

# AMALGAMATION (AS 14)

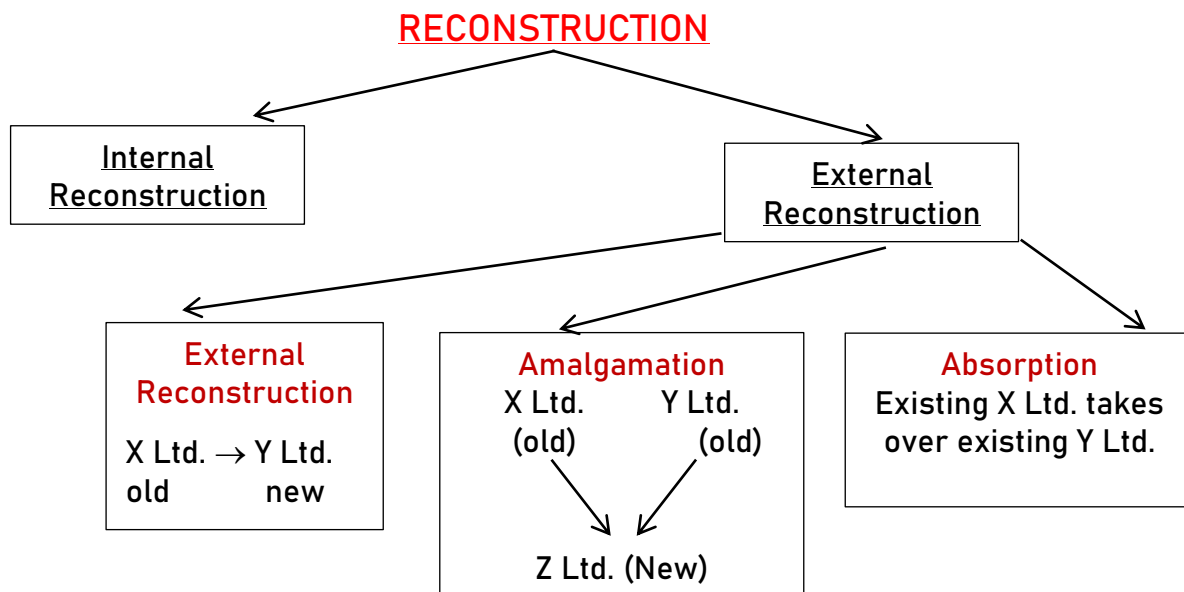
*"Go confidently in the direction of your dreams, Live the life you've imagined".*

Amalgamation refers to the process of merger of two or more companies into a single entity or where one company takes over the other by outright purchase.

Therefore, the term 'amalgamation' contemplates two kinds of activities:

- (i) 2 or more companies join to form a new company (Popularly known as Amalgamation)
- (ii) absorption and blending of one by the other (Popularly known as Absorption).

This arrangement is sought by companies to receive various advantages such as economies of large-scale production, avoiding competition, increasing efficiency, expansion, increase in market share, etc.

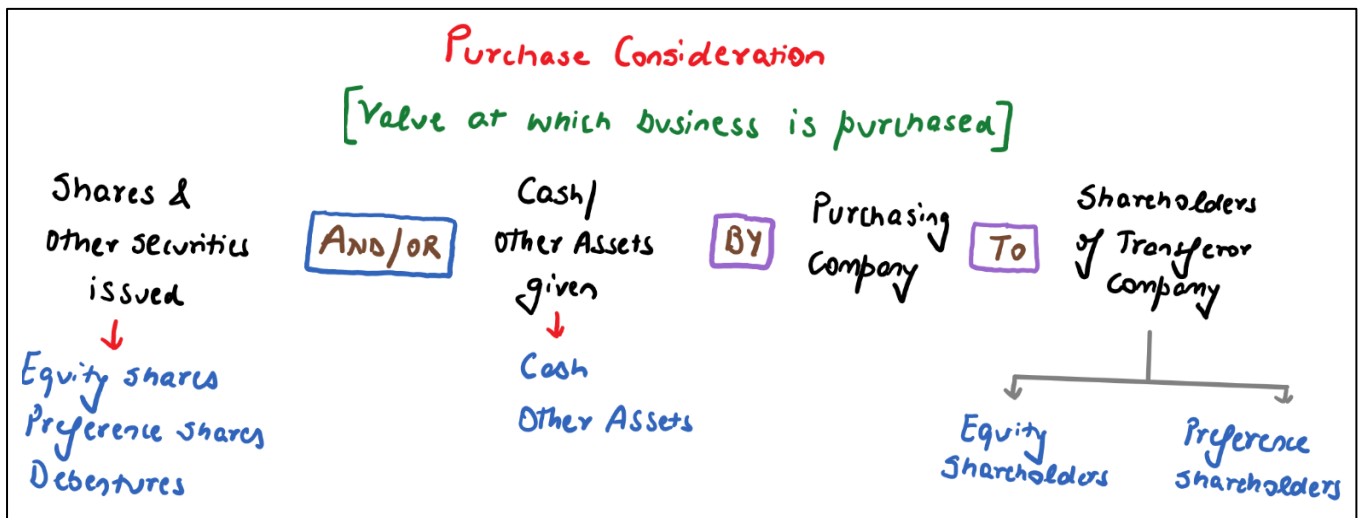


| Basis                | Internal Reconstruction  | External Reconstruction   |
|----------------------|--|---|
| Liquidation          | The existing company is not liquidated   | The existing company is liquidated  |
| Formation            | No new company is formed but only the rights of shareholders and creditors are changed                                       | A new company is formed to take over the liquidated company                           |
| Reduction of Capital | There is certain reduction of capital & sometimes outside liabilities like debenture holders may have to reduce their claims | There is no reduction of capital. In fact there is fresh share capital of the company |
| Legal Position       | Regulated as per provisions of Sec 61 & 66 of the Companies Act, 2013.   | Regulated by Sec 232 of the Companies Act, 2013.                                      |
| Legal Formalities    | It requires court's confirmation and other legal procedures before it can be implemented                                     | It can be affected without the court's interference and less time-consuming process.  |

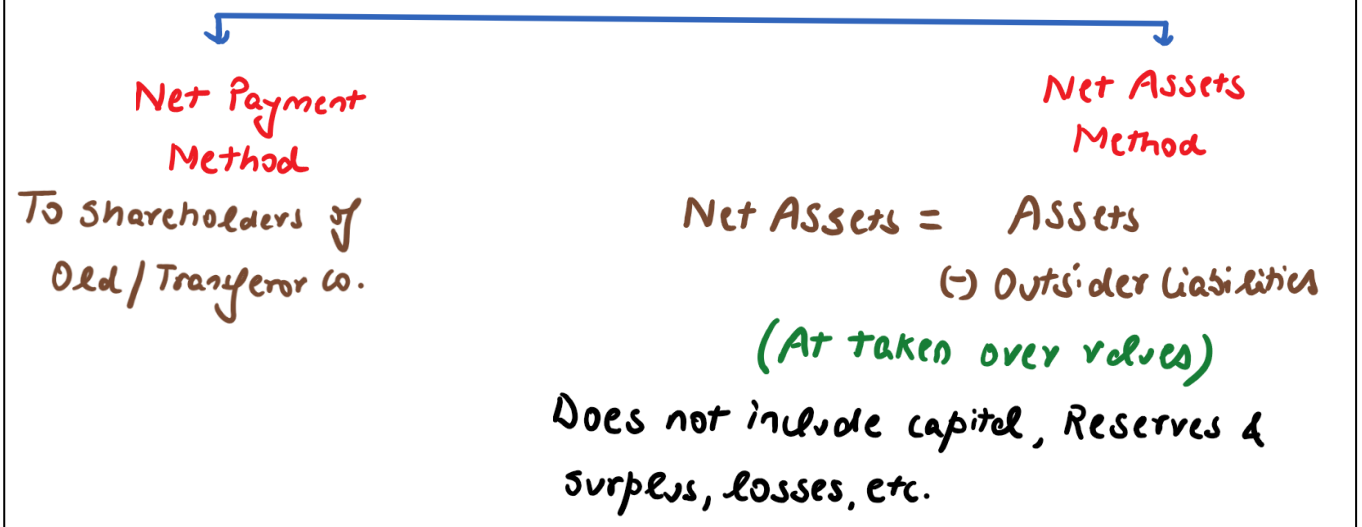
| Basis                             | Amalgamation   | Absorption  | External Reconstruction   |
|-----------------------------------|--|---|---|
| Meaning                           | 2 or more companies are wound up and a new company is formed to take over their business | An existing company takes over the business of one or more existing companies | A newly formed company takes over the business of an existing company |
| Minimum no. of companies involved | Atleast 3  | Atleast 2   | Only 2  |
| No. of new resultant company      | Only 1   | No new resultant company is formed  | Only 1  |
| Objective                         | To cut competition & reap the economies in the larger scale                              | To cut competition & reap the economies in the larger scale                   | To reorganize the financial structure of the company                  |

**TOPIC 2A: PURCHASE CONSIDERATION (AS -14)**

Purchase consideration is the aggregate of shares and other securities issued (i.e. any long term security from the left side of the balance sheet including equity shares, preference shares, debentures etc.) and payments made in the form of cash and other assets (anything from the asset side) by the transferee company to the shareholders of transferor company.



**METHODS OF COMPUTATION OF PURCHASE CONSIDERATION:**





4. Record Issue of Debentures to discharge existing Debenture holders of Vendor Company

|                                     |     |
|-------------------------------------|-----|
| Debentures of Vendor Company A/c    | Dr. |
| Discount on Issue of Debentures A/c | Dr. |
| To Debentures                       |     |
| To Securities Premium               |     |

5. Record Reimbursement of Liquidation expenses of the Vendor Company

|                              |     |
|------------------------------|-----|
| A. Nature of Purchase        |     |
| Goodwill/Capital Reserve A/c | Dr. |
| To Bank A/c                  |     |
| B. Nature of Merger          |     |
| P&L /General Reserve A/c     | Dr. |
| To Bank A/c                  |     |

6. Eliminate unrealized profit included in the unsold stock/ stock reserve

|                              |     |
|------------------------------|-----|
| A. Nature of Purchase        |     |
| Goodwill/Capital Reserve A/c | Dr. |
| To Stock A/c                 |     |
| B. Nature of Merger          |     |
| P&L /General Reserve A/c     | Dr. |
| To Stock A/c                 |     |

7. Elimination of Inter-company owing

|                         |     |
|-------------------------|-----|
| Liability A/c           | Dr. |
| To Asset A/c            |     |
| i.e.                    |     |
| Creditors A/c           | Dr. |
| To Debtors A/c          |     |
| Bills Payable A/c       | Dr. |
| To Bills Receivable A/c |     |

8. Record the Statutory Reserves of Vendor Company (Only in case of Purchase Method)

|                                     |     |
|-------------------------------------|-----|
| Amalgamation Adjustment Reserve A/c | Dr. |
| To Statutory Reserve A/c            |     |

**Note:**

Statutory reserves are those reserves which are required to be maintained for specific number of years in the balance sheet as per requirements of any statute like Income Tax Act, Custom Act, Excise Act etc.

Examples of Statutory Reserves are:

- Investment Allowance Reserve
- Export Profit Reserve
- Foreign Project Reserve
- Shipping Reserve

Disclosure:

To be disclosed under the head 'Reserves & Surplus' on the Equity & Liabilities Side of the Balance Sheet.

## TOPIC 4: BOOKS OF TRANSFEROR /VENDOR /OLD COMPANY

While closing the books, the general principles of closures shall apply. AS-14 does not deal with the books of vendor company. Also the accounting treatment in the books of vendor is exactly same whether it is in nature of merger or purchase.

### 1. Transfer of Assets to Realisation Account

|                 |                      |
|-----------------|----------------------|
| Realisation A/c | Dr.                  |
|                 | To Sundry Assets A/c |

- By Name of Individual Assets
- To be transferred at **BOOK VALUE**
- Do not transfer the following.
  - Miscellaneous expenditure
  - P & L debit balance
- Cash to be transferred only if taken over. If written 'Purchasing company takes over vendor company', assume that cash and all assets are taken over.
- Asset not taken over shall also be transferred here.
- If any asset is such which is having corresponding provision, then gross value is to be transferred.

### 2. Transfer of Outsider's Liabilities to Realisation Account

|                 |                    |
|-----------------|--------------------|
| Liabilities A/c | Dr.                |
|                 | To Realisation A/c |

- By Name of Individual Liabilities
- To be transferred at **BOOK VALUE**
- Do not transfer the following
  - Equity share capital
  - Preference share capital
  - Reserves and surplus
- Liabilities not taken over shall also be transferred
- Any provision appearing on asset side is to be debited in this entry

### 3. Making Purchase Consideration Due

|                        |   |
|------------------------|---|
| Purchasing Company A/c | Dr.                                     |
|                        | To Realisation A/c                      |
|                        | (With amount of Purchase Consideration) |

### 4. Receiving Purchase Consideration (Discharge of Purchase Consideration)

|                                  |                               |
|----------------------------------|-------------------------------|
| Cash/Bank A/c                    | Dr.                           |
| Equity Shares of 'P' Co. A/c     | Dr.                           |
| Preference Shares of 'P' Co. A/c | Dr.                           |
| Debentures of 'P' Co. A/c        | Dr.                           |
|                                  | To Purchasing Company Account |

### 5. Realize those assets which have not been taken over by Purchasing Company

|               |                    |
|---------------|--------------------|
| Cash/Bank A/c | Dr.                |
|               | To Realisation A/c |

**6. Paying off the liabilities which have not been taken over by Purchasing Company**

|                  |     |
|------------------|-----|
| Realisation A/c  | Dr. |
| To Cash/Bank A/c |     |

**7. Liquidation/Realisation Expenses:**

|   |                          |
|---|--------------------------|
| <b>Case 1: If expenses borne and paid by vendor company</b>               |                          |
| Realisation A/c   | Dr.                      |
| To Cash/Bank A/c  |                          |
| <b>Case 2: If expenses are to be reimbursed by the purchasing company</b> |                          |
| a) On Payment by Vendor Company:  |                          |
| Purchasing Company A/c  | Dr. (With Agreed Amount) |
| Realisation A/c   | Dr. (With Excess)        |
| To Cash/Bank A/c  | (With the total)         |
| b) On Reimbursement   |                          |
| Cash/Bank A/c   | Dr.                      |
| To Purchasing Company A/c   |                          |

**8. Discharge the Claims of Preference Shareholders**

|                                 |                                |
|---------------------------------|--------------------------------|
| <b>A: Making Claim Due</b>      |                                |
| Preference Share Capital A/c    | Dr. (With Book Value)          |
| Realisation A/c                 | Dr. (With Difference)          |
| To Preference Shareholders A/c  | (With amount actually payable) |
| To Realisation A/c              | (With Difference)              |
| <b>B: Making Payment</b>        |                                |
| Preference Shareholders A/c     | Dr.                            |
| To Cash/Bank A/c                |                                |
| To Equity Shares of 'P' Co.     |                                |
| To Preference Shares of 'P' Co. |                                |
| To Debentures of 'P' Co.        |                                |

**9. Ascertainment of Profit/Loss on Realisation Account**

|                            |     |
|----------------------------|-----|
| <b>A: If Profit</b>        |     |
| Realisation A/c            | Dr. |
| To Equity Shareholders A/c |     |
| <b>B: If Loss</b>          |     |
| Equity Shareholders A/c    | Dr. |
| To Realisation A/c         |     |

**10. Transferring Equity Share Capital, Accumulated Profits/Reserves & Losses to Equity Shareholders Account**

|  |  |
|--|--|
| <b>A: For Transfer of Equity Share Capital, Accumulated Profits &amp; Reserves</b> |  |
| Equity Share Capital A/c   | Dr.                                    |
| Reserves and Surplus A/c   | Dr. (All including Statutory Reserves) |
| To Equity Shareholders A/c   |  |
| <b>B: For Transfer of Accumulated Losses</b>                                       |  |
| Equity Shareholders A/c  | Dr.                                    |
| To Misc. Expenditure A/c   |  |
| To P & L A/c (Dr. balance)   |  |

11. Make Final Payment to Equity Shareholders

|   |
|---|
| Equity Shareholders A/c Dr.<br>To Cash/Bank A/c<br>To Equity Shares of 'P' Co.<br>To Preference Shares of 'P' Co.<br>To Debentures of 'P' Co. |
|---|

## TOPIC 5: INTRINSIC VALUE METHOD

### Intrinsic Value

(Variation of Net Assets Method)

$$\text{No. of Shares of New Co.} \times \text{Intrinsic value of New Co.} = \text{No. of Shares of Old Co.} \times \text{Intrinsic value of Old Co.}$$

$$\text{No. of Shares of New Co.} \Rightarrow \text{No. of Shares of Old Co.} \times \frac{\text{I.V. of Old Co.}}{\text{I.V. of New Co.}}$$

Where

$$\text{Intrinsic Value} = \frac{\text{Net Assets available for ESH}}{\text{No. of Equity shares}}$$

## ASSIGNMENT QUESTIONS

### TOPIC 2A: PURCHASE CONSIDERATION

#### Question 1

Pg no. \_\_\_\_\_

Following is the balance sheet of BX Ltd. as on 31st March, 2020

|  |           |                    |
|--|-----------|--------------------|
| <b>A. Equity and Liabilities</b>                       |           |                    |
| <b>1. Shareholders' Fund</b>                           |           |                    |
| <b>(a) Share Capital</b>                               |           |                    |
| 12% preference shares of ₹ 100 each fully paid-up      | 15,00,000 |                    |
| Equity shares of ₹ 10 each fully called-up and paid-up | 35,00,000 | 50,00,000          |
| <b>(b) Reserves &amp; Surplus</b>                      |           |                    |
| General reserve  | 11,00,000 |                    |
| Securities premium                                     | 9,00,000  | 20,00,000          |
| <b>2. Non-Current Liabilities</b>                      |           |                    |
| 13% Debentures   |           | 25,00,000          |
| <b>3. Current Liabilities</b>                          |           |                    |
|  |           | 15,00,000          |
| <b>Total</b>   |           | <b>1,10,00,000</b> |
| <b>B. Assets</b>                                       |           |                    |
| <b>1. Non-Current assets</b>                           |           |                    |
| (a) Property, Plant & Equipment                        | 55,00,000 |                    |
| (b) Investments  | 25,00,000 | 80,00,000          |
| <b>2. Current Assets</b>                               |           |                    |
|  |           | 30,00,000          |
| <b>Total</b>   |           | <b>1,10,00,000</b> |

PQR Ltd. agreed to takeover assets & liabilities of BX Ltd. on the following terms & conditions:

(A) Discharge 13% debentures at a premium of 10% by issuing 14% debentures of PQR Ltd.

(B) Revalue — Property, Plant & Equipment at 10% above the book value; investments at par value; current assets at a discount of 10%; and current liabilities at book value.

You are required to calculate the purchase consideration as per the net assets method.

#### Question 2 *(ICAI Study Material)*

Pg no. \_\_\_\_\_

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

|  |           |
|--|-----------|
| Sundry Assets  | 13,00,000 |
| <b>Share Capital:</b>                                    |           |
| 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  |

P. Ltd. has agreed:

- to issue 9% Preference shares of ₹ 100 each, in the ratio of 3 shares of P. Ltd. for 4 preference shares in S. Ltd.
- 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%.
- to pay ₹ 20 per share in cash and to issue six equity shares of ₹ 100 each (market value ₹ 125) in lieu of every five shares held in S. Ltd.; and
- to assume the liability to trade payables. Calculate Purchase Consideration.

**Question 3** *(RTP May 2021)* Pg no. \_\_\_\_\_

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

**Question 4** *(ICAI Study Material)* Pg no. \_\_\_\_\_

Following is the balance sheet of A Ltd. as on 31st March, 2021

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

## Notes to accounts

|   | Share Capital                              | ₹ in ('000) |
|---|--|-------------|
| 1 | Equity share capital                       |             |
|   | 1,50,000 Equity Shares of ₹ 10 each        | 15,00       |
|   | 7,500, 14% Preference Shares of ₹ 100 each | 7,50        |
|   |  | 22,50       |
| 2 | Reserves and Surplus                       |             |
|   | 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:

- Discharge 15% debentures at a premium of 10% by issuing 15% debentures of X Ltd.
- PPE at 10% above the book value and investments at par value.
- Current assets at a discount of 10% and Current liabilities at book value.
- Preference shareholders are discharged at a premium of 10% by issuing 15% preference shares of Rs.100 each.
- Issue 3 equity shares of ₹ 10 each for every 2 equity shares in B Ltd. & pay balance in cash  
Calculate Purchase consideration.

### TOPIC 3: BOOKS OF PURCHASING / TRANSFEREE COMPANY

#### Question 5 (ICAI Study Material)

Pg no. \_\_\_\_\_

The following were the summarized Balance Sheets of P Ltd. and V Ltd. as at 31st March, 2020:

|   | P Ltd.       | V Ltd.       |
|---|--------------|--------------|
|   | ₹ (in lakhs) | ₹ (in lakhs) |
| <b>Liabilities</b>                                    |              |              |
| Equity Share Capital (Fully paid shares of ₹ 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        |
| Bills Payable   | 120          | -            |
| Sundry Creditors                                      | 1,080        | 463          |
| Sundry Provisions                                     | 1,830        | 702          |
|   | 33,400       | 12,500       |
| <b>Assets</b>   |              |              |
| Land and Buildings                                    | 6,000        | -            |
| Plant and Machinery                                   | 14,000       | 5,000        |
| Furniture, Fixtures and Fittings                      | 2,304        | 1,750        |
| Stock   | 7,862        | 4,041        |
| Debtors   | 2,120        | 1,020        |
| Cash at Bank  | 1,114        | 609          |
| Bills Receivable                                      | -            | 80           |
|   | 33,400       | 12,500       |

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

On 1st April 2020, 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 ₹ 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. Expenses of amalgamation amounting to ₹ 1 lakh were borne by P Ltd.

You are required to:

- Pass journal entries in the books of P Ltd. and
- Prepare P Ltd.'s Balance Sheet immediately after the merger.

#### Question 6

Pg no. \_\_\_\_\_

Hari Ltd. and Narayan Ltd. are to be amalgamated into Hari Narayan Ltd. The new company is to take over all the assets & liabilities of the amalgamating companies.

Assets & Liabilities of Hari Ltd. are to be taken over at book values in exchange of shares in Hari Narayan Ltd. Three shares in the new company are to be issued at a premium of 20% for every two shares of Hari Ltd.

The approved scheme for Narayan Ltd. is as follows:

- 10% Preference shareholders are to be allowed two 15% Preference shares of ₹ 100 each in Hari Narayan Ltd. for three Preference shares held in Narayan Ltd.
- The Debentures of Narayan Ltd. are to be paid off at 5% discount by the issue of debentures of Hari Narayan Ltd. at par.
- The Equity shareholders of Narayan Ltd. are to be allowed as many shares at par in Hari Narayan Ltd. as will cover the balance on their account and for this purpose, plant and machinery is to be valued less by 15% and obsolete stock forming 10% of the overall stock value is to be treated as worthless.

The summarised Balance Sheets of the two companies prior to amalgamation are as follows:

| Liabilities                         | Hari Ltd. | Narayan Ltd. | Assets            | Hari Ltd. | Narayan Ltd. |
|-------------------------------------|-----------|--------------|-------------------|-----------|--------------|
| Equity shares of ₹10 each           | 6,40,000  | 12,50,000    | Plant & Machinery | 12,80,000 | 20,00,000    |
| 10% Preference shares of ₹ 100 each | -         | 7,50,000     | Trade Receivables | 1,52,000  | 1,25,000     |
| General Reserves                    | 8,80,000  | -            | Inventory         | 1,00,000  | 1,50,000     |
| Secured Debentures                  | -         | 5,00,000     | Cash & Bank       | 1,08,000  | 1,00,000     |
| Trade payables                      | 1,20,000  | 2,25,000     | Profit & Loss A/c | -         | 3,50,000     |
|                                     | 16,40,000 | 27,25,000    |                   | 16,40,000 | 27,25,000    |

You are required to show the Journal Entries of the amalgamated company.

### Question 7 (ICAI Study Material)

Pg no. \_\_\_\_\_

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 & Equipment of both companies are to be revalued at 15% above book value. Both companies are to pay 10% Equity dividend, Preference dividend having been already paid. After the above transactions are given effect to, P Ltd. will absorb Q Ltd. on the following terms:

- 8 Equity Shares of ₹ 10 each will be issued by P Ltd. at par against 6 shares of Q Ltd.
  - 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.
  - 12% Debentureholders of Q Ltd. are to be paid at 8% premium by 12% Debentures in P Ltd. issued at a discount of 10%.
  - ₹ 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.
  - Inventory in Trade & Debtors are taken over at 5% lesser than their book value by P Ltd.
- Prepare: (a) Absorption entries in the books of P Ltd.  
(b) Statement of consideration payable by P Ltd

**Question 8**

Pg no. \_\_\_\_\_

The financial position of 2 companies M/s. Abhay Ltd. & M/s. Asha Ltd. as on 31-3-2020 is as follows:

## Balance Sheet as on 31-3-2020

|  | Abhay Ltd. (₹) | Asha Ltd. (₹) |
|--|----------------|---------------|
| Sources of Funds                         |                |               |
| Share Capital – Issued and Subscribed    |                |               |
| 15,000 equity shares @ ₹ 100, fully paid | 15,00,000      |               |
| 10,000 equity shares @ ₹ 100, fully paid |                | 10,00,000     |
| General Reserve                          | 2,75,000       | 1,25,000      |
| Profit & Loss                            | 75,000         | 25,000        |
| Securities Premium                       | 1,50,000       | 50,000        |
| Contingency Reserve                      | 45,000         | 30,000        |
| 12% Debentures, @ ₹ 100 fully paid       |                | 2,50,000      |
| Sundry Creditors                         | 55,000         | 35,000        |
|  | 21,00,000      | 15,15,000     |

|                      |           |           |
|----------------------|-----------|-----------|
| Application of Funds |           |           |
| Land and Buildings   | 8,50,000  | 5,75,000  |
| Plant and Machinery  | 3,45,000  | 2,25,000  |
| Goodwill             |           | 1,45,000  |
| Inventory            | 4,20,000  | 2,40,000  |
| Sundry Debtors       | 3,05,000  | 2,85,000  |
| Bank                 | 1,80,000  | 45,000    |
|                      | 21,00,000 | 15,15,000 |

They decided to merge & form new company M/s Abhilasha Ltd. as on 1-4-2020 on the following terms:

- (1) Goodwill to be valued at 2 years purchase of the super profits. The normal rate of return is 10% of the combined share capital and general reserve. All other reserves are to be ignored for the purpose of goodwill. Average profits of M/s. Abhay Ltd. is ₹ 2,75,000 and M/s. Asha Ltd. is ₹ 1,75,000.
- (2) Land and Buildings, Plant and machinery and Inventory of both companies to be valued at 10% above book value and a provision of 10% to be provided on Sundry Debtors.
- (3) 12% debentures to be redeemed by the issue of 12% preference shares of M/s. Abhilasha Ltd. (face value of ₹ 100) at a premium of 10%.
- (4) Sundry creditor to be taken over at book value. There is an unrecorded liability of ₹ 15,500 of M/s. Asha Ltd. as on 1-4-2020.
- (5) The bank balance of both companies to be taken over by M/s. Abhilasha Ltd. after deducting liquidation expenses of ₹ 60,000 to be borne by M/s. Abhay Ltd. & M/s. Asha Ltd. in the ratio of 2:1.

Compute the basis on which shares of M/s. Abhilasha Ltd. are to be issued to shareholders of existing company assuming that nominal value per share of M/s. Abhilasha Ltd. is ₹ 100.

### Question 9

Pg no. \_\_\_\_\_

X Ltd. and Y Ltd. were amalgamated on and from 1st April, 2020 and formed a new company Z Ltd. to takeover the business of X Ltd. and Y Ltd.

The summarized Balance Sheets of X Ltd. and Y Ltd., as on 31st March, 2020 are as follows:

| Liabilities                               | ₹ in Crores) |        | Assets            | ₹ in Crores) |        |
|---|--------------|--------|-------------------|--------------|--------|
|   | X Ltd.       | Y Ltd. |                   | X Ltd.       | Y Ltd. |
| Equity share capital (₹ 10 each)          | 50           | 45     | Land & Building   | 38           | 25     |
| 10% Preference share capital (₹ 100 each) | 20           | 14     | Plant & Machinery | 24           | 17     |
| Revaluation Reserve                       | 10           | 6      | Investments       | 10           | 6      |
| General reserve                           | 12           | 8      | Stock             | 22           | 15     |
| Investment allowance reserve              | 5            | 4      | Debtors           | 25           | 20     |
| Profit and loss account                   | 8            | 6      | Bills receivable  | 5            | 4      |
| 15% Debentures (₹ 100 each)               | 4            | 5      | Cash at Bank      | 16           | 13     |
| Trade creditors                           | 19           | 7      |                   |              |        |
| Bills payables                            | 12           | 5      |                   |              |        |
|   | 140          | 100    |                   | 140          | 100    |

Additional Information:

- (1) Z Ltd. will issue 6 equity shares for 10 equity shares of X Ltd. & 2 equity shares for 5 equity shares of Y Ltd. The shares are issued @ ₹ 30 each having face value of ₹ 10 per share.
- (2) Preference shareholders of two companies are issued equivalent number of 15% preference shares of Z Ltd. at a price of ₹ 120 per share (face value ₹ 100).
- (3) 15% Debentureholders of X Ltd. and Y Ltd. are discharged by Z Ltd. issuing such number of its 18% Debentures of ₹ 100 each so as to maintain the same amount of interest.

(4) Investment allowance reserve is to be maintained for 4 more years.

Prepare Balance Sheet of Z Ltd. after amalgamation. The amalgamation took place in the nature of purchase.

**Question 10 (ICAI Study Material)**

Pg no. \_\_\_\_\_

Neel Ltd. and Gagan Ltd. amalgamated to form a new company on 1.04.2020.

Following is the Draft Balance Sheet of Neel Ltd. and Gagan Ltd. as at 31.3.2020:

|                                  | Note | Neel             | Gagan            |
|----------------------------------|------|------------------|------------------|
| <b>A. Equity and Liabilities</b> |      |                  |                  |
| 1. Shareholders' Fund            |      |                  |                  |
| (a) Share Capital                |      | 7,75,000         | 8,55,000         |
| 2. Current Liabilities           |      | 6,23,500         | 5,57,600         |
| <b>Total</b>                     |      | <b>13,98,500</b> | <b>14,12,600</b> |
| <b>B. Assets</b>                 |      |                  |                  |
| 1. Non-current assets            |      |                  |                  |
| (a) PPE & Intangible Assets      |      |                  |                  |
| i. Property, Plant & Equipment   | 1    | 12,35,000        | 12,54,000        |
| 2. Current Assets                |      | 1,63,500         | 1,58,600         |
| <b>Total</b>                     |      | <b>13,98,500</b> | <b>14,12,600</b> |

**Notes to Accounts**

|    |                             | Neel             | Gagan            |
|----|-----------------------------|------------------|------------------|
| 1. | Property, Plant & Equipment |                  |                  |
|    | Building                    | 7,50,000         | 6,40,000         |
|    | Plant & Machinery           | 4,85,000         | 6,14,000         |
|    |                             | <b>12,35,000</b> | <b>12,54,000</b> |

Following are the additional information:

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

|                   | Neel     | Gagan    |
|-------------------|----------|----------|
| Plant & 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           |
|----------------------|-----------------|-----------------|
| 1 <sup>st</sup> Year | 2,62,800        | 2,75,125        |
| 2 <sup>nd</sup> Year | 2,12,200        | 2,49,875        |
|                      | <b>4,75,000</b> | <b>5,25,000</b> |

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 31.3.2020 after revaluation of assets of Neel Ltd. and Gagan Ltd. respectively.

You are required to compute the

- equity and preference shares issued to Neel Ltd. and Gagan Ltd.,
- Purchase consideration

**Question 11 (Inter Jan 2021) (20 Marks)**

Pg no. \_\_\_\_\_

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. | Glory Ltd. |
|------|--|-------------|------------|
| (I)  | Equity & Liabilities                         |             |            |
|      | (1) Shareholders' fund                       |             |            |
|      | Share Capital                                |             |            |
|      | Equity shares of ₹ 10 each                   | 8,40,000    | 4,55,000   |
|      | Reserves & 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:

- The Debentures of Glory Ltd. are to be discharged, by the issue of 8% Debentures of Glorious Ltd. at a premium of 10%.
- Plant and Machinery of Galaxy Ltd. are to be valued at ₹ 2,52,000.
- Goodwill is to be valued at:  
Galaxy Ltd. ₹ 4,48,000      Glory Ltd. ₹ 1,68,000
- Liquidator of Glory Ltd. is appointed for collection from trade debtors and payment to trade creditors. He retained the cash balance and collected ₹ 1,10,000 from debtors and paid ₹ 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:

- 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 ₹ 10.
- 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.

### TOPIC 3 & 4: BOOKS OF PURCHASING COMPANY & VENDOR COMPANY

#### Question 12 (ICAI Study Material)

Pg no. \_\_\_\_\_

Wye Ltd. acquires business of Z Ltd. whose summarized balance sheet on 31<sup>st</sup> Dec., 2019 is as:

|                           | Note | Amount    |
|---------------------------|------|-----------|
| A. Equity and Liabilities |      |           |
| 1. Shareholders' Fund     |      |           |
| (a) Share Capital         | 1    | 12,00,000 |

|  |   |           |
|--|---|-----------|
| (b) Reserves & 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 |
| <b>B. Assets</b>   |   |           |
| 1. Non-current assets  |   |           |
| (a) Property, Plant & Equipment & Intangible Assets            |   |           |
| i. Property, Plant & Equipment                                 | 4 | 10,00,000 |
| ii. Intangible Assets  | 5 | 2,90,000  |
| 2. Current Assets  |   |           |
| (a) Inventories  |   | 1,50,000  |
| (b) Trade Receivables  |   | 1,80,000  |
| (c) Cash & Cash Equivalents                                    |   | 70,000    |
| Total  |   | 16,90,000 |

## Notes to Accounts

|   | Amount          |
|---|-----------------|
| 1. Share Capital  |                 |
| Equity Share Capital (₹ 100 each)                       | 8,00,000        |
| 6% Preference Share Capital (₹ 100 each)                | <u>4,00,000</u> |
|   | 12,00,000       |
| 2. Reserves and Surplus                                 |                 |
| Capital Reserve   | 1,00,000        |
| Profit & Loss A/c                                       | 50,000          |
| Workmen Compensation Reserve (Expected liability 5,000) | <u>8,000</u>    |
|   | 1,58,000        |
| 3. Long Term borrowings                                 |                 |
| 6% Debentures   | 2,00,000        |
| 4. Property, Plant & Equipment                          |                 |
| Land & Building   | 4,00,000        |
| Plant & Machinery                                       | <u>6,00,000</u> |
|   | 10,00,000       |
| 5. Intangible Assets                                    |                 |
| Goodwill  | 2,40,000        |
| Patents   | <u>50,000</u>   |
|   | 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 & building at ₹ 5,50,000 Plant & Machinery at ₹ 6,50,000 and patents at ₹ 20,000. Pass the necessary journal entries in the books of both the companies.

**Question 13**

Pg no. \_\_\_\_\_

The following was the Balance Sheet of V Ltd. as on 31st March, 2020:

|   | Note | ₹ ( In Lacs) |
|---|------|--------------|
| <b>A. Equity and Liabilities</b>                |      |              |
| 1. Shareholders' Fund                           |      |              |
| Share Capital                                   | 1    | 1,150        |
| Reserves & Surplus                              | 2    | (87)         |
| 2. Non-Current Liabilities                      |      |              |
| Long Term Borrowings                            | 3    | 630          |
| 3. Current Liabilities                          |      |              |
| Trade Payables                                  |      | 170          |
| <b>Total</b>                                    |      | <b>1,863</b> |
| <b>B. Assets</b>                                |      |              |
| 1. Non-Current assets                           |      |              |
| Property, Plant & Equipment & Intangible Assets |      |              |
| Property, Plant & Equipment                     | 4    | 1,152        |
| 2. Current Assets                               |      |              |
| Inventories                                     |      | 380          |
| Trade Receivables                               |      | 256          |
| Cash & Cash Equivalents                         | 5    | 75           |
| <b>Total</b>                                    |      | <b>1,863</b> |

**Notes to Accounts**

|  | Amount       |
|--|--------------|
| 1. Share Capital: Issued, Subscribed & paid up                     |              |
| 80 lakh Equity Shares of ₹ 10 each, full paid up                   | 800          |
| 35 lakh 12% Cumulative Preference Shares of ₹10each, fully paid up | 350          |
| <b>Total</b>   | <b>1,150</b> |
| 2. Reserves and Surplus  |              |
| Debit Balance of Profit and Loss Account                           | (87)         |
| 3. Long Term borrowings  |              |
| 10% Secured Cumulative Debentures of ₹ 100 each, fully paid up     | 600          |
| Outstanding Debenture Interest                                     | 30           |
|  | <b>630</b>   |
| 4. Property, Plant & Equipment                                     |              |
| Land & Buildings   | 445          |
| Plant & Machinery  | 593          |
| Furniture, Fixtures and Fittings                                   | 114          |
|  | <b>1,152</b> |
| 5. Cash and Cash Equivalent  |              |
| Balance at Bank  | 69           |
| Cash in hand   | 6            |
|  | <b>75</b>    |

On 1st April, 2020, P Ltd. took over the entire business of V Ltd. on the following terms:  
V Ltd.'s equity shareholders would receive 4 fully paid equity shares of P Ltd. of ₹ 10 each issued at a premium of ₹ 2.50 each for every five shares held by them in V Ltd.  
Preference shareholders of V Ltd. would get 35 lakhs 13% Cumulative Preference Shares of ₹ 10 each fully paid up in P Ltd., in lieu of their present holding.

All the debentures of V Ltd. would be converted into equal number of 10.5% Secured Cumulative Debentures of ₹ 100 each, fully paid up after the take over by P Ltd., which would also pay outstanding debenture interest in cash.

Expenses of amalgamation would be borne by P Ltd. Expenses came to be ₹ 2 lakhs. P Ltd. discovered that its creditors included ₹ 7 lakhs due to V Ltd. for goods purchased.

Also P Ltd.'s stock included goods of the invoice price of ₹ 5 lakhs earlier purchased from V Ltd., which had charged profit @ 20% of the invoice price.

You are required to:

- Prepare Realisation A/c in the books of V Ltd.
- Pass journal entries in the books of P Ltd. assuming it to be an amalgamation in the nature of merger.

**Question 14**

Pg no. \_\_\_\_\_

The Balance Sheet of Reckless Ltd. as on 31<sup>st</sup> March, 2020 is as follows:

|                                     | ₹         |
|-------------------------------------|-----------|
| <b>Assets:</b>                      |           |
| Freehold premises                   | 2,20,000  |
| Machinery                           | 1,77,000  |
| Furniture & fittings                | 90,800    |
| Stock                               | 3,87,400  |
| Trade Receivables                   | 95,000    |
| Less : Provision for doubtful debts | (4,000)   |
|                                     | 91,000    |
| Cash in hand                        | 2,300     |
| Cash at bank                        | 1,56,500  |
|                                     | 11,25,000 |
| <b>Liabilities:</b>                 |           |
| 60,000 Equity shares of ₹ 10 each   | 6,00,000  |
| Pre-incorporation profit            | 21,000    |
| Contingency reserve                 | 1,35,000  |
| Profit and loss account             | 1,26,000  |
| Trade Payables                      | 1,33,000  |
| Provision for income-tax            | 1,10,000  |
|                                     | 11,25,000 |

Trade receivables consist of debtors amounting ₹ 80,000 and bill receivables worth ₹ 15,000. Trade payables consist of creditors amounting to ₹ 1,13,000 and acceptances worth ₹ 20,000. Careful Ltd. decided to take over Reckless Ltd. from 31<sup>st</sup> March, 2020 with the following assets at value noted against them:

|                        | ₹        |
|------------------------|----------|
| Bills receivable       | 15,000   |
| Freehold premises      | 4,00,000 |
| Furniture and fittings | 80,000   |
| Machinery              | 1,60,000 |
| Stock                  | 3,45,000 |

¼ of the consideration was satisfied by the allotment of fully paid preference shares of ₹ 100 each at par which carried 13% dividend on cumulative basis. The balance was paid in the form of Careful Ltd.'s equity shares of ₹ 10 each, ₹ 8 paid up.

Sundry Debtors realised ₹ 79,500. Acceptances were settled for ₹ 19,000. Income-tax authorities fixed the taxation liability at ₹ 1,11,600. Creditors were finally settled with the cash remaining after meeting liquidation expenses amounting to ₹ 4,000.

You are required to :

- Calculate the number of equity shares and preference shares to be allotted by Careful Ltd. in discharge of consideration.
- Prepare the important ledger accounts in the books of Reckless Ltd.; and
- Pass journal entries in the books of Careful Ltd. with narration

**Question 15**

Pg no. \_\_\_\_\_

The summarized Balance Sheet of Srishti Ltd. as on 31st March, 2020 was as follows:

| Liabilities                     | Amount (₹) | Assets                      | Amount (₹) |
|---------------------------------|------------|-----------------------------|------------|
| Equity Shares of ₹10 fully paid | 30,00,000  | Goodwill                    | 5,00,000   |
| Export Profit Reserves          | 8,50,000   | Property, Plant & Equipment | 30,00,000  |
| General Reserves                | 50,000     | Stock                       | 10,40,000  |
| Profit and loss Account         | 5,50,000   | Debtors                     | 1,80,000   |
| 9% Debentures                   | 5,00,000   | Cash & Bank                 | 2,80,000   |
| Trade Creditors                 | 1,00,000   | Preliminary Expenses        | 50,000     |
|                                 | 50,50,000  |                             | 50,50,000  |

ANU Ltd. agreed to absorb the business of SRISHTI Ltd. with effect from 1st April, 2020.

- The purchase consideration settled by ANU Ltd. as agreed:
  - 4,50,000 equity Shares of 10 each issued by ANU Ltd. by valuing its share @ 15 per share.
  - Cash payment equivalent to ₹ 2.50 for every share in SRISHTI Ltd.
- The issue of such an amount of fully paid 8% Debentures in ANU Ltd. at 96% as is sufficient to discharge 9% Debentures in SRISHTI Ltd. at a premium of 20%.
- ANU Ltd. will take over Property, Plant & Equipment at 100% more than book value, Stock at ₹ 7,10,000 and Debtors at their face value subject to a provision of 5% for doubtful Debts.
- The actual cost of liquidation of SRISHTI Ltd. was ₹ 75,000. Liquidation cost of SRISHTI Ltd. is to be reimbursed by ANU Ltd. to the extent of ₹ 50,000.
- Statutory Reserves are to be maintained for 1 more year.

You are required to:

- Close the books of SRISHTI Ltd. by preparing Realisation Account, ANU Ltd. Account, Shareholders Account and Debenture Account, and
- Pass Journal Entries in the books of ANU Ltd. regarding acquisition of business.

**Question 16** (RTP Nov 2018) (Similar) / (ICAI Study Material)

Pg no. \_\_\_\_\_

The financial position of two companies Hari Ltd. and Vayu Ltd. as at 31st March, 2021 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:

- 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of Hari Ltd.
- Goodwill of Vayu Ltd. is valued at ₹ 50,000, Buildings are valued at ₹ 1,50,000 and the Machinery at ₹ 1,60,000.
- 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 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, 2021.

**Question 17** (RTP Nov 2019) / (RTP Nov 2023)

Pg no. \_\_\_\_\_

The following is the summarized Balance Sheet of X Ltd. as at 31st March, 2023:

| Liabilities                       | ₹        | Assets               | ₹        |
|-----------------------------------|----------|----------------------|----------|
| 4,000 Equity shares of ₹ 100 each | 4,00,000 | Patent               | 65,000   |
| 10% debentures                    | 2,00,000 | Buildings            | 1,70,000 |
| Loans                             | 80,000   | Machinery            | 3,20,000 |
| Trade Payables                    | 1,60,000 | Stock                | 1,10,000 |
| General Reserve                   | 40,000   | Trade Receivables    | 1,30,000 |
|                                   |          | Cash at bank         | 68,000   |
|                                   |          | Share Issue Expenses | 17,000   |
|                                   | 8,80,000 |                      | 8,80,000 |

Y Ltd. agreed to absorb X Ltd. on the following terms and conditions:

- (1) Y Ltd. would take over all assets, except bank balance & 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.
- (2) Y Ltd. is to take over trade payables at book value.
- (3) The purchase consideration is to be paid in cash to the extent of ₹ 3,00,000 and the balance in fully paid equity shares of ₹ 100 each at ₹ 125 per share.

The average profit is ₹ 62,200. The liquidation expenses amounted to ₹ 8,000. Y Ltd. sold prior to 31st March, 2023 goods costing ₹ 60,000 to X Ltd. for ₹ 80,000. ₹ 50,000 worth of goods are still in inventory of X Ltd. on 31st March, 2023. Trade Payables of X Ltd. include ₹ 20,000 still due to Y Ltd.

Show Ledger Accounts to close books of X Ltd. & prepare Balance Sheet of Y Ltd. after takeover.

**Question 18** (ICAI Study Material)

Pg no. \_\_\_\_\_

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

|                    | X Ltd.   | Y Ltd.   |
|--------------------|----------|----------|
| <b>Liabilities</b> |          |          |
| Share Capital      | 1,00,000 | 50,000   |
| Profit & Loss A/c  | 10,000   | (10,000) |
| Creditors          | 25,000   | 5,000    |
| Loan from X Ltd.   | -        | 15,000   |
|                    | 1,35,000 | 60,000   |
| <b>Assets</b>      |          |          |
| Sundry Assets      | 1,20,000 | 60,000   |
| Loan to Y Ltd.     | 15,000   | -        |
|                    | 1,35,000 | 60,000   |

A new company XY Ltd. is formed to acquire the sundry assets and creditors 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.

**Question 19**

Pg no. \_\_\_\_\_

The Abridged Balance Sheet (Draft) of Cyber Ltd. as on 31st March, 2020 is as under:

| Liabilities  | ₹        | Assets                      | ₹        |
|--|----------|-----------------------------|----------|
| 24,000, Equity shares of ₹ 10 each                 | 2,40,000 | Goodwill                    | 5,000    |
| 5000, 8% cumulative preference shares of ₹ 10 each | 50,000   | Property, Plant & Equipment | 2,57,000 |
| 8% Debentures                                      | 1,00,000 | Inventories                 | 50,000   |
| Interest accrued on debentures                     | 8,000    | Trade receivables           | 60,000   |
| Trade payables                                     | 1,00,000 | Bank                        | 1,000    |
|  |          | Profit & Loss Account       | 1,25,000 |
|  | 4,98,000 |                             | 4,98,000 |

The following scheme is passed and sanctioned by the court:

- (i) A new company Mahal Ltd is formed with ₹ 3 lacs divided into 30,000 Equity shares of ₹10 each
- (ii) The new company will acquire the assets & liabilities of Cyber Ltd. on the following terms:
  - a. Old company's debentures are paid by similar debentures in new company and for outstanding accrued interest, shares of equal amount are issued at par.
  - b. The trade payables are paid for every ₹ 100, ₹ 16 in cash and 10 shares issued at par.



**Question 22 (ICAI Study Material)**

Pg no. \_\_\_\_\_

Let us consider the Balance Sheet of X Ltd. as at 31st March, 2021:

|   | 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**

|   |   | ₹ in ('000) |
|---|---|-------------|
| 1 | 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:**

- Y Ltd. takes over X Ltd. on 10th April, 2021.
- Debenture holders of X Ltd. are discharged by Y Ltd. at 10% premium by issuing 15% own debentures of Y Ltd.
- 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).

- d. Intrinsic value per share of X Ltd. is ₹ 20 & 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, entry should be made at par value only. The nominal value of each equity share of Y Ltd. is ₹ 10. Compute the purchase consideration.

**Question 23**

Pg no. \_\_\_\_\_

Following are the summarized Balance Sheets of A Ltd. and B Ltd. as at 31.3.2020:

|  | A Ltd. (₹) | B Ltd. (₹) |
|--|------------|------------|
| <b>Liabilities</b>                                   |            |            |
| Share capital: Equity shares 10 each (fully paid up) | 10,00,000  | 6,00,000   |
| Securities premium                                   | 2,00,000   | -          |
| General reserve                                      | 3,00,000   | 2,50,000   |
| Profit and loss account                              | 1,80,000   | 1,60,000   |
| 10% Debentures                                       | 5,00,000   | -          |
| Secured loan   | -          | 3,00,000   |
| Trade payables                                       | 2,60,000   | 1,70,000   |
|  | 24,40,000  | 14,80,000  |
| <b>Assets</b>  |            |            |
| Land & Building                                      | 9,00,000   | 4,50,000   |
| Plant & Machinery                                    | 5,00,000   | 3,80,000   |
| Investment   | 80,000     | -          |
| Inventory  | 5,20,000   | 3,50,000   |
| Trade receivables                                    | 4,10,000   | 2,60,000   |
| Cash at Bank   | 30,000     | 40,000     |
|  | 24,40,000  | 14,80,000  |

The companies agree on a scheme of amalgamation on the following terms:

- A new company is to be formed by name AB Ltd.
- AB Ltd. to take over all the assets and liabilities of the existing companies.
- For the purpose of amalgamation, the shares of the existing companies are to be valued as under: A Ltd. = ₹ 18 per share B Ltd. = ₹ 20 per share
- A contingent liability of A Ltd. of ₹ 60,000 is to be treated as actual existing liability.
- The shareholders of A Ltd. and B Ltd. are to be paid by issuing sufficient number of shares of AB Ltd. at a premium of ₹ 6 per share.
- The face value of shares of AB Ltd. are to be of ₹ 10 each.

You are required to:

- Calculate purchase consideration (i.e., number of shares to be issued to A Ltd. & B Ltd.).
- Pass journal entries in the books of A Ltd. for the transfer of assets and liabilities.
- Prepare the Balance Sheet of AB Ltd.

**Question 24 (ICAI Study Material)**

Pg no. \_\_\_\_\_

The following Balance Sheets are given as at 31st March, 2021:

|   | Particulars                                      | Best Ltd.<br>(in lakhs) | Better Ltd.<br>(in lakhs) |
|---|--|-------------------------|---------------------------|
|   | Equity and Liabilities                           |                         |                           |
| 1 | Shareholders' funds                              |                         |                           |
| a | Share capital (shares of ₹ 100 each, fully paid) | 20                      | 10                        |
| 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                | <u>20</u> | <u>5</u>  |
|        | Total                         | <u>50</u> | <u>20</u> |

The following further information is given:

- Better Limited issued bonus shares on 1st April, 2021, in the ratio of one share for every two held, out of Reserves and Surplus.
- It was agreed that Best Ltd. will take over the business of Better Ltd., on the basis of the latter's Balance Sheet, consideration taking the form of allotment of shares in Best Ltd.
- 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.
- 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, 2021 after the takeover.

**Question 25** (ICAI Study Material)

Pg no. \_\_\_\_\_

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.           |
|---|-------------------------------|-------|------------------|------------------|
| 1 | Equity and Liabilities        |       |                  |                  |
|   | 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                |       | <u>1,00,000</u>  | <u>2,10,000</u>  |
|   | Total                         |       | <u>18,71,375</u> | <u>12,07,175</u> |
|   | 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     | <u>1,61,375</u>  | <u>72,175</u>    |
|   | Total                         |       | <u>18,71,375</u> | <u>12,07,175</u> |

Notes to accounts

|   |                                    | K Ltd.           | L Ltd.          |
|---|------------------------------------|------------------|-----------------|
| 1 | Share Capital                      |                  |                 |
|   | Equity shares of ₹ 100 each        | 8,00,000         | 3,00,000        |
|   | 7% Preference Shares of ₹ 100 each | <u>4,00,000</u>  | <u>3,00,000</u> |
|   |                                    | <u>12,00,000</u> | <u>6,00,000</u> |

|   |                               |           |          |
|---|-------------------------------|-----------|----------|
| 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.

**Question 26 (RTP Nov 2022)**

Pg no. \_\_\_\_\_

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. (₹) | Myth Ltd. (₹) |
|----------------------------|----------|----------------|---------------|
| (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 |

| Note No. | Particulars                | Truth Limited (₹) | Myth Limited (₹) |
|----------|----------------------------|-------------------|------------------|
| 1        | Share Capital              |                   |                  |
|          | Equity shares of ₹ 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           |
|          |                            | 11,35,000         | 4,13,000         |
| 3        | Non- Current Liabilities   |                   |                  |
|          | 14% Debentures             | ---               | 1,50,000         |
| 4        | Current Liabilities        |                   |                  |
|          | Trade Payables             | 90,000            | 1,42,000         |
|          | Other Current Liabilities  | 50,000            | 40,000           |
|          |                            | 1,40,000          | 1,82,000         |
| 5        | Current Assets             |                   |                  |
|          | 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 (₹) | Myth Limited (₹) |
|-----------|-------------------|------------------|
| 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.

**TOPIC 6: THEORY QUESTIONS****Question 1**

Briefly explain the methods of accounting for amalgamation as per Accounting Standard-14.

**Solution**

As per AS 14 on 'Accounting for Amalgamations', there are two main methods of accounting for amalgamations:

- (i) **The Pooling of Interest Method:** Under this method, the assets, liabilities and reserves of the transferor company are recorded by the transferee company at their existing carrying amounts (after making the necessary adjustments). If at the time of amalgamation, the transferor and the transferee companies have conflicting accounting policies, a uniform set of accounting policies is adopted following the amalgamation. The effects on the financial statements of any changes in accounting policies are reported in accordance with AS 5 on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies'.
- (ii) **The Purchase Method:** Under the purchase method, the transferee company accounts for the amalgamation either by incorporating the assets and liabilities at their existing carrying amounts or by allocating the consideration to individual identifiable assets and liabilities of the transferor company on the basis of their fair values at the date of amalgamation. The identifiable assets and liabilities may include assets and liabilities not recorded in the financial statements of the transferor company

Where assets and liabilities are restated on the basis of their fair values, the determination of fair values may be influenced by the intentions of the transferee company.

**Question 2** *(Inter Jan 2021) (5 Marks)*

List the conditions to be fulfilled as per Accounting Standard 14 for an amalgamation to be in the nature of merger, in the case of companies.

**Solution**

An amalgamation should be considered to be an amalgamation in the nature of merger if the following conditions are satisfied:

- (i) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.
- (ii) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation.
- (iii) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares.
- (iv) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.
- (v) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

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**Question 3**

Briefly describe the disclosure requirements for amalgamation including additional disclosure, if any, for different methods of amalgamation as per AS 14. Or  
What disclosures should be made in first financial statements following the amalgamation?

**Solution**

The disclosure requirements for amalgamations have been prescribed in paragraphs 43 to 46 of AS 14 on Accounting for Amalgamation.

For all amalgamations, the following disclosures should be made in the first financial statements following the amalgamation

- a. names and general nature of business of the amalgamating companies;
- b. the effective date of amalgamation for accounting purpose;
- c. the method of accounting used to reflect the amalgamation; and
- d. particulars of the scheme sanctioned under a statute.

For amalgamations accounted under the pooling of interests method, the following additional disclosures should be made in the first financial statements following the amalgamation:

- a. description and number of shares issued, together with the percentage of each company's equity shares exchanged to effect the amalgamation; and
- b. the amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof.

For amalgamations, accounted under the purchase method, the following additional disclosures should be made in the first financial statements following the amalgamation;

- a. consideration for the amalgamation and a description of the consideration paid or contingently payable; and
- b. the amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof including the period of amortization of any goodwill arising on amalgamation.

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**Question 4**

A Ltd. is amalgamating with B Ltd. They are undecided on the method of accounting to be followed. You are required to advise the management of B Ltd. on the method of accounting that can be adopted under AS-14.

**Solution**

An amalgamation may be either – an amalgamation in the nature of merger, or an amalgamation in the nature of purchase. The selection of method of accounting for amalgamation (pooling of interests or purchase method) is to be judged after considering the intentions of the both the companies.

If genuine pooling of all assets, liabilities, shareholders' interest is intended; separate businesses of both the companies are continued and their amalgamation scheme satisfies all the conditions necessary for merger as specified in AS 14 Accounting for Amalgamations, pooling of interests method is adopted.

However, if B Ltd. or A Ltd. wants to acquire the other company, then purchase method needs to be adopted. In that case, the shareholders of the acquired company don't continue to have proportional share in equity of the combined company and the business of the acquired company is not intended to be continued. The object of purchase method is to account for the amalgamation by applying same principles as are applied in the normal purchase of assets. Thus choice of accounting method depends on the fact whether B Ltd. wants to continue its business or not.

**Question 5** *(ICAI Study Material)*

X Co. Ltd. having share capital of ₹ 50 lakhs divided into equity shares of ₹ 10 each was taken over by Y Co. Ltd. Y Co. Ltd. issued 11 equity shares of ₹ 10 each for every 10 shares of X Co. Ltd. Explain how the difference will be adjusted in the books of Y Co. Ltd. for the shares issued under the 'Pooling of interests method' of amalgamation as per AS 14.

**Solution**

|   |             |
|---|-------------|
| Purchase consideration = $5,00,000 \times 11/10 = 55,000$ shares of ₹ 10 each | 55,00,000   |
| Less: Share capital of X Co. Ltd.   | (50,00,000) |
| Difference Adjusted through General Reserve                                   | 5,00,000    |

**Question 6**

How are the balances in profit and loss account treated in the books of transferee company?

**Solution**

(i) When amalgamation is in the nature of merger

Balance in Profit and Loss Account of the transferor company is

- Aggregated with the corresponding balance appearing in financial statements of the transferee company; Or
- Transferred to the general reserve, if any.

(ii) When amalgamation is in the nature of purchase

Balance in profit and loss account of the transferor company, whether debit or credit, loses its identity.

**Question 7** *(Inter May 2019) (5 Marks)*

Distinguish between Amalgamation, Absorption and External Reconstruction of Company

**Solution**

| Basis                             | Amalgamation   | Absorption  | External Reconstruction   |
|-----------------------------------|--|---|---|
| Meaning                           | 2 or more companies are wound up and a new company is formed to take over their business | An existing company takes over the business of one or more existing companies | A newly formed company takes over the business of an existing company |
| Minimum no. of companies involved | Atleast 3  | Atleast 2   | Only 2  |
| No. of new resultant company      | Only 1   | No new resultant company is formed  | Only 1  |
| Example                           | A Ltd. and B Ltd. amalgamate to form C Ltd.  | A Ltd. takes over the business of another existing company B Ltd.             | B Ltd. is formed to take over business of an existing company A Ltd   |

## PRACTICE QUESTIONS

### TOPIC 2A: PURCHASE CONSIDERATION

**Question 1** *(RTP Nov 2020)* \_\_\_\_\_ Pg no. \_\_\_\_\_

Som Ltd. agreed to takeover Dove Ltd. on 1<sup>st</sup> April. Terms & conditions were as follows:

- a) Som Ltd. issued 56,000 equity shares of ₹ 100 each at a premium of ₹ 10 per share to the equity shareholders of Dove Ltd.
- b) Cash payment of ₹ 1,00,000 was made to equity shareholders of Dove Ltd.
- c) 20,000 fully paid preference shares of ₹ 70 each issued at par to discharge the preference shareholders of Dove Ltd.

You are required to calculate amount of purchase consideration as per provisions of AS-14

**Question 2** \_\_\_\_\_ Pg no. \_\_\_\_\_

A Ltd. decides to absorb B Ltd. The draft Balance Sheet of B Limited is as follows:

| Liabilities  |           |
|--|-----------|
| Share Capital:   |           |
| 5,000 9% Preference shares of ₹ 100 each (Fully paid up) | 5,00,000  |
| 12,500 Equity shares of ₹ 100 each (Fully paid up)       | 12,50,000 |
| Reserves   | 7,50,000  |
| 6% Debentures  | 5,00,000  |
| Trade payables   | 2,50,000  |
| Total  | 32,50,000 |
| Assets   |           |
| Sundry Assets  | 32,50,000 |
| Total  | 32,50,000 |

A Ltd. has agreed:

- (i) To pay ₹ 20 per share in cash to equity shareholders of B Ltd. and will issue six equity shares of ₹ 100 each (Market value ₹ 125) in lieu of every five equity shares held in B Ltd.
- (ii) To issue 9% Preference shares of ₹ 100 each, in the ratio of 3 shares of A Ltd. for 4 Preference shares in B Ltd.
- (iii) To issue 8% debentures at ₹ 96 in lieu of 6% debentures in B Ltd. which are to be redeemed at a premium of 20%. You are required to calculate the purchase consideration.

**Question 3** *(Inter Dec 2021) (5 Marks)* \_\_\_\_\_ Pg no. \_\_\_\_\_

Moon Limited is absorbed by Sun Limited.; the consideration being the takeover of liabilities, the payment of cost of absorption not exceeding ₹ 10,000 (actual cost ₹ 9,000); the payment of 9% debentures of ₹ 50,000 at a premium of 20% through 8% debentures issued at a premium of 25% of face value; the payment of ₹18 per share in cash; allotment of two 11% preference shares of ₹ 10 each and one equity share of ₹10 each at a premium of 30% fully paid for every three shares in Moon Ltd. respectively. The number of shares of the vendor company is 1,50,000 of ₹ 10 each fully paid. Calculate purchase consideration as per AS 14.

**Question 4** *(ICAI Study Material)* \_\_\_\_\_ Pg no. \_\_\_\_\_

A Ltd. takes over B Ltd. on April 01, 2021 & discharges consideration for business as follows:

- (i) Issued 42,000 fully paid equity shares of ₹ 10 each at par to equity shareholders of B Ltd.
- (ii) Issued fully paid up 15% preference shares of ₹ 100 each to discharge the preference shareholders (₹ 1,70,000) of B Ltd. at a premium of 10%.

(iii) It is agreed that the debentures of B Ltd. (₹ 50,000) will be converted into equal number and amount of 13% debentures of A Ltd.

Determine the amount of Purchase Consideration as per AS 14.

**Question 5** *(Inter Nov 2022) (5 Marks)* Pg no. \_\_\_\_\_

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

- Star Limited issued 70,000 Equity shares of ₹ 100 each at a premium of ₹ 10 per share to the equity shareholders of Moon Limited.
- Cash payment of ₹ 1,25,000 was made to the equity shareholders of Moon Limited.
- 25,000 fully paid Preference shares of ₹ 70 each issued at par to discharge the preference shareholders of Moon Limited.

You are required:

- to give the meaning of "consideration for the amalgamation" as per AS-14, and
- Calculate the amount of purchase consideration.

### TOPIC 3: BOOKS OF PURCHASING / TRANSFEREE COMPANY

**Question 6** *(Inter Nov 2018) (5 Marks) / (ICAI Study Material)* Pg no. \_\_\_\_\_

On 1st April, 2020, Tina Ltd. take over the business of Rina Ltd. and discharged purchase consideration as follows:

- Issued 50,000 fully paid Equity shares of ₹ 10 each at a premium of ₹ 5 per share to the equity shareholders of Rina Ltd.
- Cash payment of ₹ 50,000 was made to equity shareholders of Rina Ltd.
- Issued 2,000 fully paid 12% Preference shares of ₹ 100 each at par to discharge the preference shareholders of Rina Ltd.
- Debentures of Rina Ltd. (₹ 1,20,000) will be converted into equal number and amount of 10% debentures of Tina Ltd.

Calculate the amount of Purchase consideration as per AS-14 and pass Journal Entry relating to discharge of purchase consideration in the books of Tina Ltd.

**Question 7** *(ICAI Study Material)* Pg no. \_\_\_\_\_

Consider the following summarized balance sheets of X Ltd. and Y Ltd. as at 31<sup>st</sup> March, 2020

|                                  | Note | X Ltd.<br>(000) | Y Ltd.<br>(000) |
|----------------------------------|------|-----------------|-----------------|
| <b>A. Equity and Liabilities</b> |      |                 |                 |
| 1. Shareholders' Fund            |      |                 |                 |
| (a) Share Capital                | 1    | 72,00           | 47,00           |
| (b) Reserves & 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            |
| <b>Total</b>                     |      | <b>99,00</b>    | <b>66,00</b>    |
| <b>B. Assets</b>                 |      |                 |                 |
| 1. Non-current assets            |      |                 |                 |
| (a) PPE & Intangible Assets      |      |                 |                 |
| i. Property, Plant & Equipment   | 4    | 63,25           | 36,00           |
| (b) Non Current Investments      | 5    | 7,00            | 5,00            |

|                             |  |       |       |
|-----------------------------|--|-------|-------|
| 2. Current Assets           |  |       |       |
| (d) Inventories             |  | 12,50 | 9,50  |
| (e) Trade Receivables       |  | 9,00  | 10,30 |
| (f) Cash & Cash Equivalents |  | 7,25  | 5,20  |
| Total                       |  | 99,00 | 66,00 |

## Notes to Accounts

|    |   | X Ltd. (000)                                     | Y Ltd. (000)  |
|----|---|--|---|
| 1. | Share Capital<br>Equity Share Capital (₹ 10 each)<br>14% Preference Share Capital (₹ 100 each)                            | 50,00<br><u>22,00</u><br><u>72,00</u>            | 30,00<br><u>17,00</u><br><u>47,00</u>               |
| 2. | Reserves and Surplus<br>General Reserve<br>Export Profit Reserve<br>Investment Allowance Reserve<br>Profit & Loss Account | 5,00<br>3,00<br>-<br><u>7,50</u><br><u>15,50</u> | 2,50<br>2,00<br>1,00<br><u>5,00</u><br><u>10,50</u> |
| 3. | Long Term borrowings<br>13% Debentures of 100 each  | 5,00   | 3,50  |
| 4. | Property, Plant & Equipment<br>Land & Building<br>Plant & Machinery<br>Furniture  | 25,00<br>32,50<br><u>5,75</u><br><u>63,25</u>    | 15,50<br>17,00<br><u>3,50</u><br><u>36,00</u>       |
| 5  | Non Current Investments<br>Investments at cost  | 7,00   | 5,00  |

X Ltd. takes over Y Ltd. on 1st April, 2020. X Ltd. discharges 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.
- (iii) 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

**Question 8** (ICAI Study Material)

Pg no. \_\_\_\_\_

Super Express Ltd & Fast Express Ltd were in competing business. They decided to form new company named Super Fast Express Ltd. Balance sheets of both 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          |
|    |                                 | <u>1,00,000</u>    | <u>2,60,000</u>   |
| 3  | Long term provisions            |                    |                   |
|    | Provident fund                  | 1,00,000           | --                |
|    | Total                           | <u>1,00,000</u>    | <u>--</u>         |
| 4  | Property, Plant and Equipment   |                    |                   |
|    | Land and Building               | 10,00,000          | 6,00,000          |
|    | Plant and machinery             | 4,00,000           | 5,00,000          |
|    |                                 | <u>14,00,000</u>   | <u>11,00,000</u>  |
| 5  | Intangible assets               |                    |                   |
|    | Goodwill                        | --                 | 1,00,000          |
|    |                                 | --                 | <u>1,00,000</u>   |
| 6. | Cash and Cash Equivalentents    |                    |                   |
|    | Cash at Bank                    | 2,20,000           | 10,000            |
|    | Cash in hand                    | 1,00,000           | 10,000            |
|    |                                 | <u>3,20,000</u>    | <u>20,000</u>     |

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 amounting to 30,000 (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.

**Question 9**

Pg no. \_\_\_\_\_

X Co. Ltd. having share capital of ₹50 lakhs divided into equity shares of ₹10 each was taken over by Y Co. Ltd. X Co. Ltd. has General Reserve of ₹10,00,000 and Profit and Loss account Cr. ₹5,00,000. Y Co. Ltd. issued 11 equity shares of ₹10 each for every 10 shares of X Co. Ltd. How the Journal entry would be passed in the books of Y Co. Ltd. for the shares issued under the 'pooling of interest method' of amalgamation.

**Question 10** (Inter May 2019) (10 Marks) / (RTP May 2023)

Pg no. \_\_\_\_\_

Following are the summarized Balance Sheet of VT Ltd. and MG Ltd. as on 31st March, 2020:

| Particulars                     | VT Ltd.   | MG Ltd.   |
|---------------------------------|-----------|-----------|
| <b>Equity &amp; Liabilities</b> |           |           |
| Equity share of ₹ 10 each       | 12,00,000 | 6,00,000  |
| 10% Pref. Shares of ₹ 100 each  | 4,00,000  | 2,00,000  |
| Reserves and Surplus            | 6,00,000  | 4,00,000  |
| 12% Debentures                  | 4,00,000  | 3,00,000  |
| Trade Payables                  | 5,00,000  | 3,00,000  |
|                                 | 31,00,000 | 18,00,000 |
| <b>Assets</b>                   |           |           |
| Property, Plant & Equipment     | 14,00,000 | 5,00,000  |
| Investment                      | 1,60,000  | 1,60,000  |
| Inventory                       | 4,80,000  | 6,40,000  |
| Trade Receivables               | 8,40,000  | 4,20,000  |
| Cash at Bank                    | 2,20,000  | 80,000    |
|                                 | 31,00,000 | 18,00,000 |

Details of Trade receivables and trade payables are as under:

|                   | VT Ltd.  | MG Ltd.  |
|-------------------|----------|----------|
| Trade receivables |          |          |
| Debtors           | 7,20,000 | 3,80,000 |
| Bills Receivable  | 1,20,000 | 40,000   |
|                   | 8,40,000 | 4,20,000 |
| Trade payables    |          |          |
| Sundry Creditors  | 4,40,000 | 2,50,000 |
| Bills Payable     | 60,000   | 50,000   |
|                   | 5,00,000 | 3,00,000 |

- Property, Plant & Equipment of both companies are to be revalued at 15% above book value. Both companies are to pay 10% equity dividend, Preference dividend having been already paid. After the above transactions are given effect to, VT Ltd. will absorb MG Ltd. on following terms:
- VT Ltd. will issue 16 Equity Shares of ₹ 10 each at par against 12 Shares of MG Ltd.
  - 10% Preference Shareholders of MG Ltd. will be paid at 10% discount by issue of 10% Preference Shares of ₹ 100 each, at par, in VT. Ltd.
  - 12% Debenture holders of MG Ltd. are to be paid at 8% premium, by 12% Debentures in VT Ltd., issued at a discount of 10%.
  - Inventory in Trade and Debtors are taken over at 5% lesser than their book value.
  - ₹ 60,000 is to be paid by VT Ltd. to MG Ltd. for Liquidation expenses.
  - Sundry Debtors of MG Ltd. includes ₹ 20,000 due from VT Ltd.

You are required to prepare:

- Journal entries in the books of VT Ltd.
- Statement of consideration payable by VT Ltd.

**Question 11** *(ICAI Study Material)*

Pg no. \_\_\_\_\_

A Ltd. and B Ltd. were amalgamated on and from 1st April, 2021. A new company C Ltd. was formed to take over the business of the existing companies. A Ltd. and B Ltd. have the following ledger balances as on 31st March, 2021:

|                           | A Ltd. (₹ in lakhs) | B Ltd. (₹ in lakhs) |
|---------------------------|---------------------|---------------------|
| Land and Building         | 550                 | 400                 |
| Plant and Machinery       | 350                 | 250                 |
| Investments (Non-current) | 150                 | 50                  |
| Inventory                 | 350                 | 250                 |
| Trade Receivables         | 300                 | 350                 |

|                                     |     |     |
|-------------------------------------|-----|-----|
| Cash and Bank                       | 300 | 200 |
| Share Capital:                      |     |     |
| Equity Shares of ₹ 100 each         | 800 | 750 |
| 12% Preference shares of ₹ 100 each | 300 | 200 |
| Reserves and Surplus:               |     |     |
| Revaluation Reserve                 | 150 | 100 |
| General Reserve                     | 170 | 150 |
| Investment Allowance Reserve        | 50  | 50  |
| Profit and Loss Account             | 50  | 30  |
| Secured Loans:                      |     |     |
| 10% Debentures (₹ 100 each)         | 60  | 30  |
| Trade Payables                      | 420 | 190 |

Additional Information:

- 10% Debenture holders of A Ltd. and B Ltd. are discharged by C Ltd. issuing such number of its 15% Debentures of ₹ 100 each so as to maintain the same amount of interest.
- Preference shareholders of the two companies are issued equivalent number of 15% preference shares of C Ltd. at a price of ₹ 150 per share (face value of ₹ 100).
- C Ltd. will issue 5 equity shares for each equity share of A Ltd. and 4 equity shares for each equity share of B Ltd. The shares are to be issued @ ₹ 30 each, having a face value of ₹ 10 per share.
- Investment allowance reserve is to be maintained for 4 more years.

Prepare the Balance Sheet of C Ltd. as on 1st April, 2021 after the amalgamation has been carried out on the basis of Amalgamation in the nature of purchase.

**Question 12** (Inter Nov 2020) (15 Marks)

Pg no. \_\_\_\_\_

High Ltd. and Low Ltd. were amalgamated on and from, 1st April, 2020. A new company Little Ltd. was formed to take over the business of the existing Companies. The summarized Balance sheets of High Ltd. and Low Ltd. as on 31st March, 2020 are as under:

| Liabilities                       | ₹ In Lakhs |          | Assets                           | ₹ In Lakhs |          |
|-----------------------------------|------------|----------|----------------------------------|------------|----------|
|                                   | High Ltd.  | Low Ltd. |                                  | High Ltd.  | Low Ltd. |
| Share Capital:                    |            |          | PPE:                             |            |          |
| Equity Shares of ₹ 100 each       | 1000       | 850      | Land and Building                | 670        | 385      |
| 14% Pref. shares of 100 each      | 320        | 175      | Plant & Machinery                | 475        | 355      |
| Reserves and Surplus              |            |          | Investments                      | 95         | 80       |
| Revaluation Reserve               | 225        | 110      | Current Assets, Loans & Advances |            |          |
| General Reserve                   | 360        | 240      | Stock                            | 415        | 389      |
| Investment Allowance Reserve      | 80         | 40       | Sundry Debtors                   | 322        | 213      |
| Profit and Loss Account           | 85         | 82       | Bills Receivable                 | 35         | -        |
| Secured Loans                     |            |          | Cash and Bank                    | 303        | 166      |
| 13% Debentures (₹ 100 each)       | 100        | 56       |                                  |            |          |
| Unsecured Loans (Public Deposits) | 50         | -        |                                  |            |          |
| Current Liabilities & Provisions  |            |          |                                  |            |          |
| Sundry Creditors                  | 65         | 35       |                                  |            |          |
| Bills Payable                     | 30         | -        |                                  |            |          |
|                                   | 2315       | 1588     |                                  | 2315       | 1588     |

Other Information:

- (1) 13% Debenture holders of High Ltd. & Low Ltd. are discharged by Little Ltd. by issuing such number of its 15% Debentures of 100 each so as to maintain same amount of interest.
  - (2) Preference Shareholders of the two companies are issued equivalent number of 15% Preference shares of Little Ltd. at a price of ₹ 125 per share (Face Value ₹ 100)
  - (3) Little Ltd. will issue 4 Equity Shares for each Equity Share of High Ltd. & 3 equity shares for each Equity Share of Low Ltd. The shares are to be issued at ₹ 35 each having a face value of ₹ 10 per share
  - (4) Investment Allowance Reserve is to be maintained for two more years.
- Prepare the Balance sheet of Little Ltd. as on 1<sup>st</sup> April, 2020 after the amalgamation has been carried out in basis of in the nature of Purchase.

**Question 13** *(Inter Dec 2021) (15 Marks)*

Pg no. \_\_\_\_\_

Dark Ltd. and Fair Ltd. were amalgamated on and from 1st April, 2021. A new company Bright Ltd. was formed to take over the business of the existing companies. The Balance sheets of Dark Ltd. and Fair Ltd. as at 31st March 2021 are given below:

|    | Particulars                     | Note No. | Dark Ltd.<br>(₹ in Lakhs) | Fair Ltd.<br>(₹ in Lakhs) |
|----|---------------------------------|----------|---------------------------|---------------------------|
| I  | Equity & Liabilities            |          |                           |                           |
|    | (1) Shareholder's Funds         |          |                           |                           |
|    | (a) Share Capital               | 1        | 1,650                     | 1,425                     |
|    | (b) Reserve & Surplus           | 2        | 630                       | 495                       |
|    | (2) Non-Current Liabilities     |          |                           |                           |
|    | (a) Long term Borrowings        |          |                           |                           |
|    | 10% Debentures of 100 each      |          | 90                        | 45                        |
|    | (3) Current Liabilities         |          |                           |                           |
|    | (a) Trade Payables              |          | 630                       | 285                       |
|    | Total                           |          | 3000                      | 2250                      |
| II | Assets                          |          |                           |                           |
|    | (1) Non-Current Assets          |          |                           |                           |
|    | (a) Property, Plant & Equipment |          | 1,350                     | 975                       |
|    | (b) Non-Current Investments     |          | 225                       | 75                        |
|    | (2) Current Assets              |          |                           |                           |
|    | (a) Inventories                 |          | 525                       | 375                       |
|    | (b) Trade Receivables           |          | 450                       | 525                       |
|    | (c) Cash & Cash Equivalents     |          | 450                       | 300                       |
|    | Total                           |          | 3,000                     | 2,250                     |

Notes to Accounts:

|   |                                   | Dark Ltd.<br>(₹ in Lakhs) | Fair Ltd.<br>(₹ in Lakhs) |
|---|-----------------------------------|---------------------------|---------------------------|
| 1 | Share Capital                     |                           |                           |
|   | Equity shares of 100 each         | 1,200                     | 1,125                     |
|   | 14% Preference shares of 100 each | 450                       | 300                       |
|   |                                   | 1,650                     | 1,425                     |
| 2 | Reserves & Surplus                |                           |                           |
|   | Revaluation Reserve               | 225                       | 150                       |
|   | General Reserve                   | 255                       | 225                       |
|   | Investment Allowance Reserve      | 75                        | 75                        |
|   | Profit & Loss Account             | 75                        | 45                        |
|   |                                   | 630                       | 495                       |

## Additional Information:

- Bright Ltd. will issue 5 equity shares for each equity share of Dark Ltd. and 4 equity shares for each equity share of Fair Ltd. The shares are to be issued @ ₹35 each having a face value of ₹10 per share.
  - Preference shareholders of the two companies are issued equivalent number of 16% Preference Shares of Bright Ltd. at the price of ₹ 160 per share (face value ₹100)
  - 10% Debentureholders of Dark Ltd. & Fair Ltd. are discharged by Bright Ltd., issuing such number of 16% Debentures of ₹ 100 each so as to maintain the same amount of interest.
  - Investment Allowance Reserve is to be maintained for 4 more years.
  - Liquidation expenses are for the Dark Ltd. ₹ 6,00,000 and for Fair Ltd. ₹ 3,00,000. It is decided that these expenses would be born by Bright Ltd.
  - All the assets & liabilities of Dark Ltd. and Fair Ltd. are taken over at Book value.
  - Authorised equity share capital of Bright Ltd. is ₹ 15,00,00,000 divided into equity shares ₹10 each. After issuing required number of share to the Liquidators of Dark Ltd. and Fair Ltd., Bright Ltd. issued balance shares to the Public. The issue was fully subscribed.
- You are required to prepare Balance sheet of Bright Ltd. as at 1<sup>st</sup> April 2021 after amalgamation has been carried out on the basis of amalgamation in the nature of purchase.

**Question 14** (ICAI Study Material)

Pg no. \_\_\_\_\_

Sun and Neptune had been carrying on business independently. They agreed to amalgamate and form a new company Jupiter Ltd. with an authorised share capital of ₹ 4,00,000 divided into 80,000 equity shares of ₹ 5 each.

On 31st December, 2019, summarized Balance Sheets of Sun and Neptune were as follows

|                             | Sun (₹)  | Neptune (₹) |
|-----------------------------|----------|-------------|
| Share Capital               | 3,65,000 | 3,52,500    |
| Current Liabilities         | 5,97,000 | 1,80,250    |
| Property, Plant & Equipment | 6,35,000 | 3,65,000    |
| Current Assets              | 3,27,000 | 1,67,750    |

## Additional Information:

(a) Revalued figures of Property, Plant & Equipment and Current Assets were as follows:

|                             | Sun (₹)  | Neptune (₹) |
|-----------------------------|----------|-------------|
| Property, Plant & Equipment | 7,10,000 | 3,90,000    |
| Current Assets              | 2,99,500 | 1,57,750    |

(b) The Trade receivables and Trade payables—include ₹ 43,350 owed by Sun to Neptune

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

- (i) 60,000 equity shares of Jupiter Ltd., to Sun and Neptune in the proportion to the profitability of their respective business based on the average net profit during the last three years which were as follows:

|      |               | Sun (₹)  | Neptune (₹) |
|------|---------------|----------|-------------|
| 2017 | Profit        | 4,49,576 | 2,73,900    |
| 2018 | (Loss)/Profit | (2,500)  | 3,42,100    |
| 2019 | Profit        | 3,77,924 | 3,59,000    |

- (ii) 15% debentures in Jupiter Ltd., at par to provide an income equivalent to 8% return on capital employed in their respective business as on 31st December, 2019 after revaluation of assets.

You are requested to:

- Compute the amount of debentures and shares to be issued to Sun and Neptune.
- A Balance Sheet of Jupiter Ltd., showing the position immediately after amalgamation.

**Question 15** (Inter May 2023) (20 Marks)

Pg no. \_\_\_\_\_

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 divided into 8,00,000 equity shares of ₹ 5 each. On 31<sup>st</sup> March, 2023 the respective information of X Ltd. and Y Ltd. were as follows:

|                               | 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% debenture in XY Ltd. at par to provide an income equivalent to 4% return business as on capital employed in their respective business as on 31<sup>st</sup> Mar, 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.

**TOPIC 3&4: BOOKS OF PURCHASING COMPANY & VENDOR COMPANY****Question 16**

Pg no. \_\_\_\_\_

The following was the Balance Sheet of Rashmi Limited as on 31st March, 2020:

Balance Sheet as at 31.03.2020

|                                  | Note No. | Amount (₹)       |
|----------------------------------|----------|------------------|
| <b>A. Equity and Liabilities</b> |          |                  |
| 1. Shareholders' Fund            |          |                  |
| (a) Share Capital                | 1        | 18,00,000        |
| (b) Reserves & Surplus           | 2        | 8,40,000         |
| 2. Non-Current Liabilities       |          |                  |
| Long term Borrowings             | 3        | 2,85,000         |
| 3. Current Liabilities           |          |                  |
| Trade Payables                   |          | 75,000           |
| <b>Total</b>                     |          | <b>30,00,000</b> |

| B. Assets   |   |           |
|---|---|-----------|
| 1. Non-Current assets                               |   |           |
| (a) Property, Plant & Equipment & Intangible Assets |   |           |
| (i) Property, Plant & Equipment                     | 4 | 18,00,000 |
| (ii) Intangible Assets                              |   | 1,40,000  |
| (b) Non Current Investments                         | 5 | 1,60,000  |
| 2. Current Assets                                   |   |           |
| (a) Inventories                                     |   | 6,24,000  |
| (b) Trade Receivables                               |   | 1,08,000  |
| (c) Cash & Cash Equivalents                         |   | 1,68,000  |
| Total   |   | 30,00,000 |

| Note No. | Particulars                                      | Amount    |
|----------|--|-----------|
| 1.       | Share Capital: Issued, Subscribed and Paid up    |           |
|          | 1,80,000 share of ₹ 10 each fully paid up        | 18,00,000 |
|          | Total  | 18,00,000 |
| 2.       | Reserve and Surplus:                             |           |
|          | General Reserve                                  | 4,10,000  |
|          | Profit & Loss A/c                      1,30,000  |           |
|          | Less: Preliminary Exp.                (30,000)   | 1,00,000  |
|          | Export Profit Reserve                            | 2,50,000  |
|          | Investment Allowance Reserve                     | 80,000    |
|          | Total  | 8,40,000  |
| 3.       | Long term Borrowing:                             |           |
|          | 9% Secured Debenture of ₹ 100 each fully paid up | 2,85,000  |
|          | Total  | 2,85,000  |
| 4.       | Property, Plant & Equipment:                     |           |
|          | Freehold Property                                | 12,40,000 |
|          | Plant & Machinery                                | 5,60,000  |
|          | Total  | 18,00,000 |
| 5.       | Non-Current Investments:                         |           |
|          | Other Investments                                | 1,60,000  |
|          | (Current Market value ₹ 1,30,000)                |           |
|          | Total  | 1,60,000  |

On 1st April, 2020 Nitin Ltd. agreed to absorb the business of Rashmi Ltd. on the following terms and conditions:

- (i) The purchase consideration would be settled by Nitin Ltd. as under:
    - (1) 3,00,000 equity shares of 10 each issued by Nitin Ltd. by valuing its share at 12 per share
    - (2) Cash payment equivalent to ₹ 5 for every share in Rashmi Ltd.
  - (ii) The issue of such an amount of fully paid 10% debentures in Nitin Ltd. at 95% as is sufficient to discharge 9% debenture in Rashmi Ltd. at a premium of 25%.
  - (iii) Nitin Ltd. will takeover the Freehold property at 120% more than the book value and Plant & Machinery at 10% less than the book value. Inventories at ₹ 5,20,000 and Trade receivables at their book value subject to a provision of 8% for doubtful debts. Investments will be taken over at current market value. Nitin Ltd. will take over trade payables at book value.
  - (iv) Liquidation expenses are to be reimbursed by Nitin Ltd. to the extent of ₹ 30,000. The cost of liquidation: ₹ 50,000.
  - (v) Statutory reserves are to be maintained for 2 more years.
- You are required to:

- (a) Prepare the Realisation Account, Nitin Ltd. Account, Shareholders Accounts and Debenture Account in the book of Rashmi Ltd. and  
 (b) Write up journal entries in the books of Nitin Ltd. regarding acquisition of business.

**Question 17** *(Inter May 2018) (20 Marks) / (RTP Nov 2020)*

Pg no. \_\_\_\_\_

The financial position of X Ltd. and Y Ltd. as on 31st March, 2020 was as under:

|                                      | X Ltd.           | Y Ltd.           |
|--------------------------------------|------------------|------------------|
| <b>Equity and Liabilities</b>        |                  |                  |
| Equity Shares of ₹ 10 each           | 30,00,000        | 9,00,000         |
| 9% Preference Shares of ₹ 100 each   | 3,00,000         | -                |
| 10% Preference Shares of ₹ 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         |
| <b>Total</b>                         | <b>40,50,000</b> | <b>17,10,000</b> |
| <b>Assets</b>                        |                  |                  |
| 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           |
| <b>Total</b>                         | <b>40,50,000</b> | <b>17,10,000</b> |

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

- 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of X Ltd.
- Goodwill of Y Ltd. on absorption is to be computed based on two times of average profits of preceding three financial years (2018-19 : ₹ 90,000; 2017-18 : ₹ 78,000 and 2016-17: ₹ 72,000). The profits of 2016 -17 included credit of an insurance claim of ₹ 25,000 (fire occurred in 2015-16 and loss by fire ₹ 30,000 was booked in Profit and Loss Account of that year). In the year 2017 -18, there was an embezzlement of cash by an employee amounting to ₹ 10,000.
- Land & Buildings are valued at ₹ 5,00,000 and the Plant & Machinery at ₹ 4,00,000.
- Inventories are to be taken over at 10% less value and Provision for Doubtful Debts is to be created @ 2.5%.
- There was an unrecorded current asset in the books of Y Ltd. whose fair value amounted to ₹ 15,000 and such asset was also taken over by X Ltd.
- The trade payables of Y Ltd. included ₹ 20,000 payable to X Ltd.
- Equity Shareholders of Y Ltd. will be issued Equity Shares @ 5% premium.

You are required to

- Prepare Realisation A/c in the books of Y Ltd.
- Show journal entries in the books of X Ltd.
- Prepare the Balance Sheet of X Ltd. after absorption as at 31st March, 2020.

**Question 18** *(ICAI Study Material)*

Pg no. \_\_\_\_\_

The following are the summarized Balance Sheets of A Ltd. and B Ltd. as on 31.3.2020:

| Liabilities                             | ₹ Thousands |        |
|---|-------------|--------|
|   | A Ltd.      | B Ltd. |
| Share capital:                          |             |        |
| Equity shares of 100 each fully paid up | 2,000       | 1,000  |

|                             |              |              |
|-----------------------------|--------------|--------------|
| Reserves                    | 1,000        | -            |
| Profit & Loss (Dr. balance) | -            | (800)        |
| 10% Debentures              | 500          | -            |
| Loans from Banks            | 250          | 450          |
| Bank overdrafts             | -            | 50           |
| Trade payables              | 300          | 300          |
| <b>Total</b>                | <b>4,050</b> | <b>1,000</b> |
| <b>Assets</b>               |              |              |
| Property, Plant & Equipment | 2,700        | 850          |
| Non Current Investments     | 700          | -            |
| Trade receivables           | 400          | 150          |
| Cash at bank                | 250          | -            |
| <b>Total</b>                | <b>4,050</b> | <b>1,800</b> |

B Ltd. has acquired the business of A Ltd. The following scheme of merger was approved:

- Banks agreed to waive off the loan of ₹ 60 thousands of B Ltd.
- B Ltd. will reduce its shares to ₹ 10 per share and then consolidate 10 such shares into one share of ₹ 100 each (new share).
- Shareholders of A Ltd. will be given one share (new) of B Ltd. in exchange of every share held in A Ltd.
- 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

**Question 19 (ICAI Study Material)**

Pg no. \_\_\_\_\_

Following are summarised Balance Sheets of Yes Ltd. and No Ltd. as on 31st October, 2019:

|  | Yes Ltd.      | No Ltd.       |
|--|---------------|---------------|
|  | ₹ (in crores) | ₹ (in crores) |
| <b>Equity &amp; Liabilities:</b>                       |               |               |
| Share capital: Authorised                              | 25            | 5             |
| Issued and Subscribed:                                 |               |               |
| Equity Shares of ₹ 10 each fully paid                  | 12            | 5             |
| Reserves and surplus                                   | 88            | 10            |
| Unsecured loan from Yes Ltd.                           | -             | 10            |
| Current Liabilities                                    | 33            | 15            |
|  | 133           | 40            |
| <b>Assets:</b>   |               |               |
| Property, Plant & Equipment: Cost                      | 70            | 30            |
| Less: Depreciation                                     | 50            | 24            |
| Written down value                                     | 20            | 6             |
| Investments at cost: 30 lakhs equity shares of 10 each | 3             |               |
| Long-term loan to No. Ltd.                             | 10            |               |
| Current Assets   | 100           | 34            |
|  | 133           | 40            |

On that day Yes Ltd. absorbed No Ltd. The members of No Ltd. are to get one equity share of Yes Ltd. issued at a premium of ₹ 2 per share for every five equity shares held by them in No Ltd. The necessary approvals are obtained. Pass journal entries in the books of the two companies to give effect to the above if the amalgamation is in the nature of merger.

**Question 20 (RTP May 2021)**

Pg no. \_\_\_\_\_

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

|                |  |
|----------------|--|
| Share Capital: |  |
|----------------|--|

|   |          |
|---|----------|
| Equity shares of ₹ 10 each                          | 3,00,000 |
| 6,000, 9% cumulative preference shares of ₹ 10 each | 60,000   |
| Profit and Loss Account (Dr. balance)               | 1,70,000 |
| 10% Debentures of ₹ 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 ₹ 4,00,000 divided into 40,000 Equity Shares of ₹ 10 each. The new company will acquire the assets and liabilities of Mohan Ltd. on the following terms:

- (i)
- Mohan Ltd.'s debentures are paid by similar debentures in new company & for outstanding accrued interest on debentures, equity shares of equal amount are issued at par.
  - The trade payables are paid by issue of 12,000 equity shares at par in full and final settlement of their claims.
  - Preference shareholders are to get equal number of equity shares issued at par. Dividend on preference shares is in arrears for 3 years. Preference shareholders to forgo dividend for 2 years. For balance dividend, equity shares of equal amount are issued at par.
  - Equity shareholders are issued 1 share at par for every 3 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. Property, plant & equipment is taken over at ₹ 3,08,400.
- (iii) Remaining equity shares of the new company are issued to public at par fully paid up.
- (iv) Expenses of ₹ 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:

- Realisation account and Equity Shareholders' account in the books of Mohan Ltd.
- Bank Account and Balance Sheet with notes to accounts in the books of Ravi Ltd.

## TOPIC 5: INTRINSIC VALUE METHOD

### Question 21 *(Inter May 2022) (20 Marks)*

Pg no. \_\_\_\_\_

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

|   | A Ltd. (in ₹) | B Ltd. (in ₹) |
|---|---------------|---------------|
| Equity shares of ₹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 & pay ₹ 1 per equity share as dividend, before the following amalgamation takes place with Z Ltd. Z Ltd. was incorporated to take over business of both A Ltd. & B Ltd.

- The authorized share capital of Z Ltd. is ₹ 60 lakhs divided into 6 lakhs equity shares of ₹ 10 each.
- As per Registered Valuer the value of equity shares of A Ltd. is ₹ 18 per share and of B Ltd. is ₹ 12 per share respectively and agreed by respective shareholders of the companies.
- 10% Debentures of A Ltd. to be issued 12% Debentures of Z Ltd. at par in consideration of their holdings.
- A contingent liability of A Ltd. of ₹ 2,00,000 is to be treated as actual liability.
- Liquidation expenses including Registered Valuer fees of A Ltd. ₹ 50,000 and B Ltd. ₹ 30,000 respectively to be borne by Z Ltd.
- The shareholders of A Ltd. and B Ltd. is to be paid by issuing sufficient number of fully paid up equity shares of ₹ 10 each at a premium of ₹ 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.

**Question 22 (RTP May 2020)**

Pg no. \_\_\_\_\_

P Ltd. and Q Ltd. agreed to amalgamate and form a new company called PQ Ltd. The summarized balance sheets of both the companies on the date of amalgamation stood as below:

| Liabilities                 | P Ltd.    | Q Ltd.    | Assets               | P Ltd.    | Q Ltd.    |
|-----------------------------|-----------|-----------|----------------------|-----------|-----------|
| Share Capital:              |           |           | Goodwill             | 1,00,000  | 80,000    |
| Equity Shares of ₹ 100 each | 8,20,000  | 3,20,000  | Land & Building      | 4,50,000  | 3,40,000  |
| 9% Pref. Share of ₹100 each | 3,80,000  | 2,80,000  | Plant & Machinery    | 6,20,000  | 4,50,000  |
| 8% Debentures               | 2,00,000  | 1,00,000  | Furniture & Fittings | 1,00,000  | 50,000    |
| General Reserve             | 1,50,000  | 50,000    | Debtors              | 3,25,000  | 1,50,000  |
| Profit & Loss Account       | 3,52,000  | 2,05,000  | Stock                | 2,33,000  | 1,05,000  |
| Creditors                   | 88,000    | 1,60,000  | Cash at Bank         | 1,08,000  | 95,000    |
| Unsecured Loan              | -         | 1,75,000  | Cash in hand         | 54,000    | 20,000    |
|                             | 19,90,000 | 12,90,000 |                      | 19,90,000 | 12,90,000 |

PQ Ltd. took over the assets and liabilities of both the companies at book value after creating provision @ 5% on Stock and Debtors respectively and depreciating Furniture & Fittings by @ 10%, Plant and Machinery by @ 10%. The debtors of P Ltd. include ₹ 25,000 due from Q Ltd. PQ Ltd. will issue:

- 5 Preference shares of ₹ 20 each @ ₹ 18 paid up at premium of ₹ 4 per share for each preference share held in both the Companies.
- 6 Equity shares of ₹ 20 each @ ₹ 18 paid up at a premium of ₹ 4 per share for each equity share held in both the Companies.
- 6% debentures to discharge the 8% debentures of both the companies
- 20,000 new equity shares of ₹ 20 each for cash @ ₹ 18 paid up at premium of ₹ 4 per share

PQ Ltd. will pay necessary cash to the Equity Shareholders of both the Companies in order to adjust the rights as per the intrinsic value of the shares of both the Companies  
Prepare ledger accounts in the books of P Ltd. and Q Ltd. to close their books.

**Question 23** (Inter Nov 2023) (5 Marks) Pg no. \_\_\_\_\_

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

| Particulars                         | As on 31 <sup>st</sup> March, 2023 |                   | Revalued Figures for Amalgamation |                   |
|-------------------------------------|------------------------------------|-------------------|-----------------------------------|-------------------|
|                                     | Raman Limited (₹)                  | Naman Limited (₹) | Raman Limited (₹)                 | Naman Limited (₹) |
| Equity shares of ₹ 10 each          | 6,72,000                           | 2,52,000          | -                                 | -                 |
| 10% Preference Shares of ₹ 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:

- By issue of 4 Preference Shares of ₹ 100 each in Rana Limited @ ₹ 85 paid up and at a premium of ₹ 30 per share for every 3 preference shares held in both the companies.
- By issue of 5 Equity shares of ₹ 10 each in Rana Limited @ ₹ 7 paid up and at a premium of ₹ 5 per share for every 3 equity shares held in both the companies.
- In addition, necessary cash should be paid to equity shareholders of both the companies as required to adjust the rights 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.

**Question 24** (RTP May 2019) Pg no. \_\_\_\_\_

P Ltd. and Q Ltd. decided to amalgamate as on 01.04.2020 Their summarised Balance Sheets as on 31.03.2020 were as follows:

| Liabilities  | P Ltd. ₹ ('000) | Q Ltd. ₹ ('000) |
|--|-----------------|-----------------|
| Share capital: Equity shares 10 each (fully paid up) | 300             | 280             |
| 9% Preference share Capital (₹ 100 each)             | 60              | 40              |
| Investment allowance Reserve                         | 10              | 4               |
| Profit and Loss Account                              | 68              | 68              |
| 10% Debentures                                       | 100             | 60              |
| Trade Payables                                       | 50              | 30              |
| Tax provision  | 14              | 8               |
|  | 602             | 490             |
| Assets   |                 |                 |
| Building   | 120             | 100             |
| Plant and Machinery                                  | 160             | 140             |
| Investments  | 80              | 50              |
| Trade receivables                                    | 90              | 70              |
| Inventories  | 72              | 80              |
| Cash and Bank  | 80              | 50              |
|  | 602             | 490             |

From the following information, you are required to prepare the Balance Sheet as on 01.04.2020 of a new company, R Ltd., which was formed to take over the business of both the companies and took over all the assets and liabilities:

- 50 % Debenture are to be converted into Equity Shares of the New Company.
- Investments are non- current in nature.
- Fixed Assets of P Ltd. were valued at 10% above cost and that of Q Ltd. at 5% above cost.
- 10% of trade receivables were doubtful for both companies. Inventories to be carried at cost
- Preference shareholders were discharged by issuing equal number of 9% preference shares at par.
- Equity shareholders of both the transferor companies are to be discharged by issuing Equity shares of ₹ 10 each of the new company at a premium of ₹ 5 per share.

Give your answer on the basis that amalgamation is in the nature of purchase.

**Question 25 (RTP May 2018)**

Pg no. \_\_\_\_\_

Given below are the Balance Sheet of two companies as on 31st December, 2019.

**A Limited**

| Liabilities   | ₹         | Assets              | ₹         |
|---|-----------|---------------------|-----------|
| Share Capital:                                      |           | Patent              | 1,00,000  |
| Issued and fully paid up                            |           | Building            | 5,40,000  |
| 50,000 8% Cumulative Preference Shares of ₹ 10 each | 5,00,000  | Plant and Machinery | 15,10,000 |
| 1,50,000 Equity shares of 10 each                   | 15,00,000 | Furniture           | 75,000    |
| General Reserve                                     | 7,65,000  | Investment          | 1,55,000  |
| Profit and Loss account                             | 1,25,000  | Stock               | 3,58,000  |
| Sundry Creditors                                    | 60,000    | Sundry Debtors      | 72,000    |
|   |           | Cash and Bank       | 1,40,000  |
|   | 29,50,000 |                     | 29,50,000 |

**B Limited**

| Liabilities                     | ₹        | Assets         | ₹        |
|---------------------------------|----------|----------------|----------|
| Share Capital:                  |          | Goodwill       | 62,000   |
| Issued and fully paid up        |          | Motor Car      | 1,26,000 |
| 50,000 Equity shares of 10 each | 5,00,000 | Furniture      | 58,000   |
| Profit and Loss account         | 45,000   | Stock          | 2,40,000 |
| Sundry Creditors                | 31,000   | Sundry Debtors | 70,000   |
|                                 |          | Cash and Bank  | 20,000   |
|                                 | 5,76,000 |                | 5,76,000 |

It has been agreed that both these companies should be wound up and new company AB Ltd. should be formed to acquire assets of both companies on the following terms & conditions:

- AB Ltd. is to have an authorized capital of ₹ 36,00,000 divided into 60,000, 8% cumulative preference shares of ₹ 10 each and 3,00,000 equity shares of ₹ 10 each.
- AB Ltd. to purchase the whole of the assets of A Ltd. (except cash and Bank balances) for ₹ 28,25,000 to be settled as to ₹ 5,75,000 in cash and as to the balance by issue of 1,80,000 equity shares, credited as fully paid, to be treated as valued at ₹ 12.50 each.
- AB Ltd. is to purchase the whole of the assets of B Ltd. (except cash and bank balances) for ₹ 4,91,000 to be settled as to ₹ 16,000 in cash and as to the balance by issue of 38,000 equity shares, credited as fully paid, to be treated as valued at ₹ 12.50 each.
- A Ltd. and B Ltd. both are to be wound up, the two liquidators distributing the shares in AB Ltd. in kind among the equity shareholders of the respective companies.
- The creditors of A Ltd. and B Ltd. are considered to be paid by the liquidators of the respective companies and not taken over by AB Ltd.

- f) The liquidator of A Ltd. is to pay the preference shareholders ₹ 12 in cash for every share held in full satisfaction of their claims.
- g) AB Ltd. is to make a public issue of 60,000, 8% cumulative preference shares at a premium of 10% and 30,000 equity shares at the issue price of ₹ 12.50 per share, all amount payable in full on application.

It is estimated that the cost of liquidation (including the liquidators' remuneration) will be ₹ 10,000 in case of A Ltd. and ₹ 5,000 in case of B Ltd. and that the preliminary expenses of AB Ltd. will amount to ₹ 24,000 exclusive of the underwriting commission of ₹ 38,900 payable on the public issue.

Prepare Balance Sheet of AB Ltd. on the basis that all assets other than goodwill are taken over at book value & preliminary expenses & underwriting commission are to be written off.

**Question 26** (RTP May 2018 / RTP Nov 2021)

Pg no. \_\_\_\_\_

P Ltd. & Q Ltd. agreed to amalgamate their business. The scheme envisaged a share capital equal to the combined capital of P Ltd. & Q Ltd. for the purpose of acquiring the assets, liabilities and undertakings of the two companies in exchange for share in PQ Ltd. The Balance Sheets of P Ltd. & Q Ltd. as on 31<sup>st</sup> March, 2020 (the date of amalgamation) are given below:

Summarized Balance Sheet as at 31-03-2020

| Equity & Liabilities        | P Ltd.    | Q Ltd.    | Assets                               | P Ltd.    | Q Ltd.    |
|-----------------------------|-----------|-----------|--------------------------------------|-----------|-----------|
| <b>Shareholder Funds:</b>   |           |           | <b>Non Current Assets:</b>           |           |           |
| Share Capital               | 6,00,000  | 8,40,000  | Fixed Assets<br>(excluding Goodwill) | 7,20,000  | 10,80,000 |
| Reserves                    | 10,20,000 | 6,00,000  | <b>Current Assets:</b>               |           |           |
| <b>Current Liabilities:</b> |           |           | Inventories                          | 3,60,000  | 6,60,000  |
| Bank Overdraft              | -         | 5,40,000  | Trade Receivables                    | 4,80,000  | 7,80,000  |
| Trade Payables              | 2,40,000  | 5,40,000  | 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 sheet, but subject to an additional payment to P Ltd. for its goodwill to be calculated as its weighted average of net profits for the 3 years ended 31<sup>st</sup> March, 2020. The weights for this purpose for the years 2017-18, 2018-19 and 2019-20 were agreed as 1, 2 & 3 respectively. The profit has been: 2017-18 ₹ 3,00,000; 2018-19 ₹ 5,25,000 and 2019-20 ₹ 6,30,000

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

In order to raise working capital, PQ Ltd. increased its authorized capital by ₹ 12,00,000 and proceeded to issue 72,000 shares of ₹ 10 each at the same rate of premium as issued for discharging purchase consideration to P Ltd. & Q Ltd. You are required to:

- (a) Calculate the number of shares issued to P Ltd. & Q Ltd.
- (b) Prepare the Balance sheet of PQ Ltd. as per Schedule III after recording its journal entries

**Question 27** (Inter July 2021) (10 Marks)

Pg no. \_\_\_\_\_

Summarized Balance Sheets of Black Ltd. & White Ltd. as on 31st March, 2020 is as follows:

| Particulars                   | Notes | Black Limited<br>(₹ In 000) | White Limited<br>(₹ In 000) |
|-------------------------------|-------|-----------------------------|-----------------------------|
| <b>Equity and Liabilities</b> |       |                             |                             |
| <b>Shareholders' Funds</b>    |       |                             |                             |
| (a) Share Capital             | 1     | 6,000                       | 3,600                       |
| (b) Reserves and Surplus      | 2     | 1,080                       | 660                         |
| <b>Current Liabilities</b>    |       |                             |                             |
| Trade payables                |       | 600                         | 360                         |
| <b>Total</b>                  |       | <b>7,680</b>                | <b>4,620</b>                |

|                               |  |       |       |
|-------------------------------|--|-------|-------|
| 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<br>(₹ in 000) | White Limited<br>(₹ in 000) |
|----------|---|-----------------------------|-----------------------------|
| 1.       | Share Capital<br>Equity Shares of ₹100 each | 6,000                       | 3,600                       |
|          | Reserves and Surplus                        |                             |                             |
| 2.       | 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 ₹ 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 ₹ 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 ₹ 2,40,000 and Property Plant and Equipment are valued at ₹ 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:

- Compute No. of shares to be issued by Black Limited to White Limited against purchase consideration.
- Calculate balance of Net Current Assets of Black Ltd. & White Ltd. as on 1<sup>st</sup> July, 2020
- Give balance of Profit or Loss of Black Limited as on 1st July, 2020
- Give balance of Property Plant and Equipment as on 1st July, 2020 after takeover.

**Question 28** (RTP May 2022)

Pg no. \_\_\_\_\_

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

| Particulars                   | Note No. | Aakash Limited<br>(₹) | Ganga Limited<br>(₹) |
|-------------------------------|----------|-----------------------|----------------------|
| 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 | Ganga Limited |
|----|--|----------------|---------------|
| 1. | Share Capital  |                |               |
|    | Authorized, Issued, Subscribed & Paid up :   |                |               |
|    | 6,00,000 Equity Shares of ₹ 10 each  | 60,00,000      | -             |
|    | 20,000 Preference Shares of ₹ 100 each   | 20,00,000      | -             |
|    | 2,00,000 Equity Shares of ₹ 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<br>(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 'AakashGanga 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 AakashGanga 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 ₹ 32,00,000 accrued interest in case of Ganga Limited.
- (iv) 4,00,000 Equity Shares of ₹ 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 ₹ 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.