

# Amalgamation of Companies

AS14

Take over

14 marks  
A Ltd (Hold) B Ltd (Subs)

A Ltd

~~B Ltd~~ Liquidate  
A  
B

Absorption

Merger

Take over  
or  
Absorption

$$A Ltd + B Ltd = A Ltd.$$

Merger

6  
A Ltd

6  
B Ltd

AB Ltd  
(New)

6+4

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Transferor  $\Rightarrow$  Selling Co. (Liquidating Co.)

Transferee  $\Rightarrow$  Acquirer

Business

Net Assets

Pc

A Ltd.  
(Tree)

B Ltd.  
(Trox) <sup>eg shares</sup>  
900000  
no.

Tree will provide 15/- in Cash for each equity share of Trox.

Also, Tree will issue 5 equity shares to the SH of Trox for every 3 equity shares held by SH of Trox.

MP per shares	Trox 60/-	Tree 35/-
---------------	--------------	--------------

Calculate Pc :-

1) Cash  $\Rightarrow 900000 \text{ no.} \times 15/- = 1,35,00,000$

2) Equity shares  $\Rightarrow \frac{900000}{3} \times 5 = 1,50,00,000$   
by Tree  $\frac{1,50,00,000}{\times 35/-}$   
5,25,00,000

$\leftarrow$  Total Pc = 6,60,00,000

Ex: 2

	<u>Tree</u>	<u>Tror</u>
No. of Shares	1,00,000	7,500
MP	80/-	50/-

Ex. Ratio

9:7

Calculate PC

Sol) :-

Calculation of PC

<u>Paymt to</u>	<u>Paymt in</u>	<u>Working</u>	<u>Amnt.</u>
Eg. Shareholder of Tror	Eg. Shares of Tree	$\frac{7500}{7} \times 9$ 96428 $\times 80/-$	77,14,240
ESH of Tror	Cash	0.571 $\times 80$	46
			<u>Total PC = 77,14,286</u>

# Amalgamation

Transferor

↓  
To Close the Books.

Transferee

↓  
(AS 14 will be applicable)

Accounting For purchase of Business

B Ltd  
Firm

Aniket ~~200 no.~~

Vamsh 300 no ✓

Tushar 50 no. ✓

Kanishka 150 no ✓

Harshik 40 no. ✓

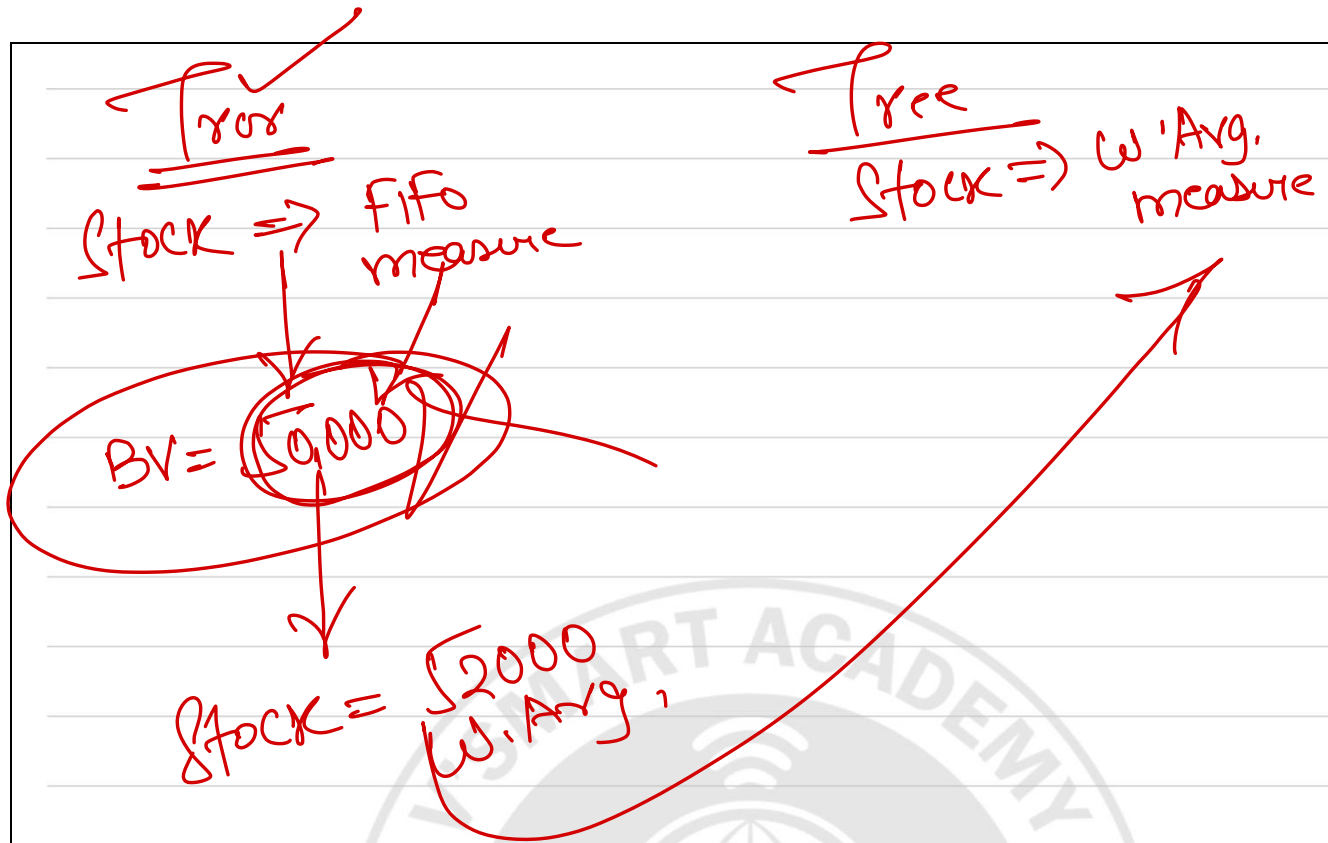
Aryan 210 ✓

Jatin Ltd. 500 ✓

Viraj 50 ✓

Jatin Ltd (Tree)

900



A Ltd is taking over B Ltd.  
 all assets & Liab.  
 (except Cash/Bank)

⇓  
 Amalgamation in the nature  
 of purchase

A Ltd took over all Asset & Liab.  
 Continued the business also

A/L recorded at BV  
 also

90% Consent is also

But PC is given in form of  
Debt

In the nature of Purchase

A Ltd took over All Asset (Liab)  
Continued Same Business  
got 90% Consent  
PC in Equity Shares  
issued

But A/L recorded at  
FV

In the nature of purchase

A Ltd took over B Ltd (B Ltd gets  
Liquidated)

1) All Assets & Liab. took over

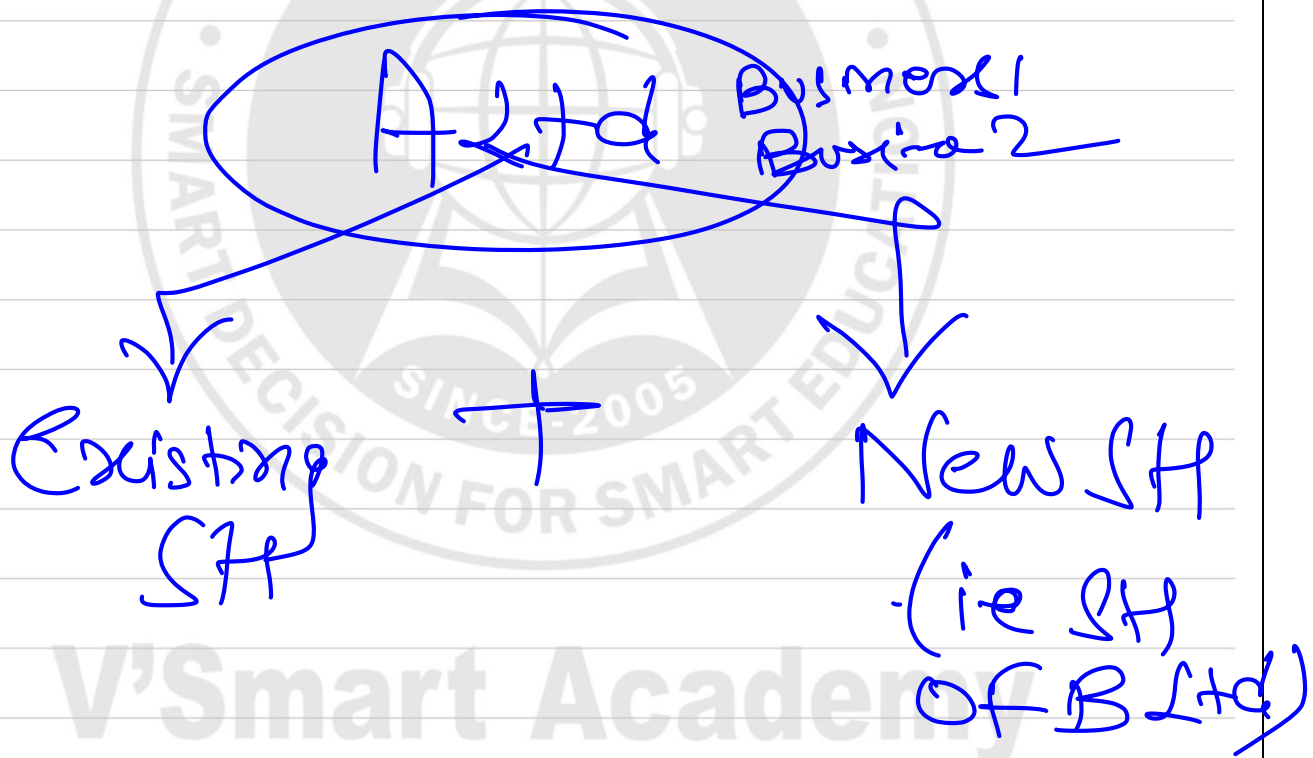
2) 90% Consent also

3) PC in Equity Shares.

4) Same Business Continued also

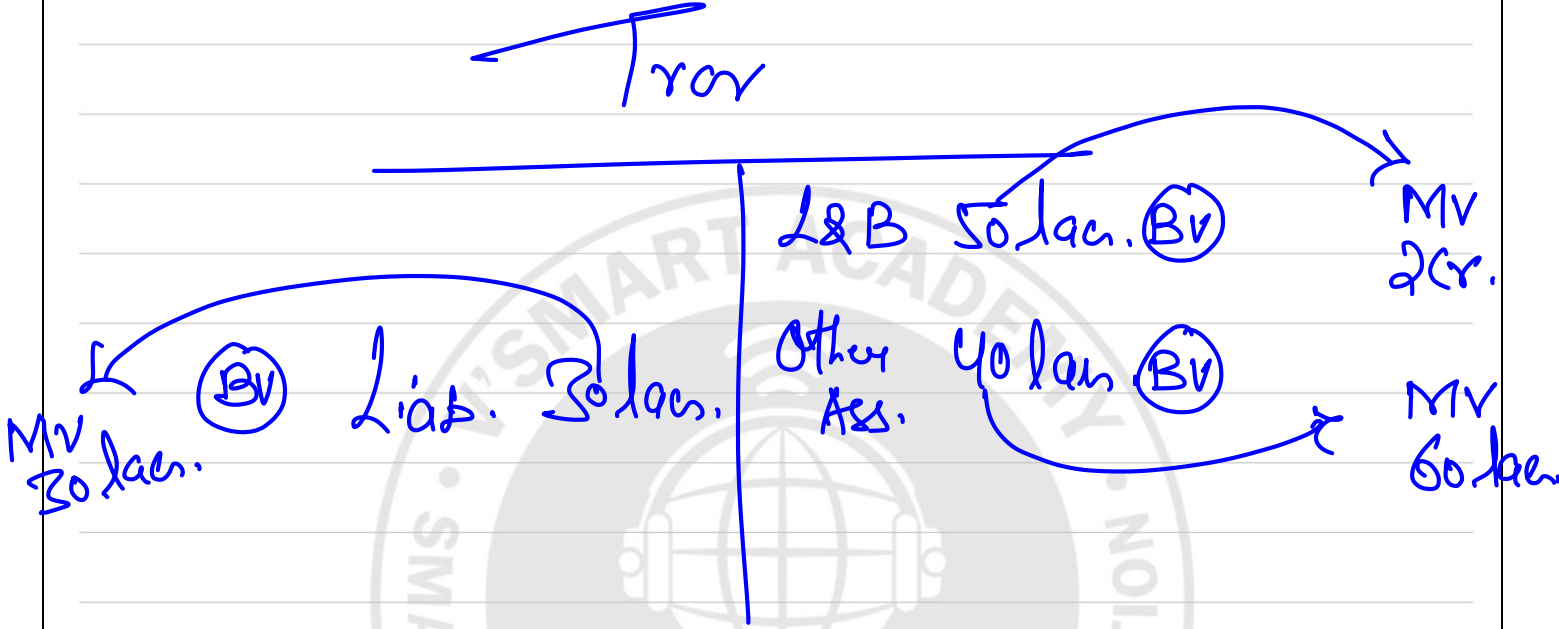
5) A/L Included at BV also

⇓  
Amalgamation in the nature  
of Merger



\*  
1) A/c for Amalgamation in the nature of purchase is different from Amalgamation in the nature of merger. → (Fair Value) → (Book Value)

But Calculation of PC is always based on Market Values.



PC

B Ltd. (Trov)

Hidden Reserve  
25

ESC (10/-)	10,00,000
R&S	12,00,000
Liabilities	28,00,000
	<u>50,00,000</u>
PPE	35,00,000
CA	15,00,000
	<u>50,00,000</u>

$$\text{MV OF PPE} = 60,00,000$$

$$\text{MV OF CA} = 20,00,000$$

A Ltd (Tree) took over Business of Trus (B Ltd)

### Case 1 Calculate P<sub>c</sub>

(P<sub>c</sub> to be discharged in the form of Equity share of A Ltd whose MP = 20/-)

Solution:- Since Ex. Ratios are not given we shall follow Net Asset method:-

$$\text{PPE} = 60 \text{ Lakhs.}$$

$$\text{CA} = 20 \text{ Lakhs}$$

$$(-) \text{ Liab} = (28 \text{ Lakhs})$$

$$\text{Pc} = \underline{52,00,000}$$

→ शेअर

<u>Payment to</u>	<u>Payment in</u>	<u>Working</u>	<u>Asset.</u>
ESH OF B	Eq. shares of A	$\frac{5200000}{20}$	52,00,000
		$\underline{2600000.}$ <p>MP 20/-</p>	

Case 2 Calculate PC when A Ltd shall issue 26 no. of shares for every 10 shares held by B Ltd.

$$\text{MP of A} = 20/-$$

This is Exchange Ratio Basis :- 26:10

<u>Payout to</u> ESH of B	<u>Payout in</u> eg shares of A	<u>Working</u>	<u>Amnt.</u>
		$100000 \times \frac{26}{10}$	₹2,00,000
		$260000 \times 20/-$	

Case-3 PC will be discharged by A Ltd. to SH of B Ltd. on the basis of their Market Values of share.

$$\text{MP of A} = 20/-$$

$$\text{MP of B} = ₹2/-$$

$$\text{B Ltd on 31st Dec 2011} \Rightarrow \frac{100000 \times ₹2}{\underline{\hspace{2cm}}} = \underline{\underline{₹2,00,000}}$$

$$A \text{ will issue } \Rightarrow \frac{\text{₹}200000}{20} = 260000 \text{ no. as pc}$$

अंकित (Net worth of Company)

$$\begin{array}{l} \text{Asset} = \text{MV} \quad (08) \\ (-) \text{Liab} = \text{MV} \\ \hline \text{₹}200000 \end{array}$$

No. of Shares of Company  
× MP per share  
60/-

~~₹1000000~~  
60/-

Case-4 PC will be discharged by A Ltd. to SH of B Ltd. on the basis of their Market Values of share.

$$\text{MP of A} = 20/-$$

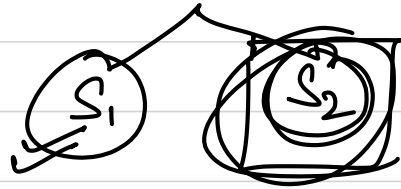
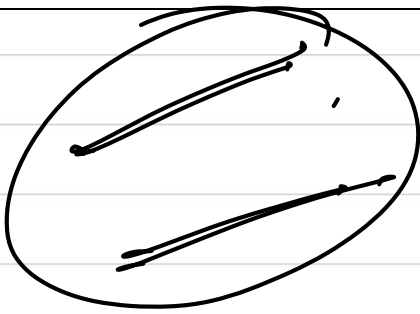
$$\text{MP of B} = 60/-$$

$$\begin{array}{l} \text{Net worth of B (अंकित)} = 100000 \\ \quad \quad \quad \quad \quad \quad \quad \times 60/- \\ \hline \text{60,00,000} \end{array}$$

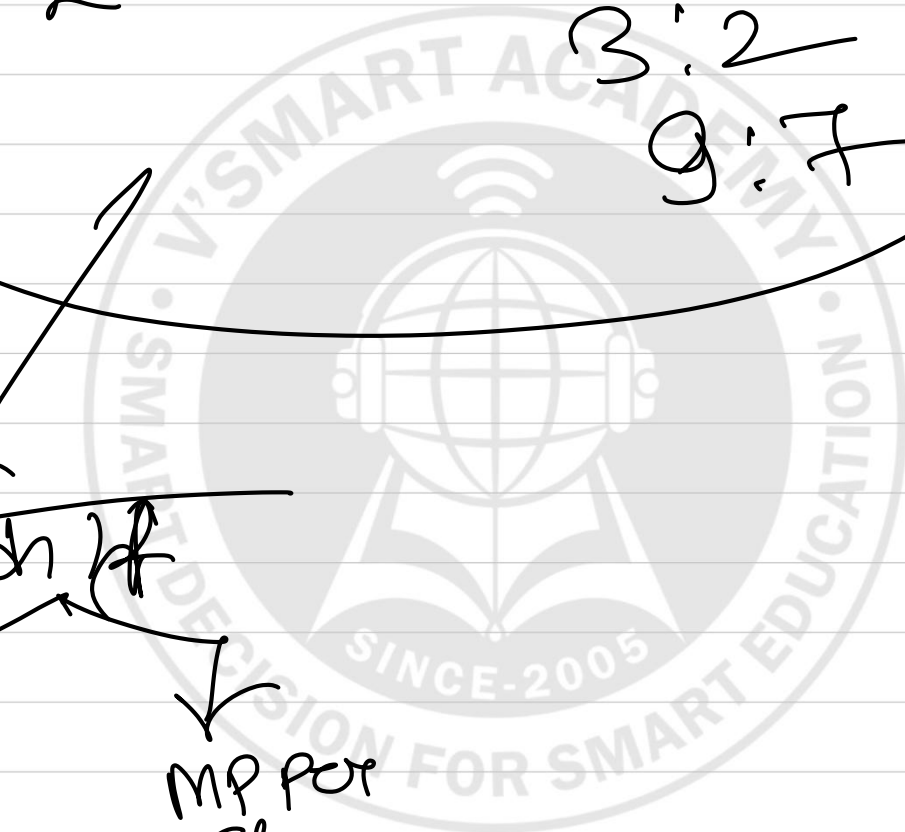
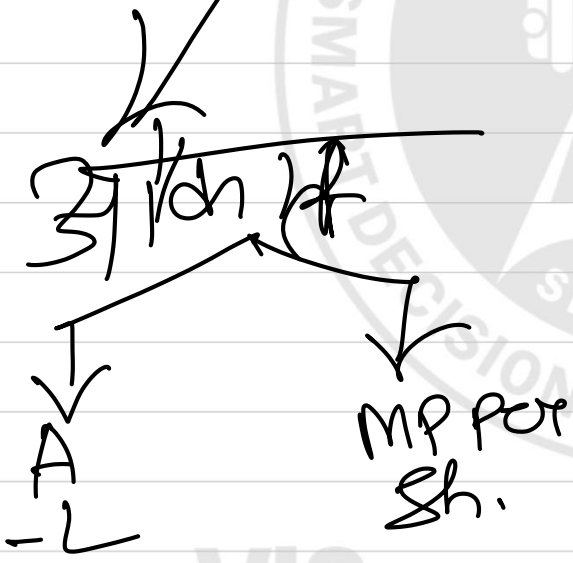
$$\text{PC in eq sh. by A} = \frac{60,00,000}{20} = 300000 \text{ no.}$$

B Ltd. ⇒ no. 100000

Ex. Ratio = 3:1



Ex. Ratio 5:2  
3:2  
9:7



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Case 5 :- PC is discharged on the basis of  
Intrinsic Value of Both Companies :-

$$MP = 60 (B)$$

$$MP = 20 (A)$$

$$PC \Rightarrow 100000 \times 60 = \frac{60 \text{ Lakhs}}{20}$$

300,000 no. of Atd.

Case 6:- PC is discharged on the basis of Intrinsic Values (IV) of Both the Companies.

(But now MP are not given separately)

But MV of Assets & Liab are given as per Case 1.

IV Formulae

Assets MV =

(-) Liab. MV

(-) PSC if any

₹20000 Net Ass.

100000 no. of shares

IV = ₹2/-  
Btd

# Revision

1) Tree & Tror

2) Tree → Tax over Business  
↳ Net Asset (अधिन)

3) Tree discharge PC to SH of Tror

```
graph TD; A[PC to SH of Tror] --> B[Cash]; A --> C[Shares]; A --> D[Debt]; A --> E[Kuch Bhi];
```

4) Amalgamation → Tree (AS 14)

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graph TD; A[Amalgamation] --> B[In the nature of purchase]; A --> C[In the nature of merger]; B --> D[Dominating power with Tree's SH]; C --> E[Pooling of Interest of Both SH];
```

## 5) Merger

All A/L  
must be  
Tover

90% Preferred  
Shareholder  
Consent

PC must  
be  
in eqsh

Revdn  
All  
at  
By

Same Bus.  
must be  
Continued

## 6) PC

- 1) Net Asset method
- 2) Ex. Ratio
- 3) MP of Both Co.
- 4) IV of Both Co.

# Books of Tree Co. (AS14)

Tree Co. shall make Acquisition Accounting

Case 1 In the nature of purchase :-

1) Business purchase a/c Dr. P&Amt.  
~~8 Cr.~~ To Liquidator of Tree Co. P&Amt.  
1.1 Cr.

2) Sundry Assets a/c Dr. Fair Value / BV  
1.5 Cr. Goodwill (B/F)  
To Sundry Liab. Settlement / BV  
0.5 Cr. Value

To BP a/c 0.8 Cr.

To CR (B/F)

# PC vs. Net Assets

if PC is more

Goodwill

if PC is Less

CR

\* Goodwill shall be Amortised in 10 yrs.  
(AS 14)

P&L  
To Goodwill

3) Liquidator a/c Dr. PC

To Bank  
To ESC (Face Value)  
To SPR (Premium)  
To PSC  
To Debt  
To Kuan Bhi a/c

4) Legal Exp./ Closure Exp. of Trust Bank  
by Trust.

CR a/c Dr. (1st priority)  
Goodwill a/c Dr. (2nd priority)  
    ↳ To Bank

5) Settlement of Liabilities of  
Trust Co. :-

---

(Trust) Old Liab a/c Dr.  
    ↳ To Bank  
    ↳ To New Deb<sup>n</sup>  
    ↳ To Esc & SP

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Ex:-8  
Payment to

Payment

Working Amnt.

Est of  
Tree

of shares  
of Tree

$\frac{285000}{30}$

285000

950000.

1) Business purch. 285000  
    To dig. of Tree a/c 285000

2) N.C.A. a/c Dr. 285000  
    CA a/c Dr. 150000  
    Goodwill a/c Dr. 600000

    To Liability 2100000  
    To B/P 285000

3) Liquidator of Tree a/c Dr 285000  
95000 x 10      To Esc a/c 950000  
95000 x 20      To SP a/c 1900000

Ex 6 & 7 This is Amalgamation in the nature of purchase

WN-1 Calculation of PC :- (Net Asset method)

Building = 3750000  
P&M = 1120000  
Inventory = 400000  
(Gross) Debtors = 650000

(-) provision for = (32500)  
D.D

(-) Loans = (1750000)

(-) CL = (2050000)

(-) Tax Liab. = (85000)

PC 20,02,500

<u>Payment to</u>	<u>Payment in</u>	<u>Working</u>	<u>Amount</u>
ESH OF Q Ltd.	Eg shares OF P Ltd	$\frac{2002500}{25/-}$	202,5000
		80,100 no.	

# Books of P Ltd.

1) Business purchase A/c Dr. 20,02,500  
    ↳ Liq. of Q Ltd. 20,02,500

2) Building a/c Dr. 3750000  
    P&M a/c Dr. 1120000  
    Inventory a/c Dr. 400000  
    Debtors a/c Dr. 650000  
    ↳ prov. for DD 32500  
    ↳ Loan a/c 1750000  
    ↳ CL a/c 2050000  
    ↳ Tax liab a/c 85000  
    ↳ B/P 20,02,500

3) Liq. of Q Ltd. a/c Dr. 20,02,500  
    ↳ Esc a/c 801000  
    ↳ S.P.R a/c 1201500

Ex:- 9

<u>Payout to</u>	<u>Payout in</u>	<u>Working</u>	<u>Amt.</u>
PSH OF Tree	Pref. shares OF Tree	$\frac{10000 \times 3}{2}$ 15000 no. x 100/-	15,00,000

ESH OF Tree	Eg. shares	$\frac{2250000}{50}$ 45000 no. x	450000
	$\frac{120000 \times 18.75}{50}$		<u>19,50,000</u>

Calculation of IV of Tree:-

All Assets = 5850000

(-) all Liab = 2100000

(-) Pct to PSH = (1500000)

Pct to ESH = 2250000

~~24~~  
~~120 no.~~

~~45 no~~

Direct

IV  
 $\frac{2250000}{120000}$   
18.75/-

Liq. Dr. 1950000  
 ↳ To PSC 1500000  
 To ESC 450000

2) NCA 30  
 CA 20  
~~4 8.5~~

↳ To Liab 21  
 To BP 19.5  
 To CR ~~18~~ 9.5

Ex: 10 1) BP 2025000 121500000  
 ↳ To Liq. 2025000

2) Asset → MVS 25000  
 Goodwill → MVS  
 ↳ To Liab 2025000  
 To BP

3) Liq. of Trce 2025000  
 To ESC 2025000

BP a/c 20

← To Lig 15

To CC payable 5

(or)

CC Pay  
To Bank

If Condition  
Satisfied

CC Pay  
To P&L

if Condition  
not Satisfied

Tres

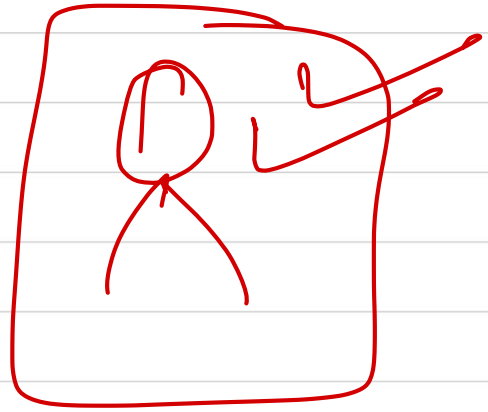
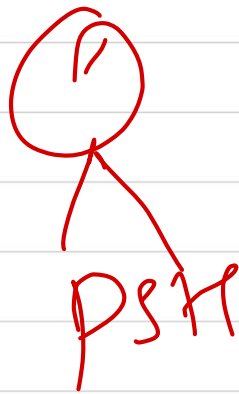
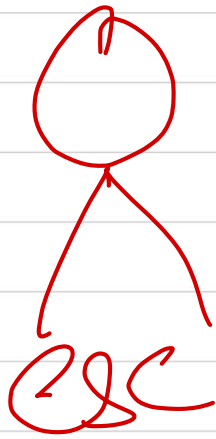
Sol-

NO. 100000

~~Tres~~  
~~25~~

~~100000~~ × 50

25



Ex:-12A Same Example no. 12 But Debt to be issued based on same amt. of Interest But to be issued at 25% prem.

1) Int. Amt  $\Rightarrow 1200000 \times 7\% = 84000$

2)  $\frac{84000}{8\% \text{ new Debt rate}} = \text{Fr } 1050000$

3) Final issue Value (Settlement Value) =  $1050000 + 25\%$   
1312500

4) New no. of Debt =  $1050000 \div 100 = 10500$  no.

Q101

WN-1 Settlement of Debt

Old Value of Debt = 40,00,000

To be settled at 10% = 4,00,000  
Premium

Total Settlement = 44,00,000  
Value

Issued at par = 100

No. of 15% Debt = 44,000

WN-2 Calculation of PC

Payment to      Payment in      Working      Ans.

a) PSH of X Ltd      15% PSC of Y Ltd       $\frac{250000 + 20\%}{100}$       30,00,000

$\frac{30000 \times 100}{no.}$

b) PSH of X Ltd      Eq. sh. of Y Ltd       $\frac{750000 \times 20}{30}$       50,00,000

New no. = 50,000

X 101-

$$\frac{\text{Total PC}}{\text{PC}} = \underline{\underline{80,00,000}}$$

Q105

Step 1:- Calculate Net Asset Value

$$\text{PPE} = \underline{32,50,000}$$

$$\text{Invst} = 8,00,000$$

$$\text{CA} = 4,50,000$$

$$(-) \text{CL} = (5,00,000)$$

$$(-) \text{Debt Holders} = (7,70,000)$$

$$\text{Net worth available} = \underline{33,55,000}$$

for PSH & ESH

$$\begin{aligned} \underline{\text{Step 2:-}} \quad \text{PC to PSH} &= 75,000 + 10\% \\ &= 82,500 \end{aligned}$$

# Step 3:- Net Worth For ESH of Tror

$$\text{Step 1} = 3355000$$

$$(-) \text{ Pct to } = 825000$$

PSH  
(Step 2)

$$\text{Pct to ESH} = 2530000$$

In Form of  
Share

$$\frac{150000}{2} \times 3$$

2

$$225000 \times 10\%$$

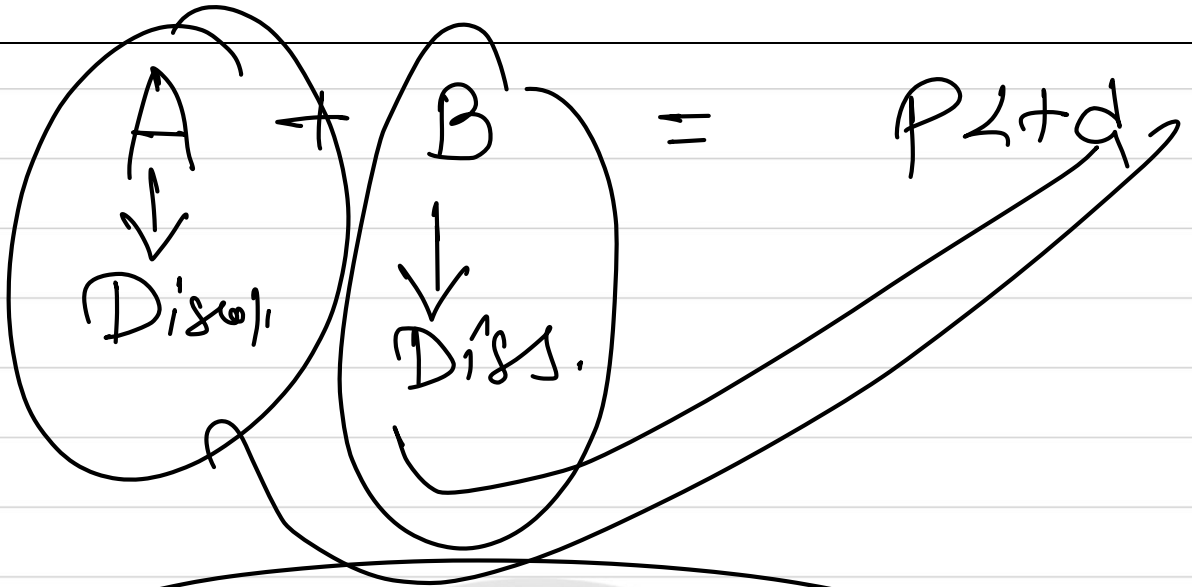
$$\underline{2250000}$$

Balance  
in  
Cash

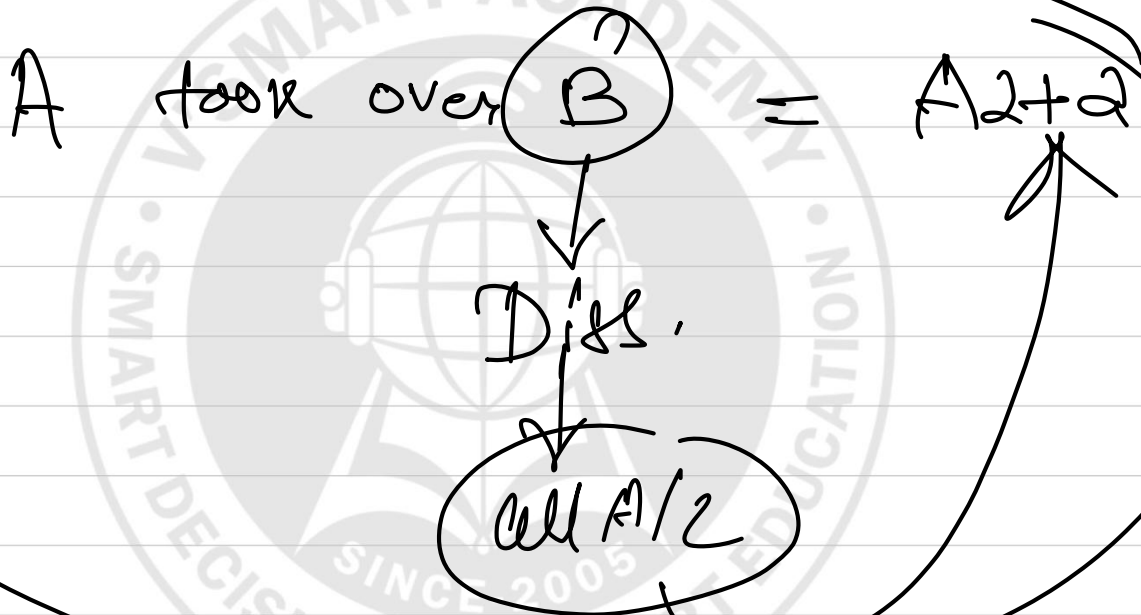
$$2800$$

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1)



2)



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← Trial B/s (Before Amalg.)

← Trial B/s  
(Before Amalg.)  
B/s

Creditors  
(Trial) 50000

Debtors  
← Trial 50,000

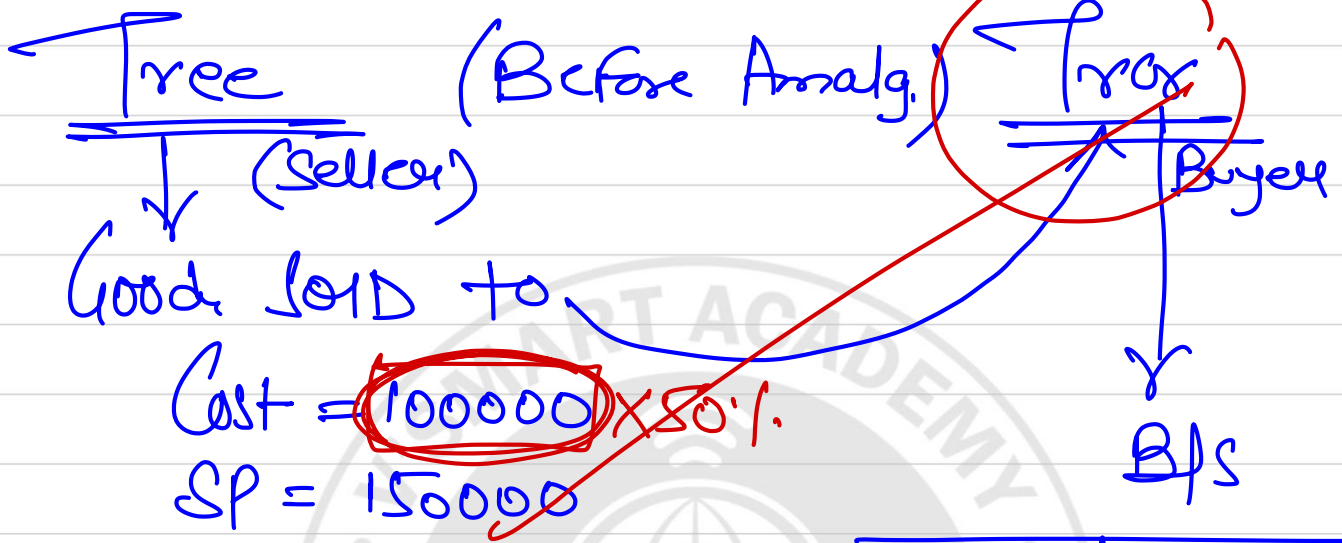
~~Amalg. (Trial)~~

2<sup>nd</sup> Ass (Trial)

~~To Liab (Trial) 50000~~

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# Treatment of Unrealised Profits on Unsold Stock



Profit earned by Tree = 50000

R&S

Stock 50000 (includes 50% of the purchase price still unsold)

75000 from tree      425000 other

Tree  
2nd

(Tree) Stock a/c Dr. 500000

Tree

R&S (P&L/GR)

To Stock 25000

Class Example :-

Balance Sheets (Before Amalg.)

	<u>Tree</u>	<u>Iron</u>
Esc	500000	400000
R&S	300000	200000
Liabilities	700000	500000
Net 8 + 5 = 13	15,00,000	11,00,000
Non Current Assets	900000	600000
Current Assets	600000	5,00,000
	15,00,000	11,00,000

1) PC shall be discharged on the Basis of Net Assets Value

2) MV OF NCA OF Troy = 750000

3) all other Assets & Liab have MV = BV

4) PC will issued in Equity shares of Tree at 10/- each.

5) Unrecorded Tax Liability will also taken over at 100000

Case 1:- This is Amalgamation in the nature of Purchase

Case 2:- This is Amalgamation in the nature of Merger.

Solution:- Case 1 Purchase method

1) PC Calculation

NCA = 750000
CA = 500000
(-) Liab = (500000)
(-) Tax Liab = (100000)
<u>650000</u>

<u>Payment to</u>	<u>Payment in</u>	<u>Working</u>	<u>Amount</u>
ESH OF Troy	Eq shares OF Tree	$\frac{650000}{10}$ 65000 no. x 10	650000

## 2) Journal Entries in the Books of Tree (As 14)

a) Business purchase Dr. 650000  
    To Liq. of Trax a/c 650000

b) Non Curr. Assets Dr. 750000  
    Current Assets Dr. 500000  
        To Liabilities 500000  
        To Tax Liab. 100000  
        To Bus. pur. 650000

c) Liquidator a/c Dr. 650000  
    To ESC a/c 650000

→ Calculation of Goodwill/CR (OFU)

PC discharged = 650000

(-) NA acquired = 850000

Goodwill/CR = Nil

### 3) Balance sheet (after Amalgamation)

Tree Ltd.

ESC a/c Dr. 1150000  
(500000 + 650000)

R&S (only Tree) 300000

Liabilities 1300000  
(700000 + 600000)

27,50,000

Non Current Assets 16,50,000  
(900000 + 750000)

Current Assets 11,00,000  
(600000 + 500000)

27,50,000

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Case 2 :- In the Nature of Merger  
"pooling of Interest method"

1) Calculation of PC = Same

65000 no. of 10/- each  
i.e 650000

2) Journal Entries :-

a) Business merger a/c Dr. 650000  
             To Liquidator of Trn Co. 650000

b) NCA a/c Dr. 600000  
    CA a/c Dr. 500000  
    R&S a/c (B/F) Dr. 350000  
             To Liabilities 600000  
             To R&S 200000  
             To Business merg. 650000

DFU :-

Net Asset position in old Co. = 500000

(-) PC = 650000

Reserves = 150000

PC given

(+) Res maint = 200000 ye bhi create karke diya

c) Lig 650 / 650  
to ESF

Total extra  $\Rightarrow$  350000

$\rightarrow$  itna extra Jo diya ho reverse karna

### 3) Balance sheet (Tree)

ESF (100000 + 650000)	1150000
Res (300000 + 200000 - 350000)	150000
Liabilities	1300000
	<u>2600000</u>
NCA	15,00,000
CA	11,00,000
	<u>26,00,000</u>

## Class Ex:- 2

	<u>Trax</u>	<u>Tree</u>
Eq	10,00,000	15,00,000
Res	6,00,000	9,00,000
Liabilities	14,00,000	17,00,000
	<u>30 lacs</u>	<u>41 lacs.</u>

PPE	20,00,000	25,00,000
CA	10,00,000	16,00,000
	<u>30 lacs.</u>	<u>41 lacs.</u>

±) PC → Exchange Ratio = 3:4  
issued at 10/-

Amalg. in the nature of merger

(a) → PC = 750000 shares

2) NA = 16,00,000

(-) PC = 750000

Res = 600000

GR = 250000  
more  
to be created

3) a) Bus. merged Dr. 75000  
To Liq. 75000

b) PPE Dr. 200000  
CA Dr. 100000  
To Liab. 140000  
To BP 75000  
To Res 60000  
To GR 25000

c) Liq. 75000  
To En 75000

Ex:-16

PC to  $\frac{x}{1200000}$   $\frac{y}{960000}$

## Calculation

	$\frac{x}{1200000}$	$\frac{y}{960000}$
Net Assets	1950000	1470000
(-) PC in Form of Shares	1200000	960000
Reserves required to be created	<u>750000</u>	<u>510000</u>
SP	<u>(100000)</u>	<u>(50000)</u>
	650000	460000
RR	<u>(50000)</u>	<u>(20000)</u>
	600000	440000
GR	<u>300000</u>	<u>200000</u>
P&L to be created additionally,	<u>300000</u>	<u>240000</u>

PPE a/c Dr.	160000	
Invest Dr.	60000	
CA Dr.	160000	3420000
To Lab.	380000	
To Bm	2160000	
To SP	150000	
To RR	70000	
To GR	500000	
To P&I	540000 (B/F)	

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Ex:- 15 (Pg. no. 6-14)

1) Calculation of Purchase Consideration

<u>Payout to</u>	<u>Payout in</u>	<u>Working</u>	<u>Amnt.</u>
a) PSH OF Tros	9% Pref. Shares of Tros	$60000 + 20\%$ $=$ $72000$ $\div$ $10\%$ $7200000.$	720000
b) ESH OF Tros	Cash	Given	300000
c) ESH OF Tros	Eq. Shares of Tros	$80000 \times \frac{5}{4}$ no. $\frac{5}{4}$ $10000000.$ $\times 28/-$	28,00,000
			<u>38,20,000</u>

2) Settlement of Debt Holders of Tros :-

Interest amt. =  $600000 \times 6\% = 36000$

New 7% Debt  $\Rightarrow 36000 \div 7\% = 514286/-$

### 3) Journal Entry:-

a) Business purchase a/c Dr. 3820000  
    To Liquidator of Tror a/c 3820000  
(Being Business of Tror acquired)

b) PPE a/c Dr. 1150000  
    Invst a/c Dr. 620000  
    Inventory a/c Dr. 700000  
    Trade Receiv. Dr. 600000  
    Cash/Bank Dr. 200000  
    Goodwill Dr. 1506286

    To Provision 12000

    To Debt Holders of Tror 514286

    To Creditors 430000

    To B/P 3820000

including  
Unrecorded  
Liab.

(Being Assets & Liab. acquired & included  
& Bal. transferred to Goodwill)

c) Liquidator a/c Dr. 38,20,000

<del>To 9% PSC a/c</del>	<del>7,20,000</del>
<del>To Bank a/c</del>	<del>3,00,000</del>
<del>To Esc a/c</del>	<del>10,00,000</del>
<del>To SP a/c</del>	<del>18,00,000</del>

This entry is based on PC working always

(Being PC discharged)

d) Debt Holders of Tror a/c Dr. 514,286

<del>To 7% Debt a/c</del>	<del>514,286</del>
---------------------------	--------------------

(Being Debt Holders of Tror are issued New 7% Debt of Tror)

e) ~~Amalg. Adjust. Reserve Dr. 5000~~

<del>To Exp. Profit Reserve</del>	<del>5000</del>
-----------------------------------	-----------------

(Being EPR of Tror maintained)

Net = A - L



1) PPE (1300000 + 1150000)	2450000
2) Goodwill	1506286
3) Investments (900000 + 620000)	1520000
4) Inventory	1700000
5) Trad. Receivables 1100000 (-) provision 2:1. (12000)	1088000
6) <u>Cash &amp; Bank</u> 300000 200000 - 300000 p.c.	200000
← Total	<u>84,64,286</u>

## Q4 (Sep'24 Exam) 14 marks

Note:- Assuming this is Amalgamation in the nature of purchase

### WN-1 Calculation of PC :- (in 000)

<u>Payout to</u>	<u>Payout in</u>	<u>Working</u>	<u>Amnt.</u>
ESH of Well Ltd.	Eg. shares of Nice Ltd.	$\frac{125000}{5} \times 3$ $75000 \times 120$	9000
PSH of Well Ltd.	9% Pref. Sh. of Nice Ltd.	1800 - 10% 16200 no. of shares.	1620
<u>Total PC = 10620</u>			

### WN-2 Settlement of Debt Holders

$$\text{Amnt of Debt (in 000) Interest} = \pm 90 \quad \frac{900 \times 10\%}{90}$$

$$\text{New 9% Debt value} = \frac{90}{9\%} = \text{£}1000$$

## Journal entry (Books of Nice)

1) Business pur. a/c Dr. 10620  
    To Liq. of Well Ltd. 10620

2) PPE a/c Dr. 19656  
    Inventory a/c Dr. 957  
    Debtors a/c Dr. 1800  
    BPR a/c Dr. 150  
    Goodwill a/c Dr. 137

    To ST Borrowing 1975  
    To Loan Bank 4255  
    To Deb<sup>n</sup> Holders of Well  
    To Creditors 4400  
    To Bills Payable 450  
    To Busin. pur. 10620

3) Liquidator of Well Ltd. 10620

    To G.I. PSC ~~1620~~

    To ESC ~~7500~~

    To SP ~~1500~~

4) Deb<sup>n</sup> Holders of Well Dr. 1000  
 To G.I. Deb<sup>n</sup> 1000

5) Goodwill Dr. 55  
 To Bank 55

6) Creditors a/c Dr. 215  
 To Debtors 215

### Balance Sheet

EC (31500 + 7500)	39000
G.I. PSC (9500 + 1620)	11120
<u>Res :-</u> P&L Bal. 19500	21000
(+) SP 1500	
	<u>21000</u>

### Long Term Borrowing

G.I. Deb <sup>n</sup> (11200 + 1000)	12200
Bank Loan (9300 + 4255)	13555

## Trade Payables

a) Creditors	N	14750	18935
	W	4400	
Common Debts	(-)	<u>(215)</u>	

b) B/P	N	990	1440
	W	<u>450</u>	

Short Term Borrowing 1975

Total(A) 119225

PPE (62550 + 19656) 82206

Goodwill (137 + 55) 192

N.C. Invest 22500

Inventory (300 + 957) 1257

## Trade Receivables

a) Debtors	(6200 + 1800)	7785
------------	---------------	------

b) B/R	(390 + 150)	540
--------	-------------	-----

c) Cash & Cash Eq.  
(4800 - 55)

4745

Total(B) 119225



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Q106

PC For Raman

<u>Payout to</u>	<u>Payout in</u>	<u>Working</u>	<u>Amnt.</u>
PSH OF Raman	Pref. Shares OF Rana	$\frac{3360 \times 4}{3} = 4480 \text{ no.}$ $\times 115/-$	515200
ESH OF Raman	Eq. Shares OF Rana	$\frac{67200 \times 5}{3} = 112000 \text{ no.}$ $\times 12/-$	1344000
ESH OF Raman	Cash	as per WN	41260
			<hr/> <u>19,00,460</u>

PC For Naman

<u>Payout to</u>	<u>Payout in</u>	<u>Working</u>	<u>Amnt.</u>
PSH OF Naman	Pref. Shares OF Rana	$1680 \times \frac{4}{3} = 2240 \text{ no.}$ $\times 115/-$	257600
ESH OF Naman	Eq. Shares OF Rana	$25200 \times \frac{5}{3} = 42000 \text{ no.}$ $\times 12/-$	504000
ESH OF Naman	Cash	as per WN	94980
			<hr/> <u>8,56,580</u>

## WN- Calculation of Intrinsic Value (Net Assets)

	<u>Raman</u>	<u>Naman</u>
PPE	10,58,100	5,20,100
Goodwill	1,62,000	-
Inventory	2,78,620	2,06,780
T. Receiv.	2,47,140	1,38,180
Cash & Cash Eq	2,35,240	1,60,480
(-) T. Payable	(8,06,400)	(1,68,960)
Net Assets Available for PSH & ESH $\Rightarrow$	<u>19,00,460</u>	<u>8,56,580</u>
(-) PC to PSH	(5,52,000)	(2,57,600)
PC for ESH	<u>13,25,260</u>	<u>5,98,980</u>
(-) PC in form of shares	(13,44,000)	(5,04,000)
<u>Cash</u>	<u>41,260</u>	<u>94,980</u>

Q103

## Calculation of 4% Return on C/E

<u>Particulars</u>	<u>X Ltd</u>	<u>Y Ltd.</u>
PPE (MV)	7,10,000	39,00,000
Cur. Assets (MV)	29,95,000	15,77,500
(-) Liabilities	(59,70,000)	(18,02,500)
Capital Employed =	41,25,000	36,75,000
4% Return =	1,65,000	1,47,000

## Computation of PC

1) PC to SH of X Ltd. :-

<u>Payment to</u>	<u>Payment in</u>	<u>Working</u>	<u>Amount</u>
ESH	Eq Shares.	$62000 \times \frac{1}{2} = 31000$ $\quad \quad \quad \times 5$	15,50,000
ESH	Debt	<u>1,65,000</u> 7.5%	<u>22,00,000</u> <u>37,50,000</u>

Pc to y

Eg = 1550000

Debn = 1960000

Summary :- Total Equity = 3100000  
Total Debn = 4160000

### Calculation of Goodwill / CR

	<u>X</u>	<u>Y</u>
Total Pc discharged	3750000	3710000
(-) Net Assets Acquired	4125000	3675000
Capital Reserves	<u>375000</u>	<u>165000</u>

### Balance Sheet

ESC		3100000
Res (Capital Reserves)		540000
F.S.I. Debn		4160000
Trade payables	7772500 -137250	7635250
		<u>15435250</u>
PPE		1,10,00,000
CA	4572500 - 137250	<u>4435250</u>

Q201 WN-1 Calculation of PC  
(Based on MP per share)

a) PC to SH of A Ltd.

<u>Payout to</u>	<u>Payment</u>	<u>Working</u>	<u>Ans.</u>
ESH of A Ltd	Eg. of Z	$\frac{30000 \times 18}{20}$ $27000 \text{ no.}$ $\times 20/-$	54,00,000

b) PC to SH of B

ESH of B	Eg of Z	$\frac{24000 \times 12}{20}$ $14400$ $\times 20/-$	28,80,000
----------	---------	--	-----------

## Journal Entries in the Book of Z

1) Business purchase a/c Dr. 8,28,00,00  
    To Liquidator of A Ltd a/c 54,00,00  
    To Liquidator of B Ltd a/c 28,80,00,00

2) Land & Building a/c Dr. 49,00,000  
    Plant & mach. a/c Dr. 27,60,000  
    Loan to B a/c Dr. 22,00,000  
    Inventory a/c Dr. 17,40,000  
    Tr. Receivable a/c Dr. 13,40,000  
    Cash & Bank a/c Dr. 3,60,000  
    Goodwill a/c Dr. 11,20,000

    To Trade Payables 44,00,000

    To Loan 14,20,000

    To Debt Holders of A Ltd. 20,00,000

    To R.G.F a/c 10,00,000

    To New Liab. a/c 20,00,000

    To Business purchase a/c 8,28,00,000

3) Liquidator of A Ltd. a/c Dr. 54,00,000  
 Liquidator of B Ltd. a/c Dr. 28,80,000  
 414000 x 10/- To Equity Share Capital 41,40,000  
 414000 x 10/- To Security Prem. 41,40,000

4) Deb<sup>n</sup> Holder of A Ltd. a/c Dr. 20,00,000  
 To R<sup>l</sup>. Deb<sup>n</sup> a/c Dr. 20,00,000

5) Loan from A a/c Dr. 220000  
 To Loan to B a/c 220000

6) Goodwill a/c Dr. 80000  
 To Bank a/c 80000

Balance sheet  
 Ztd.

<u>Particulars</u>	<u>Note no.</u>	<u>Amnt.</u>
--------------------	-----------------	--------------

(I) Equity & Liabilities

1) Shareholders Funds

(i) Share Capital	1	41,40,000
(ii) Reserves & Surplus	2	41,40,000

2) Non Current Liab.

(i) Long Term Borrowings	3	32,00,000
(ii) Long Term provision	4	1,00,000

### 3) Current Liab. :-

Trade payables		440,000
Other Current Liability	5	200,000

1,22,20,000

## II ASSETS

### a) Non Current Assets

1) PPE		76,60,000
2) Intangible Assets	6	12,00,000

### b) Current Assets

1) Inventory		17,40,000
2) Trade Receivables		13,40,000
3) Cash & Cash Eq.	7	2,80,000

1,22,20,000

## Notes to Accounts :-

### 1) Share Capital

(i) Authorised Share Capital :-

600000 of 10/-

60,00,000

(ii) Issued & Subscribed :-

414000 no. of 10/-

41,40,000

### 2) Reserves & Surplus

Security Premium

41,40,000

### 3) Long Term Borrowings

12% Debt

20,00,000

Unsecured Loan 600000

1200000

820000

(-) 220000

32,00,000

### 4) Long Term Provisions

Retirement Gratuity fund

100000

5) Other Curr. Liab

New Liability (earlier contingent) 200000

6) Intangible Assets

Goodwill 120000  
(+) Exp. 80000 200000

7) Cash & Cash Equiv.:-

A 300000  
B 60000  
(-) Exp. (80000) 280000

150000  
+ 8%  
-----  
162000 Settlement  
Value  
90

1800 no.

$$\begin{aligned} \text{Discount} &= 1800 \times 10 \\ \text{amt} &= 18000 \end{aligned}$$

2)

To Debt 162000

2)

Debt Hold 162000  
Dis. 18000

→ To Cr. Debt 180000

Q. 40000  
P. 9000  

---

49000

$$PC = 490000$$

$$(-) N. Ass. = 570000$$

	80000 CR
PPE 287500	- 30000 Lig exp
Invst 80000	
Invent. 304000	50000 Net CR
Tifere 200500	
Cash 10000	

(-) Crpd. (150000)

(-) Debn (162000)

## Class Example on Unrealised profit :-

Transaction of sales/purchase between Tree <sup>Big.</sup> & Tror (Before amalgamation)

Downstream  
(Sale by Tree to Tror)

⇓  
Profit already earned  
by Tree But  
Inventory stock  
With Tror

Upstream.  
(Sale by Tror to Tree)

⇓  
Profit earned by Tror  
But Inventory stock  
With Tree

Target :- To eliminate the margin from Unsold Stock

Golden Rule :- 1) Reversal of Reserves of Such Company who booked margin earlier, because stock should be shown at cost only.

↓  
R&S  
To Stock

2) If Amalg. is nature of purchase + Upstream Transaction

↓  
CR/Goodwill  
To Stock

Case 1 :- Stock of Trox includes goods purchased from Tree at 60,000

Tree earned margin of  $\frac{\text{Cost} + 20\%}{100}$

Solution :- a) Downstream

b) Unrealised profit =  $\frac{60000}{120} \times 20$   
= 10000

c) Since Tree has earned this profit Tree shall pass the entry :-

R&S (Tree) Dr. 10000  
To Stock a/c 10000

Case 2:- Stock of Tree includes goods purchased from Trax Rs. 90000

Trax earned profit of 15% on its sale.

This is Amalgamation in the nature of merger

Sol):- a) Upstream Transaction

b) Unrealised Profit  $\Rightarrow 90000 \times 15\% = 13500$

Earned by Trax, and appearing in R&S of Trax

c) Since it is case of merger, Tree Co. can reverse the reserves of Trax. Tree shall pass J.E as Under:-

During Amalgm.

R&S (Trax) Dr.	13500
To Stock	13500

Case 3 :- Amalg. in the nature of purchase :-  
Rest entire Case 2

Sol) :- 1) Upstream Transaction

2) Unrealised profit = 13500  
Earned by Tror & appearing  
in R&S of Tror.

3) Since R&S of Tror are not taken  
over by Tree Hence Tree can  
not debit R&S (Tror) a/c.

Hence it shall be adjusted as  
Under :-

Entry by Tree at the time of amalgamation

CR / Goodwill	Dr. 13500
TO Stock	13500

~~R&S TO Stock~~

Purch. + Upst. → CR/Gd TO Stock

(a) :- <sup>Unrealised</sup> Stock = 300000  
 Unrealised profit 10% = 30000

Stock will be taken over at 96% Value  
 Took over at 288000  
 Up (-) 18000  
 -----  
 27000

Total UP 30000  
 (-) Difference Between 30000 BV of Stock & Take Value of Stock (12000)

Up = 18000  
 -----  
 to be eliminated

Tree margin  
25% on cost

Stock (Tree) = 600000  
(including stock came from

Tree of 120000  
- 24000  
96000

Tree Co. took over the entire stock at 60%  
Value only.

total UP = 24000  $\left( \frac{120000}{125} \times 25 \right)$

took  
over

72000  
- 24000

120000 UP eliminate

FX! - loss

Unsold  
Stock with Tree = 125000  
Came from Tree

Tree sold above stock at 20%  
Loss on Sale

Cost = 150000

2nd Entry

Under Asset Dr.  
Inventory

125000

Separate  
Entry

⇒

Inventory Dr. 25000  
To Res

25000

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# Goodwill Calculation

4) Avg. Profit Method :- Goodwill is

4 years purchase of Avg. profit of past 3 years,

	<u>Profit (Loss)</u>
20X1	180000
20X2	(25000)
20X3	135000

In the year 20X1, there was abnormal loss of 15000

& In the year 20X3, there was Non Trade Income of 12000

96667

(Sol):-

	<u>20X1</u>	<u>20X2</u>	<u>20X3</u>
Actual Profits	180000	(25000)	135000
(+) A.b. loss	15000	-	-
(-) Non Trade Income	-	-	(12000)
	<u>195000</u>	<u>(25000)</u>	<u>123000</u>

$$\text{Simple Avg} = 97667$$

$$\text{Goodwill} = \frac{97667}{4}$$


---


$$24416.75$$


---

## 2) Supere profit method

$$\text{Goodwill} = \text{No. of yr. of purchase} \times (\text{Avg Profit} - \text{Normal profit})$$

Ex:- Net Assets are 19,00,000

Normal profit = 7%

Avg profit = 19,5000

Goodwill is 3 yrs. purchase of SP

$$\text{SP} = 195000 - \underset{\text{Normal}}{133000} = 62000$$

$$\text{Goodwill} = 62000 \times 3 = 186000$$

## 3) Capitalisation method :-

Alternate 1:-  $\frac{\text{SP}}{\text{NRR}} = \text{Goodwill}$

Alternate 2 :-  $\frac{\text{Avg Profit}}{\text{NRR}} - \text{Actual C/E}$

Ex:-  $NRR = 10\%$

Avg Profit = 420000

Capital Employed = 2500000

$SP = \text{Avg} - NP$

$SP = 420000 - 250000 = \frac{170000}{10\%}$

Goodwill  $\Rightarrow 2500000 - \frac{170000}{10\%} = 1700000$

$\Rightarrow 800000$

Capitalisation of SP method | Capitalisation method

Avg. 420000  
Normal 250000

$SP = 170000$

Expected = 10%

Goodwill =  $\frac{170000}{10\%} = 1700000$

$\frac{420000}{10\%}$  Avg. Profit

420000 Lagana chahie  
250000 Currently lagaya Hai Business  
170000 Goodwill

Q203

WN-1 Settlement of Deb<sup>n</sup> Holders of Myth

Current  
Interest =  $150000 \times 14\% = 21000$

New 12% Deb<sup>n</sup> Value =  $\frac{21000}{12\%} = 175000$

WN-2 Non Trade Income

	T	M
Total Investment	187500	100000
Non Trade @ 80%	150000	80000
Non Trade Income (%)	20%	15%
Non Trade Income	30000	12000

WN-3 :- Calculation of Goodwill

Truth Simp Avg. =  $723000 - 30000 = 693000$

$$\text{Myth Sump Arg} = 228000 - 12000 = 216000$$

## Capital Employed

	<u>T</u>	<u>M</u>
PPE	1575000	680000
Trade Investment	37500	20000
CA	512500	365000
(-) Debt	-	(150000)**
(-) T. payable	(90000)	(142000)
(-) OCL	(50000)	(40000)
<b>Actual Capital Emp.</b>	<u>1985000</u>	<u>733000</u>
Avg Profit	693000	216000
<b>Capital Employed Required</b>	<u>3850000</u>	<u>1200000</u>
Goodwill	1865000	467000

\*\*

We took Debt of 150000 (i.e. Book Value) & not Settlement since we are calculating Capital Employed for Goodwill.

Settlement Value shall be taken for PC Calculation only Under Net Assets.

### WN-4 Calculation of PC (as per IV method)

	<u>T</u>	<u>M</u>
Capital Employed	1985000	733000
(+) Non Trade Invest	150000	80000
(-) Debt adj	-	(25000)
(+) Goodwill	1865000	467000
	<hr/>	<hr/>
Net Assets	40,00,000	12,55,000
$\div$ No. of eq sh.	100000	40000
IV	40/-	31.375/-

<u>Payout to</u>	<u>Payout in</u>	<u>Working</u>	<u>Amt.</u>
ESH of Myth	Equity sh.	$\frac{40000 \times 31.375}{40}$	125500

31375 no.  
 x 40% ← 10% fr  
 30% prem

B/S (Truth)

ESC (10,00,000 + 313750)	13,13,750
--------------------------	-----------

<u>Res</u> :- SP (31375 x 30/-)	941250
---------------------------------	--------

GR	505000
----	--------

P&L	445000
-----	--------

EPR T 185000	210000
--------------	--------

M 25000	
---------	--

AAR	(25000)
-----	---------

12% Debt	175000
----------	--------

Trade payable	232000
---------------	--------

OCL	90000
-----	-------

	<u>38,87,000</u>
--	------------------

PPE

22,55,000

Goodwill (only myths evali)

467000

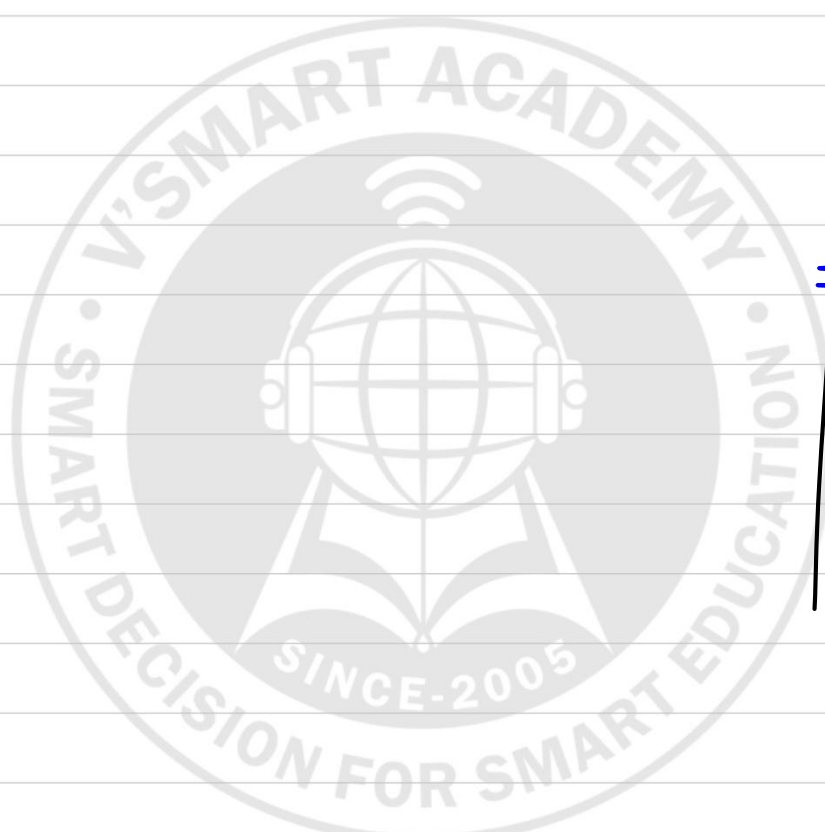
Investments

287500

CA

877500

38,87,000



1) BP To Liq PC / PC

2) PPE  
Goodwill  
To Liab

Q302 (Amalg. in the nature of merger)

WN-1 Calculation of PC (₹ in Lakhs)

<u>Payment to</u>	<u>Payment in</u>	<u>working</u>	<u>Amount.</u>
ESH of D	Eg share of S	$\frac{900}{2} \times 3$	13500
		$1350 \times 10/-$	

WN-2 Adjustment of Res

Net Assets acquired = 15,427.5  
Sundry Assets 1867.5  
(-) Sundry Liab 3247.5

(-) PC discharged = 13,500

Reserves to be maintained = 1,927.5

Foreign proj Reserve = 465

Bal. to be maint = 1,462.5

GR to be maint. = 1,462.5

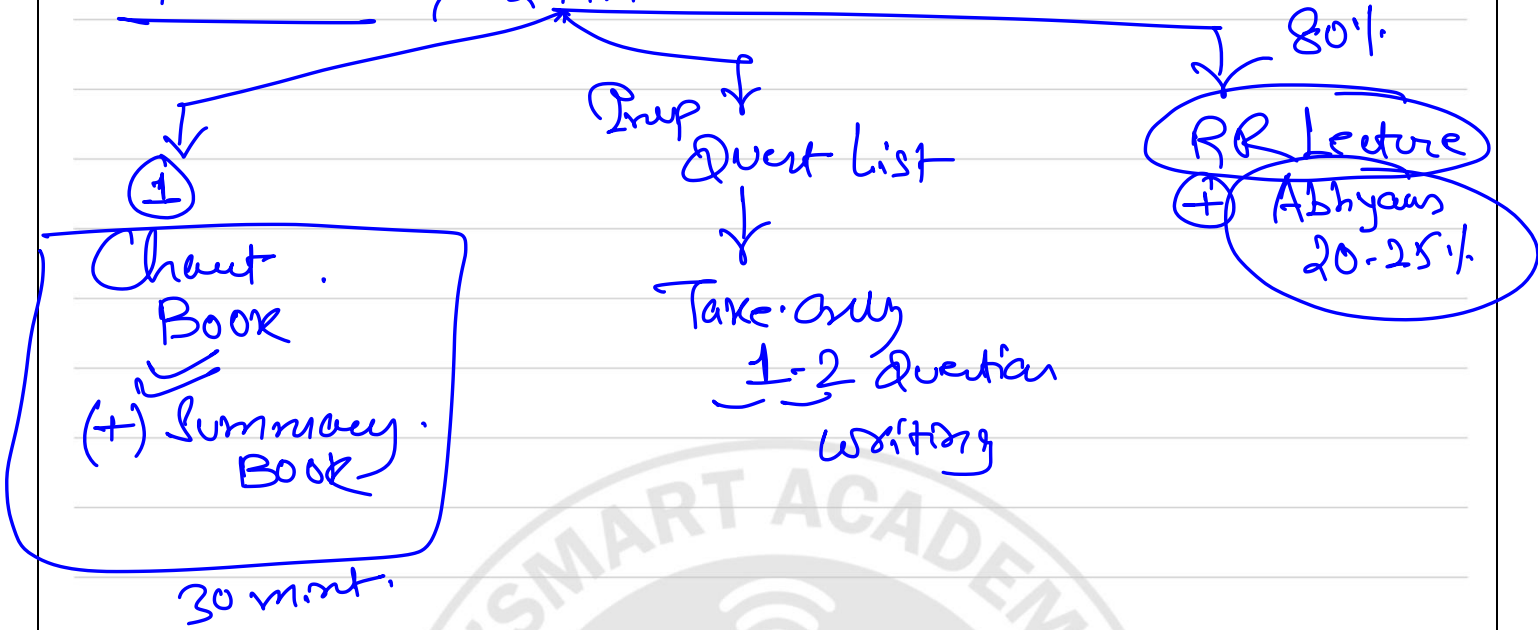
# Balance Sheet

## Sulphur

68653.5

<p>Eq (22500 + 13500)</p>	36000
<p><u>Res</u>      SP      4500</p> <p style="padding-left: 100px;">FPR      465</p> <p style="padding-left: 100px;">GR      15711</p> <p>(14250 + 1462.5 - 1.5)</p> <p style="padding-left: 100px;"><u>P&amp;L      4305</u></p>	24981
<p>13% Debt</p>	1500
<p>T. Payable (less Comm. Debt)</p>	2374.5
<p>Provision</p>	3798
	<u>68653.5</u>
<p>Land &amp; Build.</p>	9000
<p>P&amp;M</p>	28500
<p>Fix. Fix.</p>	6006
<p>Inventory</p>	17854.5
<p>T. Receivables</p>	4710.
<p>C&amp;B (Less 1.5)</p>	2583
	<u>68653.5</u>

Revision  $\Rightarrow$  2 Hrs.



330000

Debt of Glory are to be discharged by issue of New Debt at 10% prem.

$$330000 + 10\% = \frac{363000}{110}$$

$$\frac{330000}{110} = 3000 \text{ no.}$$

	<u>Glory</u>	
Cash	= 104000	
Collection	= 110000	$\rightarrow$ 5% (5500)
Paym.	= (180000)	$\rightarrow$ 2.5% (4500)
Comm.	= (10000)	
	<u>Cash</u>	<u>24000</u>

Q204

WN-1 Settlement of Debt of Glory :-

Existing Debt = 330000

Settled by issue of New Debt @ 10% Prem.  
i.e at 110

$$\text{No. of new Debt} = \frac{330000}{110} = 3000 \text{ no.}$$

$$\text{Value of New Debt} = 3000 \times 110 = 330000$$

WN-2 Calculation of PC by Net Assets method

	<u>Galaxy</u>	<u>Glory</u>
Freehold prop	588000	336000
P&M	213000	84000
M. Vehicle	56000	-
Inventory	336000	438000
Tr. Receivable	462000	-
Cash/Bank	238000	24000*
Goodwill	248000	168000

(-) Deb (Settlem. Value) - (330000)

(-) T. payable (420000) -

PC

19,60,000

7,20,000

No. of shares to be issued by  
Glorious @ 10/-

196000	72000
no.	no.

WN-3 Calculation of final Cash Bal. of  
Glorious :-

Collection from TR	110000
Cash Bal.	104000
(-) Payment to Creditors	(180000)
(-) Commission deducted	(10000)
110000 x 5%	
180000 x 2.5%	

Cash to be taken = 24000  
Or

B/S Glorious

ESC 268000 no. of 10/-	268000
<u>Res</u> Prem. on Debt	30000
8% Debt (3000 x 100)	300000
T. Payable	420000
	<u>3430000</u>
Freehold property	924000
P&M	336000
M. Vehicle	56000

Inventory  
Goodwill  
Trade receiv.  
Cash

774000

616000

462000

262000

B/L  
P/L

---

500000

3430000

10% Pref. Shares of Trns are to be discharged  
by issue of New

12% Pref Share. at 20% Prem.

500000  

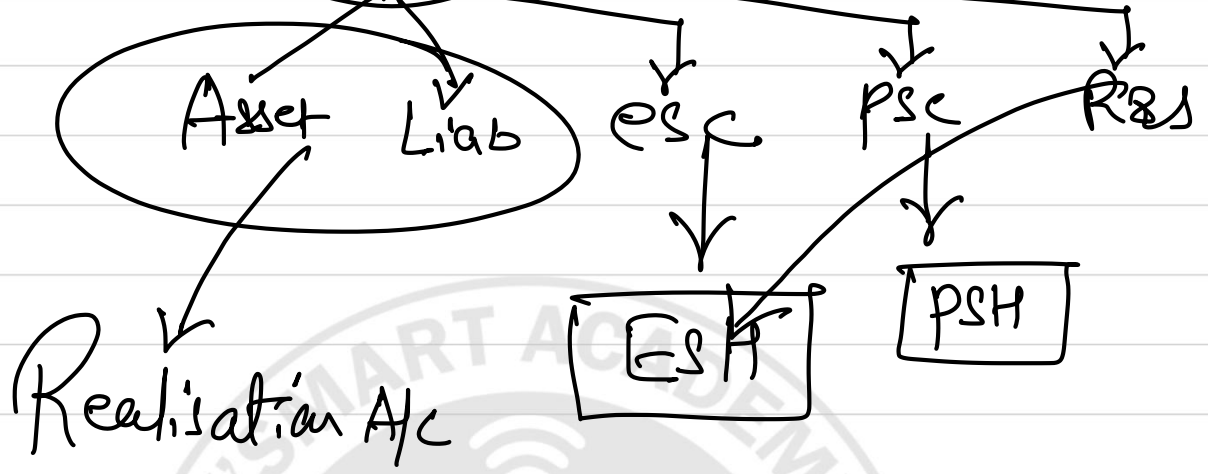
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120

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Trox  $\Rightarrow$  It must be Liquidated

Books to be closed



1) To close all the Assets of Trox

Realisation  
To Assets

2) Cash Bal. of Trox is not to be transfer.  
to Trox

Cash not to be transfer  
to Realisation

3) Liab. to be closed

Liab. a/c Dr.  
    To Realisation

4) Esc, Psc, R&S to be closed

Esc a/c Dr.  
R&S a/c Dr.  
    To ESH

PSC Dr. 100000  
    To PSH 100000

5) Pc Receivable From Tree :-

Tree a/c Dr.                      Pc / Pc  
    To Realisation  
numina

6) Pc Received

Cash a/c Dr.  
Eg. Hous of Tree a/c Dr.  
Pref. Hous of Tree a/c Dr. 100000  
Debn of Tree a/c Dr.  
    To Tree a/c

7) Some Closures  
Some exp. are made in Cash

Realisation  
To Cash

8) Pc discharged to PSH :-

PSH a/c Dr. 110000  
To Pref. Shares of Tree a/c 110000

PSH A/c

To Prof. Share 110000	By Psc 100000
	By Realis. 10000

9) Close the Realisation A/c (Gain/Loss)

Gain  $\Rightarrow$  Realisation  
To ESH

Loss  $\Rightarrow$  ESH  
To Realis.

10) Pc discharged to ESH :-

ESH a/c Dr.  
To Cash  
To Eq. Sh.  
To Debt

# Realisation

To S. Asset	By (B/S)	By J. Liab.	By 3
To Cash	exp	By Trade a/c.	PC
To PSH	(DIFF.)	By PSH	(DIFF)
To ESH	(B/F) Gain	By ESH	(B/F) Loss

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## Ex:-19

### WN-1 Calculation of PC :-

$$L \& B = 900000$$

$$P \& m = 400000$$

$$\text{Debtors} = 500000$$

$$\Rightarrow B. \text{Loan} = (800000)$$

$$PC = 10,00,000$$

<u>Payment to</u>	<u>Payment in</u>	<u>Working</u>	<u>Amnt.</u>
ESH of Tree	Eg share of Tree	$\frac{1000000}{30}$ 33,333 no. $\times 30/-$	9,99,990
ESH	Cash	$0.333 \times 30$	10
			<u>10,00,000</u>

Books of B Ltd.

Cash A/c

To Bal. 100000	By Real. 280000
To Real. 550000	By Real. 100000
To Tree 10	By ESH 270010

# Realisation A/c

To L&B	600000	By Bank loan	800000
To P&M	400000	By Creditors	300000
To Invst	500000	By Tree a/c	10,00,000
To Debtors	500000	(Pc)	
To Goodwill	100000	By Cash a/c	550000
To Cash	280000		
To Cash	100000		
To ESH (Gain)	170000		

## ESH A/c

To Cash	270000	By ESC a/c	700000
To Eq Sh. of Tree	999990	By GR	400000
		By Real.	170000

## Tree A/c

To Realisation	1000000	By Cash	10
		By Eq Shares of Tree	999990

Step 1  $\Rightarrow$  Close all a/c  
(B/S अन्तर्गत कर)

Step 2  $\Rightarrow$  Raise & Receive  
P/C

Step 3  $\Rightarrow$  Sale/Settle any Asset/Liab  
which is not  
T. over  
(Realisation)

Step 4  $\Rightarrow$  Pay Liab Excp if  
Any

Step 5  $\Rightarrow$  discharge P/C to PSH

Step 6  $\Rightarrow$  Calculate G/L on Real.

Step 7  $\Rightarrow$  Settle ESH a/c

$$\text{ESH Bal} = \text{PC} + \text{Cash if Any}$$

Q402 (Books of Troy Co.)

WN-1 Calculation of PC

K Ltd

<u>Payout to</u>	<u>Payout in</u>	<u>Working</u>	<u>Amnt.</u>
PSH	Pref Sh.	$4000 \times \frac{5}{1} = 20000$ $\times 22$	440000
ESH	Eg Shares	$8000 \times \frac{6}{1} = 48000$ $\times 22$	1056000
ESH	Cash	WN-2	64000
			<u>1560000</u>

WN-2 Net Asset Calculation

	<u>K</u>
PPE	1130000
I.T. Asset	80000
Inventory	220500
T. Receiv.	275000

Cash

161375

(-) prov. for DD

(6875)

(-) T. payable

(100000)

(-) Debt

(200000)

Settlement value

Net Assets = 1560000

(-) PC to PSH

= 440000

PC for ESH

= 1120000

(-) PC in form of  
Shares

= (1056000)

Cash = 64000

## Closing The Books of K Ltd.

### Realisation

To PPE	1130000
To I. Ass.	80000
To CA	661375
To PSH	40000

By T. payable	100000
By Debt	200000
By LK Ltd. (PC)	1560000
By ESH (B/F)	51375

## PSH

To Pref. Shares  
of LK 440000

By F.I. PSC 400000

By Realisat. 40000

## ESH

To Realisation 51375

By ESC 800000

By R&S 371375

To Eg Share 1056000  
of LK Ltd.

To Cash 64000

## LK Ltd.

To Realis. 1560000

By Pref Share 440000

By Eg Sh. 1056000

By Cash 64000

<u>Call</u>	
To LR 64000	By ESH 64000
<u>                    </u>	<u>                    </u>

Note:- Deb<sup>n</sup> are settled at 5% discount after Tax over.

Alternate 1:- Entire 200000 Deb<sup>n</sup> shall be taken over & New issue will be made at 95% per Deb<sup>n</sup>

Alternate 2 :- Deb<sup>n</sup> to be taken over at 5% lesser value i.e. 190000 & New Deb<sup>n</sup> shall be issued equal to 190000 at par

We have taken Alternate 1. Alternate 2 can also be taken.

$$\begin{array}{r}
 1210000 \\
 (-) 600000 \text{ Cash} \\
 \hline
 610000 \\
 \hline
 125 \\
 \hline
 \text{U, 880 no.}
 \end{array}$$

Q503

WN:- Calculation of Unrealised profit

Unsold Stock Value = 100000

$$\begin{aligned}
 \therefore \text{Unrealised profit} &= \frac{40000}{160000} \times 100000 \\
 &= 25000
 \end{aligned}$$

Stock took over at 10% lesser value  
 Hence 100000 of Unsold Stock  
 is taken over at 90000

Net Up to be eliminated :-

Gross 25000  
 (-) took over at 90% (10000)

15000 to be eliminated

Bltd B/s (Extract)

ESC 488000

SP  $4880 \times 25$   
 (-) 15000 Unreal. Pr.  
 107000

TP 320000 - 40000 280000

Bank OD 600000

Build. 306000

Mach. 576000

Inve 198000 183000

(-) 15000

T. Receiv. 234 194000

(-) 40

Goodwill

216000

Hw ✓ Q402 → 2 Ltd Books Close  
 ✓ Q304  
 ✓ Q503

PC

Tree

$2500000 \times \frac{3}{2}$

Tree

3750000  
x40

PC  
1.50 Cr

B/c

ESC 10/-

SP

3750000  
B/f



Q501

WN-1 Calculation OF Goodwill

Profits	$\frac{14-15}{300000}$	$\frac{15-16}{525000}$	$\frac{16-17}{630000}$
Weights	1	2	3
Multiple	300000	1050000	1890000

$$\begin{aligned} \text{W.Avg Profit} &= \frac{3240000}{6} \\ &= 540000 \end{aligned}$$

$$\therefore \text{Goodwill} = 540000$$

WN-2 It is given in Question that Consideration is based on Net Assets Hence  $PC = \text{Net Asset Value}$

It is also given in the question that Total Share Capital (Under PC) of P & Q should be equal to Combined Sh. Capital OF P & Q. (i.e. 600000 + 840000)

Conclusion :- Hence Total PC Value is Equal to Net Assets, But Face Value portion of such PC is equal to Combined Capital i.e. 1440000  
 i.e.  $\frac{1440000}{10} = 144000 \text{ no.}$

Net Asset Calculation

	<u>P</u>	<u>Q</u>
Goodwill	540000	-
All Assets of B/c	1860000	2520000
(-) All Liab OF B/c	(240000)	(1080000)
PC $\Rightarrow$	<u>2160000</u>	<u>1440000</u>

It is given in the question to distribute PC shares (i.e. 144000) in the ratio of the respective Net Assets.

PC (no. of shares)	$\frac{144000 \times 2160}{2160 + 1440}$	$\frac{144000 \times 1440}{3600}$
	<u>86400 no.</u>	<u>57600 no.</u>

∴ Issue price per share	$\frac{2160000}{86400}$	$\frac{1440000}{57600}$
	25/-	25/-

Face value per share	10/-	10/-
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∴ Premium per share	15/-	15/-
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Note :-

New shares 72000 no. shall be issued at 15/- premium

### Journal Entries

Note:- This is Amalgamation in the nature of purchase since Goodwill is calculated

±) Business purchase A/c Dr. 36,00,000  
     To Liq. of P Ltd 21,60,000  
     To Liq. of Q Ltd 14,40,000

2) Fixed Assets Dr. 18,00,000  
 Inventory Dr. 10,20,000  
 T. Receivable Dr. 12,60,000  
 Cash Dr. 3,00,000  
 Goodwill Dr. 54,000

     To B. old      54,000  
                  To T. payables 78,000  
                  To Bus. pur. 36,00,000

3) Liquidator of P a/c Dr. 21,60,000  
 Lig. of Q a/c Dr. 14,40,000  
                  To ESC a/c      14,40,000  
                  To SP a/c      21,60,000

4) Bank a/c Dr. 18,00,000  
                  To ESC      72,000  
                  To SP      10,80,000

Q205

Rough work

1) Inventory not taken over

	<u>A</u>	<u>G</u>
Inventory	2,94,40,000	-
Other CA	57,60,000	1,34,40,000

3) Ganga  $\Rightarrow$  Secured loan 1,60,00,000

Principal	1,28,00,000	Inter. 32,00,000 - 50%
		<hr/> 16 lacs.

4) 400000 no. issued against Cash i.e 40,00,000

5) PC to PSH = 4,00,000/-

6) S. Loan took over in Tree (Ag Ltd.)

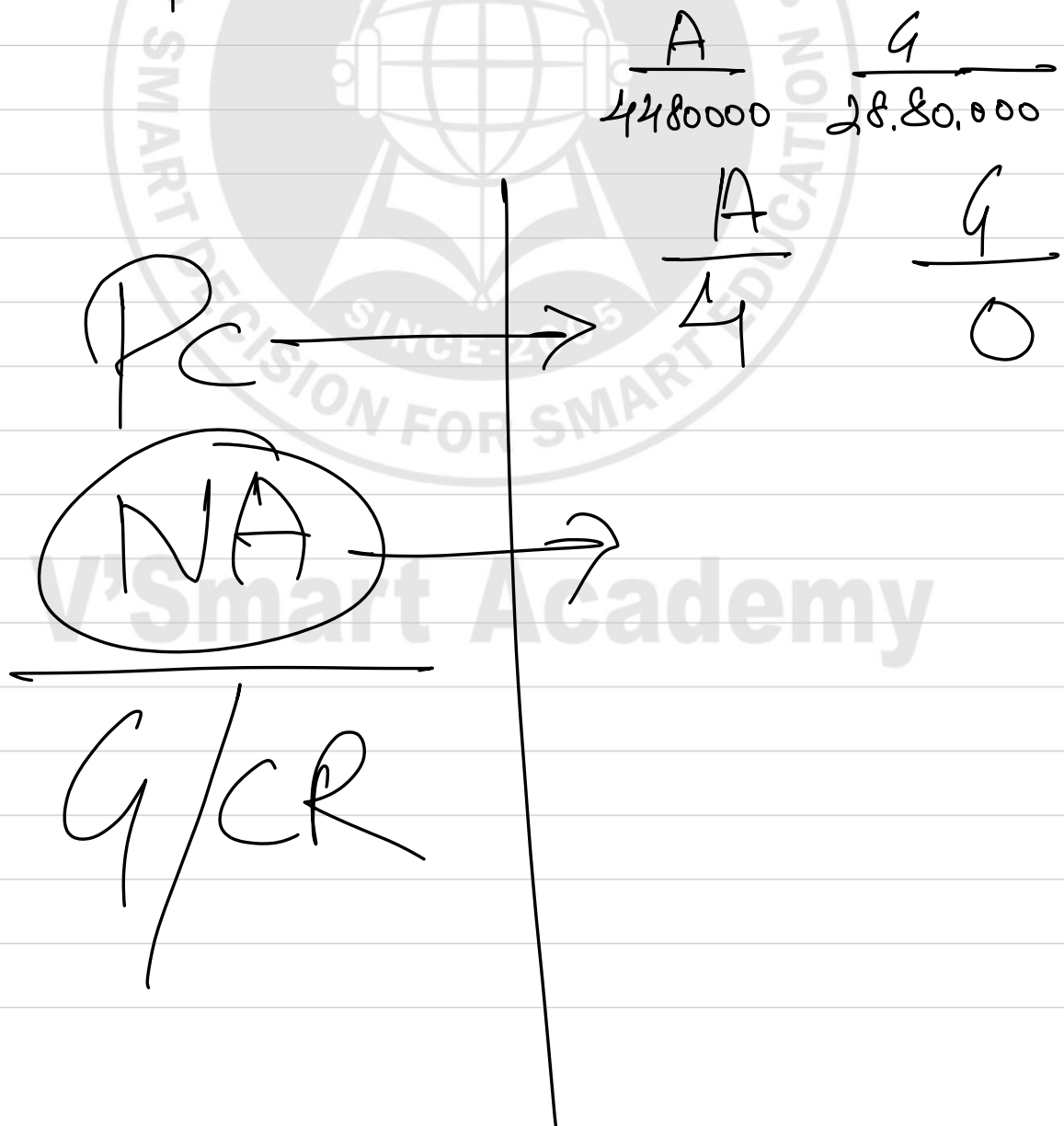
<u>A</u>	<u>G</u>
3,20,00,000	128 P
(-) 2,94,40,000	16 I
<hr/> 25,60,000	<hr/> 1,44,00,000

7) Unsecured loan took over by AG Ltd  
 $172 \times 25\% = 43,00,000$

8) Employee liab. taken over (60 + 36) & then settle by issue of Eq Sh. of AG  
 i.e. 96 lacs.

9) Stat. Liab fully Take over  $\Rightarrow (144 + 20) = 164$

10) Trade payable took over @ 80%.



WN:1

## Summary of Net Assets Taken Over

	<u>A</u>	<u>G</u>
PPE	68,00,000	1,36,00,000
Other CA (excluding Invent)	57,60,000	1,34,40,000
(-) Secured Loan (2560000)	(25,60,000)	(1,44,00,000)
(-) Unsecu. Loan (4300,000)	(43,00,000)	-
(-) Trade payable (4480000)	(44,80,000)	(28,80,000)
(-) Stat. Liab (14400,000)	(14,40,000)	(20,00,000)
(-) Liab to Emp (60,00,000)	(60,00,000)	(36,00,000)
	<u>(1,91,80,000)</u>	<u>41,60,000</u>

WN:2 PC Summary :-

	<u>A</u>	<u>G</u>
PC to PSH	4,00,000	-

\* Shares issued against Cash is not PC

WN-3

## Calculation of Goodwill / CR

Pc	A	G
	400000	0
(-) Net Assets Took over	+1,91,80,000	41,60,000
	<u>1,95,80,000</u>	<u>41,60,000</u>
	Goodwill	CR

## Balance Sheet AG Ltd.

Eq	400000 (Pst)	1,40,00,000
	40,00,000 against Cash	
	9600000 to Employers	

<u>Res</u>	CR	41,60,000
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<u>LTB</u>	a) Secured Loan (2560000 + 14400000)	1,69,60,000
	b) Unsecured Loan	43,00,000

Q Trade payables  
Stat. Liab.

Liab. to Enup X

73,60,000

1,64,00,000

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6,31,80,000

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PPE

2,04,00,000

Goodwill

1,95,80,000

Other CA

1,92,00,000

Cash (400000 × 10)

40,00,000

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6,31,80,000

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Q502

WN-1 Pc as per Net Assets

	<u>W</u>
PPE (2400 - 60 + 120)	2460
Goodwill	240
Inventory	720
T. Receivable	1080
* Cash & Eq.	360
(-) T. payable	(360)
Pc	4500

No. of shares =  $\frac{4500000}{100} = 45000$  no.

Cash Value

B/s Cash = 420 31/3

(-) Divd = 360

(+) Cash Profit = 300

NP = 240  
(+) Dep = 60  
300

360 1/7 Net Cash Value

2) Net CA as on 1/July (₹ in 000)

	<u>B</u>	<u>W</u>
Tr. Receivable	1680	1080
Inventory	960	720
Cash	1410*	360
	(-) T. payable (600)	(360)
	<u>3450</u>	<u>1800</u>
1440 31/3 (-) 600 Divd (+) 570 Cash profit		
<u>1410</u>		

3) Bal. of P&L of Black Ltd.

$$31/3 \text{ Bal P\&L} = 720$$

$$(+ \text{ NP}) = 480$$

$$(- \text{ Dividend}) = (600)$$

$$\text{Bal. 1/7} = \underline{\underline{600}}$$

4) PPE Bal. after Taxe over on 1/7

Black PPE 31/3	3600
(-) Dep(3m)	90
	<hr/>
1/7	3510

White PPE taken over	2460
	<hr/>
PPE Bal.	5970
	<hr/>

Mohan Ltd  
merger  
Transferor.

Q504  
Q301  
Q401

Home Section

X 403	Transferor
505	X
506	
507	Priority

Q301

Books of B

1) Loan 60,000  
    To Cap. Reduction 60,000

2) Esc a/c Dr. (100) 10,00,000  
    To Esc (10) 100000 ÷ 10 (10000 no.)  
    To Cap. Red. 900000

3) Esc a/c Dr. (10) 100000  
    To Esc a/c (100) 100000  
(Bring 10000 share consolidated to 1000 shares)

Pc working :-

$$20000 \times \frac{1}{1} = 20000 \text{ no.} \\ \times 100/-$$

Pc 20,00,000

4) Business purchase a/c Dr. 20,00,000  
    ↳ Liq. of Adfd. 20,00,000

5) PPE a/c Dr. 2700000

Invest a/c Dr. 700000

T. Receiv. a/c Dr. 400000

Cash a/c Dr. 250000

    ↳ T. payable 300000

    ↳ Debt Holders 500000

    ↳ Bank Loan 250000

    ↳ B/P 20,00,000

(B/P) ↳ Reser. 10,00,000

6) Liq. of A 20,00,000

    ↳ ESC 20,00,000

7) T. payable Dr. 100000  
 To T. Receiv. 100000

8) Capital Reduct. a/c Dr. 960000  
 To P&L a/c 800000  
 To CR a/c 160000

B/S

ESC (100000 + 2000000)	2100000
<u>R&amp;S</u> CR 160000 Reserv. 1000000	1160000
Debt	500000
Loan from Bank 250 A 390 B	640000
Trade Payable A 300 B 300 (-) Comm. 100	500000
B. of D	50000
	<u>49,50,000</u>

PPE	35,50,000
Invest.	700000
Ti Receiv.	450000
Cash	250000
	<hr/>
	49,50,000
	<hr/>

$$\begin{aligned}
 PC &= 100 \\
 \leftarrow NA &= 90 \\
 &\quad \leftarrow \textcircled{10}
 \end{aligned}$$

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$$\begin{aligned}
 PC &= 400000 \\
 \leftarrow NA &= (19180000) \\
 &\quad \leftarrow 1,95,80,000
 \end{aligned}$$

Q507

Net Assets

Goodwill	150000
L&B	500000
P&M	400000
Invent	472500
<u>T. Rec.</u>	<u>300000</u>
Cash	60000
Unrecd. Asset	15000

(-) provision (7500)

(-) T. Payable (240000)

(-) RGF (60000)

1590000

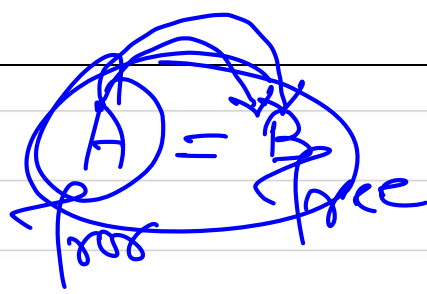
(-) PC to PSH 330000

1260000 PC For ESH

10.5 New Share issue price

120000 no.

External Reconstruction  $\Rightarrow$



$$A + B = A$$

$$A + B = C$$

Q104

1) Debt of Mohan = 200000

$\hookrightarrow$  Settlement by  
same 200000  
Debt of  
Ravi Ltd.

2) Interest on Debt = 20000  
(B/S)

$\hookrightarrow$  Settlement  
by equity  
share  
2000 no.  
@ 10/-

3) Trade Payable  $\Rightarrow$  150000  
B/S

$\hookrightarrow$  Settlement  
Value

12000 no.  
@ 10/-

120000

$$4) \text{ PC to PSH} \Rightarrow 60000 \times \frac{1}{10} = \text{New 6000 Equity of 10/-}$$


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60000

(+) 1 yr. Dividend Settled  $\Rightarrow 60000 \times 9\% = \underline{\underline{\text{₹ 5400}}}$

New eq shares 540 no.

5) PC to ESH :-  $30000 \times \frac{1}{3} = 10000 \times 10$

₹ 100000/-

6) Inventory at 72000  
PPE at 308400

7) Remainng<sup>shares</sup> issued to public :-

- 40000
- 2000 to Deb<sup>n</sup> Holder
  - 12000 to Creditors
  - 6540 to PSH
  - 10000 to ESH
- 
- 9460 to Public

i.e Bank 94600  
 To Cr 94600

8) Bank Bal. of Mohan to be taken  
 Over = 20000 - 5000 = 15000/-

1) WN-1 PC

<u>Payment to</u>	<u>Payment in</u>	<u>Working</u>	<u>Amount</u>
PSH	Equity Sh.	6540 no. x 10	65400
ESH	Eq Sh.	$30000 \times \frac{1}{3} \times 10$ 10000 no.	100000
			<u>165400</u>

Note :- This is Amalg. in the nature of purchase

## WN-2 Calculation of Goodwill/CR

$$PC \text{ discharged} = 165400$$

$$\leftarrow \text{Net Asset acq.} = 165400$$

PPE 308400

Inv. 72000

TR 110000

Cash 15000

Nil

$\leftarrow$  Payable (120000)

$\leftarrow$  Debt Holder (220000)

## Books of Ravi Ltd.

### Bank A/c

$\leftarrow$  To B/P 15000  
(took over)

$\leftarrow$  To ESC 94600

By Bal. 109600

# B/s

ESC	400000
Debtors	200000
	600000
PPE	308400
Inventory	72000
T. Receivable	110000
Bank	109600
	600000

## Books of Mohan

### Realisation

To PPE 340000	By Debt Holder 200000
To Inventory 80000	By Int. Accrued 20000
To T. Receiv. 110000	By T. payables 150000
To Goodwill 10000	By Rav. Ltd. 165400
To Bank 5000	(Pc)
(exp)	
To Bank 15000	By ESH 30000
(Bank Bal. Used)	(Loss)
To PSH 54000	

# ESH

To P&L 170000	By ESC 300000
To Realisation 30000	By )
To Eq. Shares 100000 of Ravi Ltd	

## Merge

All Asset & Liab  
Debt 200000 BV 220000

2<sup>nd</sup>  
Gen P&L

S. Ass. BV  
To S. Liab  
Debt ~~220000~~  
200000

4<sup>th</sup>

~~Debt Hold. 220000  
To Debt 220000~~

Deb<sup>n</sup> Ho 20000  
Gen. P&L 20000

To Deb<sup>n</sup> 220000

PC 1720000

~~1000000~~

~~1730000~~

Realisation Trs

To Bank 2500

By Tree 1720000

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