CHAPTER 4: AMALGAMATION OF COMPANIES

CONCEPT NOTES

INTRODUCTION TO AMALGAMATION ACCOUNTING

Amalgamation is the process by which two or more companies are joining together. Substance over form is an important concept followed while accounting transactions, i.e., transactions and events should reflect its economic substance and should not be accounted based on mere legal form. In order to reflect the economic substance of an amalgamation, genuine merger of entities and absorption of an entity by another was required by be segregated.

Accounting Standard 14 on Accounting for Amalgamation was framed the intent to account for these type arrangements properly in the books of acquirer. Therefore, AS 14 provides guidance for accounting for amalgamations **in the books of Transferee only.**

Accounting treatment to close the books of transferor is governed by generally accepted accounting principles.

In order to account transaction based on its substance in the books of Transferee, the standard segregates the amalgamation into two:

1. **Amalgamation in the nature of merger:** This type of transactions will be genuine merger. They are pooling their assets and liabilities for mutual benefit. Thus, it is not required to recognise whether there is any profit or loss arose for such arrangement. For accounting this type of arrangements, standard gives **Pooling of interest method.**
2. **Amalgamation in the nature of purchase:** Transactions other than genuine merger will be classified as purchase. Majorly this type of arrangement will be absorption of another entity. In such arrangements, the following scenarios may arise:
    a. Excess consideration may be paid for the reputation/ goodwill of the transferor company.
    b. In extremely rare situation, due to bargaining and distress situations, consideration paid may also be less than the value of assets received by the acquirer.

Therefore, in order to reflect such scenarios, the standard provides **purchase method** for accounting for such transactions. Under this method, excess consideration will be classified as goodwill and profit on arrangement will be considered as capital reserve.

ACCOUNTING TREATMENT IN THE BOOKS OF TRANSFEROR (GOVERNED BY GAAP)

After the amalgamation, the transferor company ceases to exist. Therefore, while accounting for an amalgamation in the books of transferor company, our intention will be to close their books, i.e., no ledger account should have any balance outstanding after accounting for such transactions.

Steps in accounting

1. Realisation account and transfer ofall assets (except cash, if it is not acquired) and liabilities.
2. Shareholders account will be opened and transfer of items under shareholders' fund.
3. Receipt of consideration
4. Liquidation expenses
5. Settlement of liabilities not assumed and consequent profit or loss
6. Settlement preference shares and consequent profit or loss
7. Realisation profit/ loss to shareholders account
8. Settlement to equity shareholders

Example 1

A Limited had acquired B Limited on 31.03.2020. Following is the Balance Sheet of B Limited as on date.

LIABILITIES	**Amount**	**ASSETS**		**Amount**
Equity share capital	1,00,000	PPE	4,00,000	
General Reserve	50,000	Less: Prov. For Depreciation	(1,00,000)	3,00,000
Profit and Loss A/c	80,000	Inventories		50,000
Borrowings	1,50,000	Trade receivables	60,000	
Current liabilities	70,000	Less: Provision for bad debts	(10,000)	50,000
		Other current assets		50,000
TOTAL	**4,50,000**	**TOTAL**		**4,50,000**

Purchase consideration is 10,000 shares of A Limited issued at Rs.20 per share. Close the books of B Limited.

1. **Opening of realisation account**
   a) *All assets and liabilities taken over will be transferred to realisation account.*
   b) *While preparing the Balance Sheet certain figures will be reflected on a net basis. However, while transferring such accounts, those accounts need to be transferred separately. For example, in case of PPE, if accumulated depreciation account is maintained, gross amount of PPE to be transferred by debiting realisation account. Accumulated depreciation account (account with credit balance) to be transferred by crediting to realisation account.*
   c) *Profit and Loss Account with debit balance, expenses not written off etc. are not assets. Therefore, it will not be transferred to Realisation account. These items will be transferred to equity shareholders account only since it a loss to be borne by them.*
   d) *If the transferee had not taken over the cash balance, then it will not be transferred to realisation account. But settlement of certain payment will be made from such account.*
2. **Transfer of items in shareholders fund**
   a) *Separate account for equity shareholders and preference shareholders will be opened.*
   b) *Debit balance of Profit and Loss account, expenses not written off etc. will be debited to this account.*
3. **Receipt of consideration**
   a) *When consideration becomes due it will be credited to realisation account and a separate account for transferee company will be opened.*
   b) *Receipt of consideration may be different ways. Upon receipt of consideration separate account for each of such items will be opened and Transferee account will get closed.*
   c) *The consideration received will be for the shareholders, after settling any outstanding liability, it will be distributed to the shareholders.*
4. **Liquidation expenses**
   a) *If liquidation expenses borne by transferee company, it is not a transaction related to the entity and therefore will not be included in the books of transferor company.*
   b) *If liquidation expenses are borne by transferor and if it will get reimbursed from the transferee, then transferor account will be debited and cash account will be credited while incurring expenditure. Opposite entry will be passed for reimbursed portion. In case of partial reimbursement, the portion which will not be reimbursed will be debited to realisation account*

c) *If liquidation expenses are to be borne by the transferor company itself, then realisation account will be debited and cash account will be credited.*

5. **Settlement of liabilities not taken over**

   a) *While settling the liabilities, liability account will be debited and cash account will be credited. Any excess/ short payment will be debited/credited to realisation account.*

6. **Settlement of preference shareholders**

   a) *Usually, preference shareholders will get capital contributed by them. In extremely rare situations, if the funds are insufficient, they may be required to suffer some losses.*

   b) *Any excess/ shortfall in payment to preference shareholders will also be transferred to realisation account. Alternatively, it can be transferred to equity shareholders account also.*

7. **Realisation profit or loss**

   a) *Whatever balance available in realisation account, whether it is profit or loss, it is to be borne by the equity shareholders. Therefore, it needs to be transferred to the equity shareholders account.*

8. **Settlement to equity shareholders**

   a) *After transferring the balance of realisation account, the balances remaining in various assets account (like shares/ debentures in transferee and cash) will be equal to the balance available in equity shareholders account.*

   b) *After passing the entry for settlement to equity shareholders, no account should reflect any balances.*

ACCOUNTING TREATMENT IN THE BOOKS OF TRANSFEREE COMPANY (AS-14)

Steps in accounting

1. *Identify the nature of amalgamation*
2. *Compute the net assets taken over*
3. *Compute purchase consideration*
4. *Treatment of excess/ shortage in consideration*
5. *Accounting entries for amalgamation*
6. *Additional adjustments*

1. IDENTIFYING NATURE OF TRANSACTIONS

As per AS-14, an arrangement will be classified as amalgamation in the nature of merger if all of the following conditions are met.

a. ***All assets and liabilities*** *of the transferor company* ***become assets and liabilities of the transferee company****.*
b. ***Shareholders holding not less than 90%*** *of the face value of equity shares in transferor company will* ***become equity shareholders in the transferee company***
c. *The* ***consideration receivable*** *by those equity shareholders who agree to become equity shareholders of the transferee company is discharged* ***wholly by issue of equity shares in transferee company****, except cash may be paid in respect of fractional shares.*
d. *The* ***business of the transferor company is intended to be carried on*** *by transferee company.*
e. ***No adjustment is intended to be made to the book values*** *of assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company* ***except to ensure uniformity in accounting policies.***

If any one the conditions are violated, it will be an amalgamation in the nature of purchase.

Points to remember:

1. *Mere word acquisition, merger etc. does not mean that the substance of the transaction will be the same. Conditions prescribed under standard need to be checked.*
2. *If any assets (including cash) or liability is not taken over in an amalgamation, then it will be an amalgamation in the nature of purchase.*
3. *If the any part of consideration to equity shareholders is settled by way issuance of preference share, debentures, or cash, then it will be amalgamation in the nature of purchase. Cash payment in case of fractional shares alone will not make it a purchase.*
4. *If any asset/ liability is revalued at the time of acquisition, it will be an amalgamation in the nature of purchase*

Example 2

Identify the nature of amalgamation in the following situations.

Situation A

H Limited had taken over S Limited. As part of the arrangement, all assets and liabilities will be taken over. While taking over the debtors an additional provision of 10% will be made. 1 share for every 2 shares in the acquiree will be issued as consideration.

Situation B

A Limited had acquired B Limited All assets and liabilities will be taken over at book value. However, value of inventory will be revalued based on FIFO method since A Limited follows the said methodology.

Total purchase consideration is arrived as Rs.50 lakhs. It will be settled by issuance of 1 lakh equity shares of Rs. 10 each at a premium of Rs.40 per share.

Situation C

A Limited had taken over all assets and liabilities of B Limited for a consideration of Rs.60 lakhs. B Limited had 10% preference shareholders of Rs.10,00,000. Apart from them, there are 1 lakh equity shares of Rs. 10 each. Consideration for both equity and preference shareholders will be settled by issuance of equity shares.

Situation D

A Limited had taken over all assets and liabilities of B Limited at book value. Consideration is settled by way of issuance of equity shares. However, the current business of B Limited will not continued by A Limited. But, the resources will be used for the benefit of existing business of A.

Situation E

A Limited and B Limited joined together and formed a new company known as AB Limited. All assets and liabilities will be taken over at book value. Both companies are listed in stock exchange. For settling consideration, equity shares of Rs.10 each will be issued at par based on their market value of business.

Situation F

A Limited and B Limited joined together and formed a new company known as AB Limited. All assets and liabilities will be taken over at fair value. Both companies are listed in stock exchange. For settling consideration, equity shares of Rs.10 each will be issued at par based on their market value of business.

2. NET ASSETS TAKEN OVER

<u>In case of amalgamation in the nature of merger:</u>

All assets and liabilities will be taken over at book values only. Adjustments can be made for uniform accounting policies by both the enterprise.

All reserves will be taken over in the process of take over. Identity of each reserves will also be maintained.

<u>In case of amalgamation in the nature of purchase:</u>

If acquisition value is specifically given/ computed in the question, such value needs to be considered. Otherwise, book value to be taken.

Only assets and liabilities will be taken over. Reserves will not be taken over unless it is a statutory reserve (treatment will be discussed in step 6)

Example 3:

Compute the value at which given asset/ liability will be taken over in the following scenarios:

<u>Scenario A</u>

Y Limited takes over X Limited. 10,000 10% debentures of Rs.100 each in X Limited will be discharged by Y Limited at 10% premium by issuing its own 15% debentures.

<u>Scenario B</u>

Y Limited takes over X Limited. 10,000 10% debentures of Rs.100 each in X Limited will be discharged by Y Limited by issuing its own 15% debentures at 10% premium.

<u>Scenario C</u>

Y Limited takes over X Limited. 10,000 10% debentures of Rs.100 each in X Limited will be discharged issuing its own 15% debentures so as to maintain same amount of return.

Scenario D

Y Limited takes over X Limited. 10,000 debentures of Rs.100 each in X Limited will be discharged at 8% premium issuing its own 8% debentures at a discount of 10%.

3. COMPUTATION OF PURCHASE CONSIDERATION

Purchase consideration refers to the payments made by transferee company to the shareholders of transferor company.

Note: - *It may be noted that payment to preference shareholders will form part of purchase consideration since they are shareholders. However, the payment made to debenture holders will not be included in the purchase consideration.*

In the problems the information related to purchase consideration will be made available in two different ways:

1. *List of various consideration paid is given*
2. *On the basis of valuation of asset and liabilities taken over*

Example 4

Compute purchase consideration in the following cases:

Scenario A

A Limited taken over B Limited and discharges consideration for the business as follows:

(1) Issued 42,000 fully paid equity shares of Rs. 10 each at par to the equity shareholders of B Limited.

(2) Issued fully paid up 15% preference shares of Rs.100 each to discharge the preference shareholders worth Rs.1,00,000 of B Limited at a premium of 10%.

(3) It is agreed that the debentures of B Limited will be converted into equal number and amount of 13% debentures of A Limited.

Scenario B

A Limited take over B Limited's net assets worth Rs.2,00,000 at an agreed price of Rs.2,60,000. A Limited discharge the purchase consideration by allotment of 20,000 equity shares of Rs.10 each at an agreed value of Rs.12 each of A Limited and by the payment of the balance in cash.

Scenario C

Given below the Balance Sheet of AB Limited as on 31.12.2017.

(Rs. In '000s)

Equity and liabilities	Amount	Assets	Amount
Shareholders' fund		Non-current assets	
Share capital (Rs.10 each)	52,00	Plant and machinery	26,00
General Reserve	6,50	Furniture	12,00
12% Debentures	13,50	Inventory	24,00
Current liabilities	7,50	Trade receivable	7,50
		Cash	10,00
Total	**79,50**		**79,50**

CD Limited taken over AB Limited. CD Limited agreed to issue 12% debentures to the debenture holders of AB Limited at par.

The asset valuation are as follows:

Plant and machinery	30% depreciation
Furniture	20% depreciation
Inventory	20% increase

Trade receivables	10% discount

The value per share of CD Limited is Rs. 25/ share. Required number of shares need to be issued based on intrinsic value of AB Limited.

Scenario D

Continuing the above example, if 2 shares will be issued for every 5 shares held as consideration. Value per share of CD Limited is Rs.20 per share.

4. EXCESS/ SHORT CONSIDERATION

In case of amalgamation in the nature of merger:

In such cases, all assets and liabilities (including reserves) will be taken over as part of amalgamation. Therefore, we will consider the difference between the ***purchase consideration*** *and the* ***share capital in the transferor company*** *and adjusted in the* ***reserves of the transferee company****.*

In case of amalgamation in the nature of purchase:

The difference between net assets taken over and purchase consideration will be treated as:

- *If it is a profit (i.e., consideration is less) – Capital reserve*
- *If it is a loss (i.e., consideration is more) – Goodwill*

Example 5:

Total assets as per books is Rs. 10,00,000.

Total liabilities as per books is Rs. 3,00,000.

The fair value of assets is assessed at Rs.12,00,000 and liability is assessed at Rs. 4,00,000.

Identify the treatment of purchase consideration if:

Scenario A: Consideration is Rs. 9,00,000 and amalgamation is in the nature of merger

Scenario B: Consideration is Rs. 6,00,000 and amalgamation is in the nature of merger

Scenario C: Consideration is Rs. 9,00,000 and amalgamation is in the nature of purchase

Scenario D: Consideration is Rs. 9,00,000 and amalgamation is in the nature of purchase

5. ACCOUNTING ENTRIES

a) Recognition of business purchase:

Business Purchase A/c Dr.

To Liquidator of Transferor Company A/c

b) Assets and liabilities incorporation

a) Debit all assets acquired at acquisition value

b) Credit all liabilities at acquisition value (reserves also in case of merger)

c) Credit business purchase account

d) Difference between debits and credits will be considered as:

a. Goodwill/ capital reserve – in case of purchase

b. Reserve – in case of merger

c) Settlement of purchase consideration

Liquidator of Transferror Company A/c Dr.

*To Cash**

*To Equity share capital**

*To Preference share capital**

*To Securities premium**

** Based on the way in which purchase consideration is settled.*

d) Payment of liquidation expenses

i) Liquidation expenses met by Transferor Company – No entry

ii) Liquidation expenses met/ reimbursed by Transferee Company

Goodwill/ Capital Reserve A/c Dr.*

To Cash

** Based on treatment is treatment in (b) above*

6. ADDITIONAL ADJUSTMENTS

i) Inter-company owing

Sometimes, there can be dues between the transferor company and transferee company as:

a. Borrowing or

b. Trade receivable and trade payables

These needs to be mutually cancelled after amalgamation

Trade payable/ Loan payable A/c Dr.

To Trade receivable/ Loan receivable A/c

ii) Unrealised gain on inventory

Sometimes, there can be trading relationships between transferor and transferee. In such cases, some of the goods purchased from other may be lying in inventory. Since both these companies became one, the profit included in the inventory is not yet realised. Therefore, the unrealised profit needs to be reduced from the inventory value and corresponding impact will be adjusted to the goodwill/ capital reserve, as appropriate.

Goodwill/ Capital Reserve A/c Dr.

To Inventories

iii) Treatment of statutory reserve

In case of amalgamation in the nature of purchase, no reserves would have been taken over while acquiring the business. However, if any reserves need to be maintained in the books as per any governing law such as the Income Tax Act, 1961 or Companies Act, 2013 etc., then such reserves will be taken over to comply the requirements of law. The journal entry will be:

Amalgamation Adjustment A/c Dr.

To Statutory Reserve A/c

While disclosing the same in the Balance Sheet, the statutory reserve will be shown under Reserve and Surplus and Amalgamation Adjustment account balance will be reduced from such balance and thus there will not be any impact of statutory reserve in the financial position.

iv) Treatment of goodwill

The goodwill recognised in case of an amalgamation in the nature of purchase will be amortised over a period of 5 years as per AS-14.

If another systematic basis is available, then such basis can also be used.

PRIOR INVESTMENT IN TRANSFEROR COMPANY

If the transferee company has prior investment in transferor company, to the extent of investments held, no consideration will be issued.

At the time of asset acquisition entry, in addition to the business purchase, the investment in transferor will also be credited and goodwill/ capital reserve will be arrived at after considering such value.

PRACTICAL QUESTIONS

Question 1

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

Liabilities	₹ ('000)	Assets	₹ ('000)
Share Capital:		Land & Buildings	50,00
Equity Shares of ₹10 each	75,00	Plant & Machinery	45,00
14% Preference Shares of ₹100 each	25,00	Furniture	10,50
		Investments	5,00
General Reserve	12,50	Inventory	23,00
12% Debentures	40,00	Trade receivables	24,00
Trade payables and other Current liabilities	20,00	Cash & Bank balance	15,00
Total	**172,50**	**Total**	**172,50**

Other Information:

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

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

c) 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 and that of Y Ltd. ₹30. Y Ltd. will issue equity shares to satisfy the equity shareholders of X Ltd. on the basis of intrinsic value. However, the entry should be made at par value only. The nominal value of each equity share of Y Ltd. is ₹10.

Compute the purchase consideration.

Question 2

On 1st April 2018, Tina Ltd. take over the business of Rina Ltd. and discharged purchase consideration as follows:

a) Issued 50,000 fully paid Equity shares of ₹10 each at a premium of ₹5 per share to the equity shareholders of Rina Ltd.
b) Cash payment of ₹50,000 was made to equity shareholders of Rina Ltd.
c) Issued 2,000 fully paid 12% Preference shares of ₹100 each at par to discharge the preference shareholders of Rina Ltd.
d) Debentures of Rina Ltd. 20,000) will he 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 3

Anjana Ltd. is absorbed by Sanjana 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% in form of 8% debentures issued at a premium of 25% at face value and the payment of ₹15 per share in cash and allotment of three 11% preference share of ₹10 each at a discount of 10% and four equity share of ₹10 each at a premium of 20% fully paid for every five shares in Anjana Ltd. The number of shares of the vendor company are 1,50,000 of ₹10 each fully paid.

Calculate purchase consideration as per Accounting Standard 14.

Question 4

N Ltd. and G Ltd. amalgamated to form a new company on 01.04.20X1. Following is the Draft Balance Sheet of N Ltd. and G Ltd. as at 31.03.20X1:

Liabilities	N	G	Assets	N	G
Capital	7,75,000	8,55,000	Plant & Machinery	4,85,000	6,14,000
Current liabilities	6,23,500	5,57,600	Building	7,50,000	6,40,000

			Current assets	1,63,500	1,58,600
	13,98,500	**14,12,600**		**13,98,500**	**14,12,600**

Following are the additional information:

(i) The authorised capital of the new company will be ₹25,00,000 divided into 1,00,000 equity shares of ₹25 each.

(ii) Liabilities of N Ltd. includes ₹50,000 due to G Ltd. for the purchases made. G Ltd. made a profit of 20% on sale to N Ltd.

(iii) N Ltd. had purchased goods costing ₹10,000 from G Ltd. All these goods are included in the current asset of N Ltd. as at 31st March, 20X1.

(iv) The assets of N Ltd. and G Ltd. are to be revalued as under:

Particulars	N	G
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000

(v) 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:

Particulars	N	G
1st year	2,62,800	2,75,125
IInd year	2,12,200	2,49,875
Total	4,75,000	5,25,000

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

You are required to compute the:

a) Equity and preference shares issued to N Ltd. and G Ltd.,

b) Purchase consideration.

Question 5

Y Ltd. decides to absorb X Ltd. The draft Balance Sheet of X Ltd. is as follows:

Liabilities	**₹**	**Assets**	**₹**
3,000 Equity shares of ₹100 each (fully paid)	3,00,000	Net assets	2,90,000
Preference shares	60,000	Profit and Loss Account	70,000
	3,60,000		3,60,000

Y Ltd. agrees to take over the net assets of X Ltd. An equity share in X Ltd., for purposes of absorption, is valued @ ₹70.

Y Ltd. agrees to pay ₹60,000 in cash for payment to preference shareholders. Equity shares will be issued at value of ₹120 each.

Question 6

Given below balance sheet of Vasudha Ltd. Vaishali Ltd as at 31st march, 2012.

(Amount in ₹)

Liabilities	**Vasudha**	**Vaishali**	**Assets**	**Vasudha**	**Vaishali**
Issued Share Capital:			Factory Building	2,10,000	1,60,000
Equity Shares of ₹10 each	5,40,000	4,03,300	Debtors	2,86,900	1,72,900
General Reserves	1,01,000	65,000	Stock	91,500	82,500
Profit & Loss A/c	66,000	43,500	Goodwill	50,000	35,000
Sundry Creditors	44,400	58,200	Cash at Bank	98,000	1,09,590

			Preliminary Expenses	15,000	10,010
Total	7,51,400	5,70,000	Total	7,51,400	5,70,000

Goodwill of the Companies Vasudha Ltd. and Vaishali Ltd. is to be valued at ₹75,000 and ₹50,000 respectively. Factory Building of Vasudha Ltd is worth ₹1,95,000 and of Vaishali Ltd ₹1,75,000. Stock of Vaishali Ltd. has been shown at 10% above of its cost.

It is decided that Vasudha Ltd will absorb Vaishali Ltd by taking over its entire business by issue of shares at the Intrinsic Value.

Calculate purchase consideration and how will it be discharged?

Question 7

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

Super Express Ltd.

Balance Sheet as at 31st December, 20X1

Liabilities	**₹**	**Assets**	**₹**
20,000 Equity shares of ₹100 each	20,00,000	Buildings	10,00,000
Provident fund	1,00,000	Machinery	4,00,000
Trade Payables	60,000	Inventory	3,00,000
Insurance reserve	1,00,000	Trade receivables	2,40,000
		Cash at bank	2,20,000
		Cash in hand	1,00,000
	22,60,000		**22,60,000**

Fast Express Ltd.

Balance Sheet as at 31st December, 20X1

Liabilities	**₹**	**Assets**	**₹**
10,000 Equity shares of ₹100 each	10,00,000	Goodwill	1,00,000
Employees profit sharing account	60,000	Buildings	6,00,000
Trade Payables	40,000	Machinery	5,00,000
Reserve account	1,00,000	Inventory	40,000
Surplus	1,00,000	Trade receivables	40,000
		Cash at bank	10,000
		Cash in hand	10,000
	13,00,000		**13,00,000**

The assets and liabilities of both the companies were taken over by the new company at their book values.

The companies were allotted equity shares of ₹100 each in lieu of purchase consideration amounting to 30,000 shares (20,000 for Super-Fast Express Ltd and 10,000 for Fast Express Ltd.)

Prepare opening balance sheet of Super-Fast Express Ltd considering pooling method.

Question 8

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

(₹ in thousands)

Particulars	**A Ltd.**	**B Ltd.**
Liabilities		
Share capital:		
Equity shares of ₹100 each fully paid up	2,000	1,000
Reserves	1,000	

10% Debentures	500	
Loans from Banks	250	450
Bank overdrafts		50
Trade payables	300	300
Total	**4,050**	**1,800**
Assets		
Tangible assets/fixed assets	2,700	850
Investments	700	–
Trade receivables	400	150
Cash at bank	250	–
Accumulated loss	–	800
Total	**4.050**	**1,800**

B Lid. has acquired the business of A Ltd.

The following scheme of merger was approved:

i. Banks agreed to waive off the loan of ₹60 thousands of B Ltd.

ii. B Ltd. will reduce its shares to ₹10 per share and then consolidate 10 such shares into one share of ₹100 each (new share).

iii. Shareholders of A Ltd. will be given one share (new) of B Ltd. in exchange of every share held in A Ltd.

iv. Trade payables of B Ltd. includes ₹100 thousands payable to A Ltd.

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

Question 9

The following were the summarized Balance Sheets of P Ltd. and V Ltd. as at 31.3.20X1:

Liabilities	P Ltd. (₹ in lakhs)	V Ltd. (₹ in lakhs)
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
Trade payables	1,200	463
Provisions	1,830	702
	33,400	12,500
Assets		
Land and Buildings	6,000	–
Plant and Machinery	14,000	5,000
Furniture, Fixtures and Fittings	2,304	1,700
Inventory	7,862	4,041
Trade receivables	2,120	1,100

Cash at Bank	1,114	609
Cost of Issue of Debentures	–	50
	33,400	12,500

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

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

Details of trade receivables and trade payables as under:

Particulars	P Ltd. (₹ in lakhs)	V Ltd. (₹ in lakhs)
Trade payables		
Bills Payable	120	–
Creditors	1,080	463
	1,200	463
Trade receivables		
Debtors	2,120	1,020
Bills Receivable		80
	2,120	1,100

Expenses of amalgamation amounting to ₹1 lakh were borne by P Ltd.

You are required to:

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

Question 10

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

Particulars	**X Ltd.**	**Y Ltd.**
Liabilities:		
Equity Share Capital	1,00,000	50,000
Profit & Loss A/c	10,000	
Trade payables	25,000	5,000
Loan X Ltd.		15,000
	1,35,000	**70,000**
Assets:		
Sundry Assets	1,20,000	60,000
Loan Y Ltd.	15,000	-
Profit & Loss A/c		10,000
	1,35,000	**70,000**

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

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

Pass take over entries in the books of XY Ltd to take over X Ltd.

Question 11

The Balance Sheet of Mars Limited as on 31st March 2011 was as follows:

Liabilities	**₹**	**Assets**		**₹**
Share Capital:		Fixed Assets:		
1,00,000 Equity shares of ₹10 each fully paid up	10,00,000	Land and building		7,64,000
		Current Assets		7,75,000
Reserve and surplus		Stock		
Capital reserve	42,000	Sundry debtors	1,60,000	
Contingency reserve	2,70,000	Less: Provision for doubtful debts	8,000	1,52,000
Profit and loss A/c	2,52,000	Bill receivable		30,000
Current Liabilities & Provisions		Cash at bank		3,29,000
Bills payable	40,000			
Sundry creditors	2,26,000			
Provisions for income tax	2,20,000			
	20,50,000			**20,50,000**

On 1st April 2011, Jupiter Limited agreed to absorb Mars Limited on the following terms and conditions:

1. Jupiter Limited will take over the assets at the following values:

Land and building	10,80,000
Stock	770,000
Bills receivable	30,000

2. Purchase consideration will be settled by Jupiter Ltd. as 4,100 fully paid 10% preference shares of ₹100 will be issued and the balance will be settled by issuing equity shares of ₹10 each at fully paid up.

3. Liquidation expenses are to be reimbursed by Jupiter Ltd. to the extent of ₹5,000.

4. Sundry debtors realized ₹1,50,000. Bills payable were settled for ₹38,000. Income tax authorities fixed the taxation liability at ₹2,22,000 and the same was paid.

5. Creditors were finally settled with cash remaining after meeting liquidation expenses amounting to ₹8,000.

You are required to:

i. Calculate the number of equity shares and preference shares to be allotted by Jupiter Limited in discharge of purchase consideration.

ii. Prepare the Realisation account, Bank account, Equity shareholders account and Jupiter Limited's account in the books of Mars Ltd.

Question 12

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

Liabilities	**P Ltd**	**Q Ltd.**	**Assets**	**P Ltd.**	**Q Ltd.**
Share Capital			Fixed Assets	7,00,000	2,50,000
Equity Shares of ₹10 each	6,00,000	3,00,000	Investment	80,000	80,000
10% Pref. Shares of ₹100 each	2,00,000	1,00,000	Current Assets:		
Reserves and Surplus	3,00,000	2,00,000	Inventory	2,40,000	3,20,000
Secured Loans:			Trade receivables	4,20,000	2,10,000
12% Debentures	2,00,000	1,50,000	Cash at Bank	1,10,000	40,000
Current Liabilities:					

Trade payables	2,50,000	1,50,000			
	15,50,000	**9,00,000**		**15,50,000**	**9,00,000**

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**

Fixed Assets of both the companies are to be revalued at 15% above book value. Inventory in Trade and Debtors are taken over at 5% lesser than their book value. Both the 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:

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

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

iii. 12% Debenture holders of Q Ltd. are to be paid at 8% premium by 12% Debentures in P Ltd. issued at a discount of 10%.

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

Prepare:

i. Journal entries in the books of P Ltd.

ii. Statement of consideration payable by P Ltd.

Question 13

Consider the following summarized balance sheets of X Ltd. and Y Ltd.

Balance Sheet as on 31st March, 20X1

₹ in 000's

Liabilities	X Ltd.	Y Ltd.	Assets	X Ltd.	Y Ltd.
Equity Share Capital (₹10 each)	50,00	30,00	Land & Building	25,00	15,50
14% Preference Share Capital (₹100 each)	22,00	17,00	Plant & Machinery	32,50	17,00
General Reserve	5,00	2,50	Furniture & Fittings	5,75	3,50
Export Profit Reserve	3,00	2,00	Investments	7,00	5,00
Investment Allowance Reserve		1,00	Inventory	12,50	9,50
Profit & Loss A/c	7,50	5,00	Trade receivables	9,00	10,30
13% Debentures (₹100 each)	5,00	3,50	Cash & Bank	7,25	5,20
Trade payables	4,50	3,50			
Other Current Liabilities	2,00	1,50			
	99,00	**66,00**		**99,00**	**66,00**

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

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

(ii) Issued 15% preference shares of ₹100 each to discharge the preference shareholders of Y Ltd. at 10% premium.

The debentures of Y Ltd. will be converted into equivalent number of debentures of X Ltd.

The statutory reserves of Y Ltd. are to be maintained for 2 more years.

Show the balance sheet of X Ltd. after amalgamation on the assumption that:

(a) the amalgamation is in the nature of merger

(b) the amalgamation is in the nature of purchase

Question 14

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

	K Ltd.	L Ltd.		K Ltd.	L Ltd.
Share Capital			Goodwill	80,000	Nil
Equity Shares of ₹100 each	8,00,000	3,00,000	Land & Building	4,50,000	3,00,000
7% Preference Share of ₹100 each	4,00,000	3,00,000	Plant & Machinery	6,20,000	5,00,000
5% Debentures	2,00,000	–	Furniture and		
General Reserve	–	1,00,000	Fittings	60,000	20,000
Profit and Loss Account	3,71,375	97,175	Trade receivables	2,75,000	1,75,000
Trade payables	1,00,000	2,10,000	Stores & inventory	2,25,000	1,40,000
Secured Loan	–	2,00000	Cash at Bank	1,20,000	55,000
			Cash in hand	41,375	17,175
	18,71,375	12,07,175		18,71,375	12,07,175

The terms of amalgamation are as under:

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.
5. The assets and liabilities are to be taken at book values inventory and trade receivables for which provisions at 2% and 2 1/2 % respectively to be raised.
6. The trade receivables of K Ltd. include ₹20,000 due from L Ltd.
7. 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 15

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

	X Ltd. (₹)	**Y Ltd. (₹)**
Equity and Liabilities		
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
Total	**40,50,000**	**17,10,000**
Assets		
Goodwill	1,50,000	75,000
Land & Buildings	9,00,000	3,00,000
Plant & Machinery	15,00,000	4,50,000
Inventories	7,50,000	5,25,000
Trade Receivables	6,00,000	3,00,000
Cash and Bank	1,50,000	60,000
Total	**40,50,000**	**17,10,000**

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

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

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

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

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

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

vi. The trade payables of Y Ltd. included ₹20,000 payable to X Ltd.

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

You are required to:

i. Prepare Realization Account in the books of Y Ltd.

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

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

Question 16

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

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

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

1. B Ltd. would take over all assets, except bank balance and Patent at their book values less 10%. Goodwill is to be valued at 4 year's purchase of super profits, assuming that the normal rate of return be 8% on the combined amount of share capital and general reserve.

2. B Ltd. is to take over trade payables at book value.

3. The purchase consideration is to be paid in cash to the extent of ₹6,00,000 and the balance in fully paid equity shares of ₹100 each at ₹125 per share.

The average profit is ₹1,24,400. The liquidation expenses amounted to ₹16,000.

B Ltd. sold prior to 31sl March 2018 goods costing ₹1,20,000 to A Ltd. for ₹1,60,000. ₹1,00,000 worth of goods are still in inventory of A Ltd. on 31st March 2018. Trade payables of A Ltd. include ₹40,000 still due to B Ltd.

Show the necessary Ledger Accounts to close the books of A Ltd. Also determine the treatment of unrealized profit in the books of B Ltd.