dr.		3L	
TR Dr.		2L	
Cash Dr.		1L	
To TP			2L
To GR			3L
To BP			17L
To CR			3L

A-L-R : 20L

⇒ PC = 17L

3L

Liq Dr.		17L	
To ESC	(10000 x 100)		10L
To SP	(10000 x 20)		2L
To 11% Deb.			5L

$\boxed{A - L - R}$ =
33L - 4.25L - 5.25L = 2350000

PC
2585000

E = 235000 → Reserves Dr. (Gen. Res.)

STUDENT NOTES

Profit and loss Account	3,75,000	1,25,000	Trade receivables	4,50,000	5,15,000
15% Debentures (₹ 100 each)	2,50,000	1,75,000	Cash at bank	3,62,500	2,60,000
Trade payables	2,25,000	1,75,000			
Other current liabilities	1,00,000	75,000			
	49,50,000	33,00,000		49,50,000	33,00,000

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

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

- **Issued 1,65,000 equity shares of ₹ 10 each at par to the equity shareholders of Pee Ltd.** 165000 x 10 = 1650000
- **Issued 15% preference shares of ₹ 100 each to discharge the preference shareholders of Pee Ltd. at 10% premium.** 850000 + 85000 = 935000
- **The debentures of Pee Ltd. will be converted into equivalent number of debentures of Gee Ltd.**
- **The statutory reserves of Pee Ltd. are to be maintained for two more yea₹**
- **Expenses of amalgamation amounting to ₹ 10,000 will be borne by Gee Ltd.**

2585000
Payment.

Nature = merger

$\boxed{\text{Accounting}}$

~~Details of trade receivables and trade payables as under~~

Question 13 **Category:-**

Ram Limited and Shyam Limited carry on business of a similar nature and it is agreed that they should amalgamate.

- ***A new company, Ram and Shyam Limited, is to be formed to which the assets and liabilities of the existing companies, with certain exception, are to be transferred.***
- ***On 31st March 2015, the Summarized Balance Sheets of the two companies were as under:***

Ram Limited Balance Sheet as at 31st March, 2015

Liabilities	₹	Assets	₹
Issued and Subscribed		Freehold Property, at cost	2,10,000
Share Capital:		Plant and Machinery, at cost	
30,000 Equity Shares of ₹ 10		less Depreciation	50,000
each, fully paid	3,00,000	Motor Vehicles, at cost Less	
General Reserve	1,60,000	Depreciation	20,000