business, the latter company will have to debit Goodwill (or Capital Reserve) and credit stock with the amount of the profit included in the stock.

Inter-company Loans- Where there is any loan taken by the transferor company from the transferee company then the amount of the loan shall be taken over by the transferee company and adjustment entry to be passed as follows-

Loan (liability of Transferor co) A/c	Dr	XXX	
To Loans and advances (assets)			XXX

(Elimination of the inter-company loans taken by the transferor from transferee company).

Illustration 6

The following Balance Sheets are given as at 31st March, 20X1:

		Particulars	₹ Best Ltd. (in lakhs)	₹ Better Ltd. (in lakhs)
		Equity and Liabilities		
1		**Shareholders' funds** 150		
	A	Share capital	20	10
		(shares of ₹ 100 each, fully pad)		
	B	Reserves and Surplus	10	8
2		**Current liabilities**	20	2
		Total	50	20
		Assets		
1		**Non-current assets**		
	A	Property, Plant and Equipment	25	15
	B	Non-current investments	5	-
2		**Current assets**	20	5
		Total	50	20

5 lakh capitalise 3

Illustration 6 :- Page 13.33 ICAI SM

1) **Calculation of Purchase Consideration**

	Best	Better	
Intrinsic value/share	150	100	
Number of shares		15000	(10000 + 5000) ↓ orig ↓ bonus.
Total Intrinsic Value		1500000	

Number of equity shares to be issued by Best ltd. $= \frac{1500000}{150} = 10000$ E.S

Total Purchase Consideration = 1500000

2) **Discharge of Purchase Consideration** :- 10000 Equity shares @ ₹ 150 each.

3) **Nature of amalgamation** :- Merger

4) **Accounting for amalgamation** :- **Best ltd. (Purchasing co.)**

		Dr.	Cr.
i)	Business Purchase a/c Dr.	1500000	
	To, Liquidators of Better ltd.		1500000
ii)	Property, Plant & Equipment Dr.	1500000	
	Current Assets Dr.	500000	
	To, current liabilities		200000
	To, Reserves & Surplus		300000
	To, Business Purchase		1500000
iii)	Liquidators of Better ltd. Dr.	1500000	
	To, Equity Share Capital (10000 × 100)		1000000
	To, Securities Premium (10000 × 50)		500000
iv)	Current liabilities Dr.	100000	
	To, Current Assets		100000
v)	Reserves & Surplus Dr.	10000	
	To, Closing Stock Reserve		10000

A - L - R = PC
20L - 2L - 3L = 15L ; 15L
E/S = 0

B/S → Assets → Current Assets → Inventory xxx
- Closing Stock Reserve (10000) xxx

Best → Better

C 100

P 25

SP 125

CS 50000

$\frac{2}{}$ = 10000

unrealised pft.

Closing Stock Reserve Cr. 10000

Charged by Best

P&L Dr. (R&S)

N E W
new exis whole/total
1 2 = 3
x = 5000 10000 = 15000

The following further information is given:

(a) *Better Limited issued bonus shares on 1st April, 20X1, in the ratio of one share for every two held, out of Reserves and Surplus.* → R&S Dr. 500000
To, ESC 500,000

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

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

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

Make the closing ledger in the Books of Better Ltd. and the opening journal entries in the Books of Best Ltd., and prepare the Balance Sheet as at 1st April, 20X1 after the takeover.

Solution

LEDGER OF BETTER LIMITED

Property, Plant and Equipment (PPE) Account

	₹		₹
To Balance b/d	15,00,000	By Realization A/c (transfer)	15,00,000

Current Assets Account

	₹		₹
To Balance b/d	5,00,000	By Realization A/c (transfer)	5,00,000

Liabilities Account

	₹		₹
To Realization A/c	2,00,000	By Balance b/d	2,00,000

Notes to accounts

		₹
1 Share Capital		
Equity share capital		
Issued & Subscribed		
30,000 shares of ₹ 100 (of the above 10,000 shares have been issued for consideration other than cash)		30,00,000
Total		30,00,000
2 Reserves and Surplus		
Capital Reserve (3,00,000 – 10,000)		2,90,000
Securities Premium		5,00,000
Other reserves and surplus		10,00,000
Total		17,90,000
3 Property, Plant and Equipment		
PPE	25,00,000	
Acquired during the year	15,00,000	40,00,000
Total		40,00,000

Illustration 7 Homework → LOL ! HEHE → CLASSWORK

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 - 8000		8,00,000	3,00,000
	7% Preference Shares of ₹ 100 each - 4000		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

Illustration 7: Page 13-38 : ICAI SM

1) Calculation of Purchase Consideration (Intrinsic Value)

Particulars	L ltd.	K ltd.
1) Land & Building	450000	300000
2) Plant & Machinery	620000	500000
3) Furniture & Fittings	60000	20000
4) Goodwill	80000	-
5) Inventory (-2%)	220500	137200
6) Trade Receivables	275000	175000
7) less: Provision for D.D. (2.5%)	(6875)	(4375)
8) Cash at Bank	120000	55000
9) Cash in hand	41375	17175
10) less: Trade Payables	(100000)	(210000)
11) less: 5% Debentures	(200000)	-
12) less: Secured loan	-	(200000)
Total Intrinsic Value	1560000	790000

Discharge of Purchase Consideration

	L ltd.	K ltd.
Total Purchase Consideration	1560000	790000

1) To Preference Shareholders

→ Preference Share Capital — 440000 (20000×22) — 330000 (15000×22)

LK ltd.	L ltd.
5	1
x	4000
=20000	

LK ltd.	K ltd.
5	1
x	3000
=15000	

2) To Equity Shareholders

→ Equity Share Capital — 1056000 (48000×22) — 396000 (18000×22)

LK ltd.	L ltd.
6	1

$\times$ 8000

$= 48000$

UK ltd.	K ltd.
6	1
$\times$	3000
$= 18000$	

$\Rightarrow$ Cash (bal.) 64000 64000

3) Nature of Amalgamation = Purchase

FV = 20
P = 4
IP 24 → consideration → Paidup = 22/sh
FV=18 P=4
₹ 2 can be called in future

5 1
x = 20000 4000
×22
= 440000

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:

takeover

(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.

24 → 22
6 1
x 8000
= 48000
×22
1056000
+440000
1496000

(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.

"Assumed"
2000000 ⇒ MV of NA → Intrinsic Value
Cash = 504000

(2) The trade receivables of K Ltd. include ₹ 20,000 due from L Ltd.

Illustration 9

→ Self study → 15mins → 9:35am

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	-30000
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	-30000
		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	30000
	10% Preference Shares of ₹ 100 each		2,00,000	1,00,000	Res Dr To Bank
			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

×5% = 9500

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.*

8 x = 40000 6 30000 40000 ×10 = 400000

(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.*

100000 − 10% = 90000 /100 = 900 PS

(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%.*

PC = 490000

G/W Dr. To Bank

(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.* MD

(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.*

150000 + 8% = 162000 / 90 = 1800 Deb Issue × 100 = 180000

100 − 10 = 90

Solution

(a) Journal Entries in the Books of P Ltd.

		Dr. ₹	Cr. ₹
Property, Plant and Equipment	Dr.	1,05,000	
To Revaluation Reserve			1,05,000
(Revaluation of PPE at 15% above book value)			
Reserve and 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.)			
Property, Plant and Equipment (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	Dr.	10,000	
(₹ 40,000 –₹ 30,000 dividend paid)			
To Provision for Bad Debts (5% of ₹ 1,90,000)			9,500
To Sundry Creditors			1,25,000
To 12% Debentures in Q Ltd. 150000 + 8%			$\boxed{1,62,000}$
To Bills Payable			25,000

12% Deb in Q ltd Dr. 162000
Discount on iss Dr. 18000
To 12% Deb. 180000

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)			

Answer to the Multiple Choice Questions

1.	(b)	**2.**	(a)	**3.**	(c)	**4.**	(b)	**5.**	(a)	**6.**	(a)

TEST YOUR KNOWLEDGE

Multiple Choice Questions

1. *In case of amalgamation, the entry for elimination of unrealized profit or loss on stock is made*

   (a) *By the vendor company*

   (b) *By the purchasing company*

   (c) *By the third party*

   (d) *By the court*

2. *If expenses of liquidation of the vendor company are paid by the purchasing company then, in purchasing company's book, the account debited is*

   (a) *Goodwill account.*

   (b) *Liquidation expense account.*

   (c) *Vendor company account.*

   (d) *General reserve.*

Treat : Amal Adj Res
To Stat Res.

3. *Amalgamation adjustment reserve is opened in the books of the amalgamated company to incorporate*

   (a) *Assets of the amalgamating company.*

   (b) *Non- Statutory reserves of the amalgamating company.*

   (c) *Statutory reserves of the amalgamating company.*

   (d) *General reserve of the amalgamating company.*

B/s
Res
Stat Res
- Amal Adj Res ( )

4. *Amalgamation Adjustment Reserve is presented in the financial statements of the transferee company as*

   (a) *Other current asset.*

   (b) *Separate line item with a negative sign under the head 'Reserves and Surplus'.*

(c) *Other non-current assets.*

(d) *Investment of the company*

5. *A company into which the vendor company is merged is called*

(a) *Transferee company.*

(b) *Transferor company.*

(c) *Selling company.*

(d) *Acquiree company.*

6. *If the purchase consideration is more than net assets (at agreed values) of the transferor company, difference shall be recorded as __________ in the books of the transferee company.*

PC 100 > NA 80

80000 2000

G/W = 78000

(a) *Goodwill.*

(b) *Capital Reserve.*

(c) *Profit.*

(d) *Loss.*

Theoretical Questions

7. *What are the conditions, which, according to AS 14 on Accounting for Amalgamations, must be satisfied for an amalgamation in the nature of merger?*

8. *Distinguish between (i) the pooling of interests method and (ii) the purchase method of recording transactions relating to amalgamation.*

Scenario based Questions

9. *The following are the Balance Sheets of Yes Ltd. and No Ltd. as at 31st March, 20X1:*

φ

		Particulars	Notes	₹ Yes Ltd (in crores)	₹ No Ltd (in crores)
		Equity and Liabilities			
1		***Shareholders' funds***			