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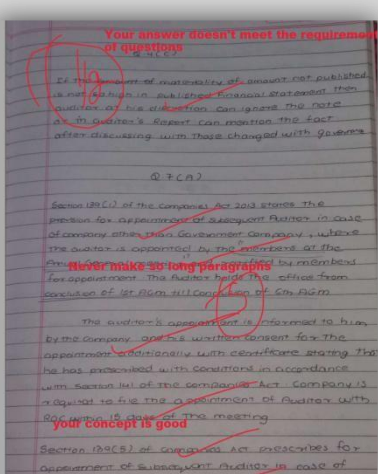

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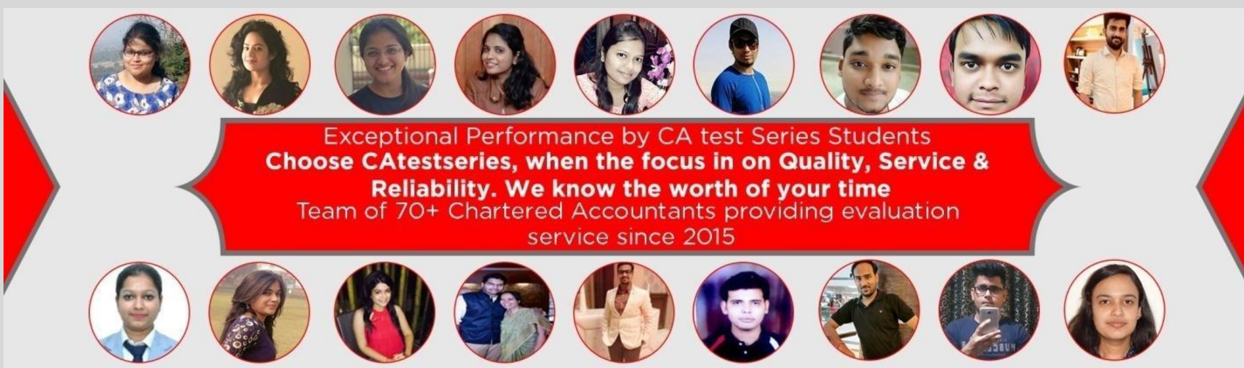

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Advance Accounting

Chapter - 6 Amalgamation

The pooling of Interests Method' should be used in accounting for amalgamation in the merger. The salient features of this method are as follows:

Recording of Assets and Liabilities	In preparing the transferee company's financial statements, the assets and liabilities of the transferor company should be recorded at their existing carrying amounts and in the same form as at the date of amalgamation.
Recording of Reserves (whether capital or revenue or arising on revaluation)	the reserves should be recorded at their existing carrying amounts and in the same form as at the date of the amalgamation.
Recording of Balance profit and Loss A/C	The balance of the Profit and Loss Account of the transferor **company should be aggregated with the corresponding balance of the transferee company or transferred to the General Reserve, if any.**
Difference between the purchase consideration and the amount of share capital of the transferor company	The difference between the amount recorded as share capital issued plus any additional consideration in the form of cash or other assets and the amount of share capital of the transferor company should be adjusted in reserves.
Uniform Set of Accounting Policies	If, at the time of the amalgamation, the transferor and the transferee companies have conflicting accountant policies, a uniform set of accounting policies should be adopted following the amalgamation. The effects on the financial statements of any changes in a accounting policies should be reported in accordance with Accounting Standard

	(AS) 5, 'Prior Period and Extraordinary items and changes in Accounting Policies'.

DISTINCTION BETWEEN AMALGAMATION IN THE NATURE OF PURCHASE AND AMALGAMATION IN THE NATURE OF MERGER

Basis of Distinction	Amalgamation in nature of Merger	Amalgamation in nature of Purchase
1. T/f of Assets & liabilities.	There is transfer of all assets & liabilities.	There need not be transfer of all assets & Liabilities
2. Equity Shareholder holding 90%	Equity shareholders holding 90% equity shares in transferor become shareholders of company become shareholder transferee company.	Equity shareholders, need not become shareholders of transferee company
3. Purchase Consideration	Purchase consideration is discharged wholly by issue of equity shares (except cash for fractional shares)	Purchase consideration need not be discharged wholly by issue of equity shares.
4. Same Business	The same business of the transferor company is intended to be carried on by the transferee company.	The business of the transferor company need not intended to be carried on by the transferee company
5. Recording of Assets & Liabilities	The assets & liabilities taken over are recorded at their existing carrying amounts except where adjustment is required to ensure uniformity	The assets & liabilities taken over are recorded at their existing carrying amounts or the basis of their fair values.

	of accounting policies.	
6. Recording of Re serves of Transferor	All reserves are recorded at their existing carrying amounts and in the same form.	(a) only statutory reserves are recorded at their existing carrying amounts as follows: Amalgamation Adjustment A/c Dr. To Statutory Reserve A/C (b) Other reserves are not recorded at all.
7. Recording of Balance of P&L A/c Transferor Co.	The balance of P&L A/C should be aggregated with the corresponding balance of the transferee co. or transferred to the General Reserve.	The balance profit & Loss A/C of losses its identify and is not recorded at all.
8. Difference between the Purchase Consideration and share capital/Net Assets of transfer co.	The excess of the purchase consideration over the share capital of transferor company is debited to Reserves and the excess of share capital over purchase consideration is credited to reserves.	The excess of purchase consideration over the net assets is treated as Goodwill and the excess of net assets over purchase consideration is to treated as Capital Reserve.

TREATMENT OF RESERVES ARISING ON AMALGAMATION IN THE NATURE OF MERGER

1. **Provision as per AS-14 [Paragraph 35]**

The difference between the amount recorded as share capital issued (plus any additional consideration in the form of cash and other assets) and the amount of the share capital the transferor company should be adjusted in reserves.

2. Opinion of the Expert Advisory Committee of ICAI (Published in 22nd Volume)

(a) The difference between the share capital of the transferor companies and share capital issued by company on amalgamation should be treated as Capital Reserve for the purpose of paragraph 35 of AS-14.

(b) Reserve created on amalgamation is not available for the purpose of distribution to shareholders as dividend and/or bonus shares.

3. Author's Opinion

a) The excess of share capital of the transferor company over the purchase consideration should be treated as Capital Reserve which shall not be available for distribution as dividend or bonus.

(**b**) The excess of purchase consideration over the share capital of the transferor company

Should be treated as Capital loss and should be adjusted:

(i) First against the Capital Reserves

(ii) Then against the Revenue Reserves (if capital reserves are insufficient)

Note: If Revenue Reserves are also insufficient, the necessary required amount should be transferred to Revenue Reserves by debiting Profit & Loss Account. After such transfer if Profit & Loss Account shows debit balance it will be shown on the assets side of the Balance Sheet of Transferee Company.

Questions for practice

Q-1: Given below are the balance sheets of X ltd. and Y ltd. as at 31st March 2012 at which date Y ltd. was absorbed by X ltd.

Liabilities	X ltd.	Y ltd.	Assets	X ltd.	Y ltd.
Equity Shares of Rs 10 each	5.00	10.00	Tangible Fixed Assets	20.00	8.00
			Investments	3.45	5.20
Profit and Loss a/c	27.40	6.55	Stock	5.00	1.00
			Debtors	4.00	0.75
12% Debentures of Rs 100 each	2.00	1.00	Cash at Bank	0.76	1.40
			Bills Receivable	0.25	0.35
Creditors for goods	1.15	0.10	Preliminary Expenses	2.54	1.30
Bills Payable	0.45	0.35			
	36.00	18.00		36.00	18.00

Additional Information: Investments of X ltd. and Y ltd. are considered worth Rs 3,59,000 and Rs 4,95,000 respectively.

Required: Pass the journal Entries in the books of X ltd. and Y ltd. and prepare the Balance sheet of X ltd. after absorption in each of the following alternative cases:

Case (a) If the purchase consideration is to be discharge by the issue of equity shares of Rs 10 each at the premium of Rs 50 per share.

Case (b) If the purchase consideration is to be discharge by the issue of 25000 equity shares of Rs 10 each at the premium of Rs 50 per share.

Case (c) If the purchase consideration is to be discharge by the issue of equity shares on the Basis of intrinsic value of shares of both the companies.

Solution:

Journal of Y Ltd. **(Rs in lakhs)**

Particulars	L.F.	Dr. (Rs)	Cr. (Rs)
Realization a/c Dr.		16.70	
To Tangible fixed assets			8.00
To Investments			5.20
To Stock			1.00
To Debtors			0.75
To Cash at Bank			1.40
To Bills Receivable			0.35
(Being the transfer of various assets to realization a/c)			
12% Debentures Dr.		1.00	
Creditors for goods Dr.		0.10	
Bills Payable Dr.		0.35	
To Realization a/c			1.45
(Being the transfer of various liabilities to Realization account)			
X ltd. a/c Dr.		15.00	
To Realization a/c			15.00
(Being the purchase consolidation due from the purchasing company)			
Equity shares in X ltd. Dr.		15.00	
To X ltd. a/c			15.00
(Being the receipt of purchase consideration from the purchasing company)			
Equity shareholder's a/c Dr.		0.25	
To Realization a/c			0.25
(Being the transfer of loss on realization to equity shareholder's accounts)			

Equity share capital a/c Dr. Profit and Loss a/c Dr. To Equity shareholder's a/c (Being the transfer of share capital and accumulated profits to equity shareholder's account)		10.00 6.55	 16.55
Equity shareholder's a/c Dr. To Preliminary expenses a/c (Being the amount of Preliminary expenses transferred to shareholder's a/c)		1.30	 1.30
Equity shareholder's a/c Dr. To Equity share in X ltd. a/c (Being the final claims of equity shareholders discharged in the form 25,000 equity shares of Rs 10 each issued at Rs 60 per share)		15.00	 15.00

Working Notes: Calculation of purchase consideration (Rs in lakhs)

A. Total Assets taken over at their agreed values

Tangible fixed assets	8.00
Investments	4.95
Stock	1.00
Debtors	0.75
Cash at bank	1.40
Bills Receivable	0.35
	16.45

B. Less: Total Liabilities taken over at their agreed amounts

12% Debentures	1.00
Creditors for goods	0.10
Bills Payable	0.35

		1.45
C.	Net Assets taken over at their agreed values (being purchase Consideration) [A – B]	15.00
D.	Issue Price on an equity share of X ltd.	60
E.	No of shares to be issued [Rs 15,00,000/Rs 60]	25,000
	Face value of 25,000 shares [25,000 × Rs 10]	2,50,000
	Securities Premium of 25,000 shares [25,000 × Rs 50]	12,50,000
		15,00,000

Case (a)

Journal of X Ltd.

Particulars		L.F.	Dr. (Rs)	Cr. (Rs)
Business Purchase a/c	Dr.		15.00	
To Liquidator of Y ltd. a/c				15.00
(Being the purchase consolidation payable to Liquidator of Y ltd. for business purchased as per agreement dated…..)				
Tangible fixed assets	Dr.		8.00	
Investments	Dr.		4.95	
Stock	Dr.		1.00	
Debtors	Dr.		0.75	
Cash at bank	Dr.		1.40	
Bills Receivable	Dr.		0.35	
To 12% Debentures				1.00
To Creditors for goods				0.10
To Bills Payable				0.35
To Business Purchase a/c				15.00
(Being the assets & liabilities of Y ltd. taken over, recorded)				

Liquidator of Y ltd. Dr.		15.00	
To Equity share capital a/c			2.50
To Securities Premium a/c			12.50
(Being the purchase consolidation discharged by issue of 25,000 equity shares of Rs 10 each at a premium of Rs 50 per share)			
Profit and Loss a/c Dr.		2.54	
To Preliminary expenses a/c			2.54
(Being the preliminary exp. w/o as per Para 56 of AS 26)			

Note: As per Para 56 of AS 26, 'Intangible Assets', Preliminary Expenses are to be recognized as expenses as and when they are incurred. Hence, Preliminary Expenses are not be appear in the Balance Sheet.

Balance Sheet of X Ltd. as at 31.3.2012

Particulars	Note No.	Rs (in lacs)
I. Equity and Liabilities		
1) Shareholder's fund		
a) Share Capital	1	7.50
b) Reserve and Surplus	2	37.36
2) Non-current Liabilities		
a) Long-term Borrowings [12% Debentures] [2 + 1]		3.00
3) Current Liabilities		
a) Trade Payables	3	2.05
Total		**49.91**
II. Assets		
1) Non-current Assets		
a) Fixed Assets		
Tangible Assets [20 + 8]		28.00

Intangible Assets		
b) Non-current Investments [3.45 + 4.95]		8.40
2) Current Assets		
a) Inventories [5 + 1]		6.00
b) Trade Receivable	4	5.35
c) Cash and Cash Equivalents [0.76 + 1.40]		2.16
Total		**<u>49.91</u>**

Notes to Accounts:

Particulars	Rs (in lacs)
1. Share Capital	
75000 Equity Shares of Rs 10 each	7.50
(of the above 25000 shares were issued for consideration otherwise than cash)	
2. Reserve and Surplus	
Securities and Premium	12.50
Profit and Loss	24.86
	37.36
3. Trade Payables	
Sundry creditors [1.15 + 0.10]	1.25
Bills Payables	0.80
	2.05
4. Trade Receivables	
Sundry Debtors [4 + 0.75]	4.75
Bills Receivables [0.25 + 0.35]	0.60
	5.35

Case (b)

Purchase consideration = 25000 × Rs 60 = Rs 15,00,000 (on Net Payment Basis)

The solution will be remain the same as given in case (a) since the purchase consideration in both the cases is same.

Case (c)

a) Calculation of intrinsic value of a share

		X Ltd.	Y Ltd.
A.	Total Assets at their current values	Rs	Rs
	Fixed Assets	20.00	8.00
	Investments	3.59	4.95
	Stock	5.00	1.00
	Debtors	4.00	0.75
	Cash at Bank	0.76	1.40
	Bills Receivable	0.25	0.35
		33.60	16.45
B.	Less: Total Liabilities other than equity share holder's claim		
	12% Debentures	2.00	1.00
	Creditors for goods	1.15	0.10
	Bills Payable	0.45	0.35
		3.60	1.45
C.	Net Assets for Equity shareholders [A – B]	30.00	15.00
D.	No of Shares	0.50	1.00
E.	Intrinsic value of an Equity Share [C/D]	60	15

b) Purchase consideration being equal to net assets = Rs 15,00,000

c) Issue Price of an Equity share of X Ltd. = Rs 60

d) No of shares to be issued [Rs 15,00,000/Rs 60] = 25,000

The solution will be same as given in case (a) since the purchase consideration in both the cases is same.

Q-2:

The Balance Sheet of PRARTHANA Ltd. as at 31st March 2012 was as follows:

Liabilities	Rs	Assts	Rs
Equity share of Rs 10 fully paid	6,00,000	Goodwill	1,00,000
Statutory Reserves	1,70,000	Tangible fixed assets	6,00,000
General Reserve	10,000	Stock	2,08,000
Profit and Loss account	1,10,000	Debtors	36,000
12% Debentures	1,00,000	Cash & Bank	56,000
Creditors	20,000	Preliminary Expenses	10,000
	10,10,000		10,10,000

PIYUSH Ltd. agreed to absorb the business of PRARTHANA Ltd. with effect from 1st Apr, 2012. The purchase consideration payable by PIYUSH Ltd. was agreed as follows:

a) A cash payment equivalent to Rs 2.50 for every Rs 10 share in PRARTHANA Ltd.
b) The issue of 90,000 Equity shares of Rs 10 each fully paid in PIYUSH Ltd. having an agreed value of Rs 15 per share.
c) The issue of such an amount of fully paid 14% Debentures in PIYUSH Ltd. at 96 per cent as is sufficient to discharge 12% Debentures in PRARTHANA Ltd. at a premium of 20 per cent.

While computing purchase consideration, PIYUSH Ltd. valued Tangible Fixed Assets at 100% more than the book value. Stock at Rs 1,42,000 and Debtors at their face value subject to a provision of 5 per cent for doubtful debts. The actual cost of liquidation of PRARTHANA Ltd. was Rs 15,000. Liquidation cost of PRARTHANA Ltd. is to be reimbursed by PIYUSH Ltd. to the extent of Rs 10,000. Statutory Reserves are to be maintained for 2 more years.

Required: (i) Close the books of PRARTHANA Ltd. by preparing Realization Account, PIYUSH Ltd. Account, Shareholder’s Account and Debentures Account; and

(ii) Pass Journal Entries in the books of PIYUSH Ltd. regarding acquisition of business.

Solution:

BOOK OF PRARTHANA LTD.

REALIZATION ACCOUNT

Particulars	Rs	Particulars	Rs
To Goodwill	1,00,000	By Creditors	20,000
To Tangible Fixed Assets	6,00,000	By PIYUSH Ltd.	15,00,000
To Stock	2,08,000	By 12% Debentures	1,00,000
To Debtors	36,000		
To Cash & Bank [Rs 56,000 – Rs 5,000]	51,000		
To Cash & Bank (Expenses)	5,000		
To Profit on Realization t/f to Equity shareholder's a/c	6,20,000		
	16,20,000		16,20,000

PIYUSH LTD. ACCOUNT

Particulars	Rs	Particulars	Rs
To Realization a/c	15,00,000	By Cash a/c	1,50,000
		By Equity Shares in PIYUSH Ltd.	13,50,000
	15,00,000		15,00,000

EQUITY SHAREHOLDERS' ACCOUNT

Particulars	Rs	Particulars	Rs
To Preliminary Expenses a/c	10,000	By Share Capital	6,00,000
To Cash a/c	1,50,000	By Statutory Reserves	1,70,000
To Equity Shares in PIYUSH Ltd.	13,50,000	By General Reserve	10,000
		By Profit and Loss a/c	1,10,000

		By Realization a/c	6,20,000
	15,10,000		15,10,000

12% DEBENTURES ACCOUNT

Particulars	Rs	Particulars	Rs
To Realization a/c	1,00,000	By Balance b/d	1,00,000

CASH AND BANK ACCOUNT

Particulars	Rs	Particulars	Rs
To Balance b/d	56,000	By Realization a/c (transfer)	51,000
To PIYUSH Ltd.	1,50,000	By Realization a/c (expenses)	15,000
To PIYUSH Ltd.	10,000	By Equity shareholders' a/c	1,50,000
	2,16,000		2,16,000

JOURNAL OF PIYUSH LTD.

Particulars	L.F.	Dr.	Cr.
Business purchase a/c Dr.		15,00,000	
To Liquidators of PRARTHANA Ltd.			15,00,000
(Being the purchase of the business of PRARTHANA ltd. as per agreement dated……)			
Goodwill a/c (Balancing figure) Dr.		2,12,800	
Tangible Fixed Assets Dr.		12,00,000	
Stock Dr.		1,42,000	
Debtors Dr.		36,000	
Cash & Bank Dr.		51,000	
To Creditors a/c			20,000

To 12% Debentures in PRARTHAN Ltd. To Provision for doubtful debts a/c To Business Purchase a/c (Being the assets & liabilities taken over recorded, Goodwill being the balancing figure)			1,20,000 1,800 15,00,000
Liquidators of PRARTHANA Ltd. Dr. To Equity Share Capital a/c To Securities Premium a/c To Bank a/c (Being the purchase consideration discharged)		15,00,000	 9,00,000 4,50,000 1,50,000
12% Debentures in PRARTHANA Ltd. Dr. Discount on issue of debenture a/c Dr. To 14% Debentures a/c (Being the issue of 14% debentures to 12% debenture holders of PRARTHANA Ltd. at a discount of 4%) [Face Value of Debentures Rs 1,20,000/. 96 = Rs 1,25,000]		1,20,000 5,000	 1,25,000
Amalgamation Adjustment a/c Dr. To Statutory Reserve a/c (Being the identify of statutory reserve retained)		1,70,000	 1,70,000
Goodwill a/c Dr. To Bank a/c (Being the payment of Liquidation Exp. of Vendor Co.)		10,000	 10,000

Working Notes:

i. Calculation of Purchase Consideration

	Rs
Cash – Rs 2.50 × 60,000	1,50,000
Equity Shares – 90,000 × 15	13,50,000
	15,00,000

ii. It is assumed that PRARTHANA Ltd. will retained cash for expenses.

Q-3:

The Balance Sheets as at 31st March, 2012 of CAMIC Ltd. and Y Ltd. are as under:

CAMIC LTD.

Liabilities	Rs	Assets	Rs
60,000 equity shares of Rs 100		Buildings	20,00,000
each fully paid	60,00,000	Machineries	26,00,000
General Reserve	8,00,000	Furniture	40,000
Profit and Loss A/c	4,88,000	Stock	16,00,000
Creditors	9,60,000	Debtors	9,20,000
		Cash in hand	2,80,000
		Bank Balance	8,08,000
	82,48,000		82,48,000

Y LTD.

Liabilities	Rs	Assets	Rs
20,000 equity shares of Rs 100		Goodwill	4,00,000
each fully paid	20,00,000	Machineries	16,80,000
Statutory Reserves	2,00,000	Furniture	20,000
General Reserve	1,00,000	Expenditure on new project	3,00,000
Profit and Loss a/c	1,40,000	Stock	7,20,000
12% Debentures	12,00,000	Debtors	7,20,000
Creditors	3,80,000	Cash in hand	20,000
		Bank Balance	1,60,000
	40,20,000		40,20,000

Y Ltd. was absorbed by CAMIC Ltd. on 1st April, 2012 on the following terms:

(a) Fixed Assets (other than Goodwill and New Project) to be valued at Rs 20,00,000 including Rs 24,000 for furniture, (b) Stock to be reduced by Rs 80,000, and debtors by 5 per cent, (c) CAMIC Ltd. to assume liabilities and to discharge the 12% Debentures by issue of 11% Debentures of the same value and in addition a premium of 6% was paid in cash, (d) The new project to be valued at Rs 3,80,000, (e) The Shareholders of Y Ltd. to receive cash payment of Rs 30 per share plus four equity shares in CAMIC Ltd. for every five shares held in Y Ltd., (f) Both the companies to declare and pay dividend of 6% prior to absorption, (g) Expenses of liquidation of Y Ltd are to be reimbursed by CAMIC Ltd. to the extent of Rs 20,000. The actual expenses amounted to Rs 24,000.

Required: Draft journal entries recording the scheme in the books of Y ltd. and prepare the balance sheet of CAMIC ltd. after absorption assuming that CAMIC Ltd.'s Authorized capital has been increased to Rs 80,00,000. [Assume Corporate Dividend Tax @ 10%]

Solution:

JOURNAL OF Y LTD.

Particulars	L.F.	Dr. (in Rs)	Cr. (in Rs)
Profit and Loss a/c Dr.		1,32,000	
To Dividend Payable a/c			1,20,000
To Corporate Dividend Tax a/c			12,000
(Being the declaration of dividend @ 6% on 20,000 equity shares of Rs 100 each and provision for corporate dividend tax)			
Corporate Dividend Tax a/c Dr.		12,000	
Dividend Payable a/c Dr.		1,20,000	
To Bank a/c			1,32,000
(Being the payment of dividend and dividend tax)			
Realization a/c Dr.		38,84,000	
To Goodwill a/c			4,00,000

To Machineries a/c To Furniture a/c To Stock a/c To Debtors a/c To Expenditure on new project a/c To Cash a/c [Rs 20000 – 4000 for expense] To Bank a/c [Rs 1,60,000 – 6% on Rs 20,00,000 – 10% of Rs 1,20,000] (Being the assets to be taken over by CAMIC Ltd. as per scheme of absorption, transferred to realization a/c)			16,80,000 20,000 7,20,000 7,20,000 3,00,000 16,000 28,000
12% Debentures a/c Dr. Creditors a/c Dr. To Realization a/c (Being the liabilities to be taken over by CAMIC Ltd)		12,00,000 3,80,000	 15,80,000
CAMIC Ltd. a/c Dr. To Realization a/c (Being the agreed amount of purchase consideration payable by CAMIC Ltd. in terms of scheme of absorption)		22,00,000	 22,00,000
Equity shares of CAMIC Ltd. a/c Dr. Bank a/c Dr. To CAMIC Ltd. a/c (Being the purchase consideration received)		16,00,000 6,00,000	 22,00,000
CAMIC Ltd. a/c Dr. Realization a/c Dr. To Cash and Bank a/c (Being the payment of liquidation expenses Rs 20,000 to be reimbursed by Purchasing Company)		20,000 4,000	 24,000

Bank a/c Dr. To CAMIC Ltd. (Being the Rs 20,000 being cost of liquidation reimbursed by purchasing company)		20,000	20,000
Equity share capital a/c Dr. Statutory Reserves a/c Dr. General Reserve a/c Dr. Profit and Loss a/c Dr. To Equity shareholders' a/c (Being the settlement of claims of the equity share holders)		20,00,000 2,00,000 1,00,000 8,000	23,08,000
Equity shareholders' a/c Dr. To Realization a/c (Being the transfer of loss on realization)		1,08,000	1,08,000
Equity shareholders' a/c Dr. To Equity shares of CAMIC Ltd. a/c To Bank a/c (Being the settlement of claims of the equity share holders)		22,00,000	16,00,000 6,00,000

BALANCE SHEET OF CAMIC LTD. AS AT 1.04.2012

Particulars	Note no	Rs (in lacs)
I. Equity and Liabilities		
1) Shareholders' Fund		
a) Share Capital	1	76.00
b) Reserves and Surplus	2	10.92
2) Non-current Liabilities		
a) Long term borrowings (12% Debentures)		12.00
3) Current liabilities		

a) Trade Payable [9.60 + 3.80]		13.40
Total		**<u>112.32</u>**
II. Assets		
1) Non-current Assets		
a) Fixed Assets		
Tangible Assets		
Intangible Assets [1.04 + 0.20]	3	70.20
b) Non-current Investments	(ii)	1.24
c) Other Non-current Assets		
[Amalgamation Adjustment a/c]		3.00
2) Current Assets		
a) Inventories [16 + 6.40]		22.40
b) Trade Receivables [9.20 + 6.84]		16.04
c) Cash and Cash Equivalents	(iii)	0.44
Total		**<u>112.32</u>**

Notes on accounts:

Particulars	Rs (in lacs)
1. Share Capital	
76,000 Equity Shares of Rs 10 each	76.00
(of the above 16,000 Shares were issued for consideration otherwise than cash)	
2. Reserves and surplus	
General Reserve	8.00
Profit and Loss a/c	0.92
Statutory Reserves	2.00
	10.92

3. Tangible Assets	
Building	20.00
Plant & Machinery [26 + 19.76]	45.76
Furniture [0.40 + 0.24]	0.64
Capital Working Process	3.80
	70.20

Working Notes:

i. Calculation of Purchase Consideration

	Rs
Payment to Equity Shareholders:	
Cash @ Rs 30 per share (20000 × Rs 30)	6,00,000
$\left[\frac{20,000 \times 4}{5}\right]$ i.e. 16,000 equity shares of X Ltd. of Rs 100	
Each fully paid up	16,00,000
	22,00,000

ii. Calculation of Goodwill/capital Reserve to CAMIC Ltd. on absorption

A.	Purchase Consideration	22,00,000
B.	Value of net assets taken over by X Ltd.,	
	Machineries (Rs 20,00,000 – Rs 24,000)	19,76,000
	Furniture	24,000
	Expenditure on New Projects	3,80 000
	Stock	6,40,000
	Debtors	6,84,000
	Cash in hand [Rs 20,000 – Rs 4,000 (Exp.)]	16,000
	Bank Balances [Rs 1,60,000 – 6% on Rs 20,00,000 – Rs 12,000]	28,000
	Total Assets taken over their agreed values	37,48,000
	Less: Liabilities taken over [Debentures + Creditors]	(16,52,000)
	Net Assets taken over	20,96,000
C.	Goodwill (A – B)	1,04,000

CASH BOOK OF CAMIC LTD.

Particulars	Cash	Bank	Particulars	Cash	Bank
To Balance b/d	2,80,000	8,08,000	By Dividend Payable a/c		3,60,000
To Cash a/c (contra)	-	2,80,000	By Corporate Dividend tax a/c		36,000
To Business Purchase	16,000	28,000	By Liquidator of Y Ltd.		6,00,000
			By 12% Debenture holders		72,000
			By Goodwill		20,000
			By Bank a/c (contra)	2,80,000	
			By Balance c/d	16,000	28,000
	2,96,000	11,16,000		2,96,000	11,16,000

*Cash deposited into the Bank

Q – 4:

P Ltd. acquires the business of V Ltd. whose Balance Sheet as at 31st March 2012 was under:

Liabilities	Rs	Assets	Rs
6% Preference Share Capital (Rs 100)	4,00,000	Goodwill	2,00,000
Equity share capital	8,00,000	Tangible Fixed Assets	10,50,000
Statutory Reserves	78,400	Stock	1,50,000
Profit and Loss a/c	71,600	Books Debts	1,55,000
6% Debentures	2,00,000	Bills Receivable	25,000
Interest outstanding on above	12,000	Cash at Bank	70,000
Workmen's compensation Reserve (Expected liability Rs 5,000)	8,000	Underwriting Commission	40,000
Trade creditors	1,00,000		
Bills Payable	20,000		

	16,90,000		16,90,000

Prior to acquisition, V Ltd. decided to declare and pay an equity dividend of 4% and preference dividend.

P Ltd. was to take over all assets (except cash) and liabilities (expect of interest due on debentures) and to pay the following amounts.

i. Rs 2,00,000 7% Debentures (Rs 100 each) in P Ltd. for the existing debentures in V Ltd.; for the purpose, each debentures of P Ltd. is to be treated as worth Rs 105.
ii. For each preference share in V Ltd. Rs 10 in cash and one 9% preference shares @ Rs 100 each in P Ltd.
iii. For each equity share in V Ltd. Rs 20 in cash and one equity share in P Ltd. @ Rs 100 each at Rs 140.
iv. Expenses of liquidation of V Ltd. are to be reimbursed by P Ltd. to the extent @ Rs 10,000 actual expenses amounted to Rs 12,500.

P Ltd. valued Tangible Fixed Assets at Rs 12,20,000

P Ltd. owed V Ltd. Rs 60,000 for the purchase of stock from V Ltd. which made a profit of 20% on cost. Four fifth of such stock were sold till 31.3.20X1. All Bills Receivables of V Ltd. were drawn upon P Ltd. The bills amounting to Rs 10,000 have already been discounted with the Bank.

Required: Prepare journal of V Ltd. and P Ltd. Also show Realization account, Cash at Bank account and Equity shareholders' account. (Assume Corporate Dividend tax @ 10%)

Solution:

JOURNAL OF V LTD.

Date	Particulars	L.F.	Dr. (Rs.)	Cr. (Rs.)
	Profit & loss a/c Dr. To Pref. Dividend Payable a/c		61,600	 24,000

	To Equity Dividend Payable a/c			32,000
	To Corporate Dividend Tax a/c			5,600
	(Being the an equity dividend @ 4% and Pref. Dividend 6% declared)			
	Pref. Dividend Payable a/c Dr.		24,000	
	Equity Dividend Payable a/c Dr.		32,000	
	Corporate Dividend Tax a/c Dr.		5,600	
	To Bank a/c			61,600
	(Being the payment of dividend and C.D.T.)			
	Workmen's compensation Reserve a/c Dr.		5,000	
	To Workmen's compensation Payable a/c			5,000
	(Being provision made for workmen compensation)			
	Realization a/c Dr.		15,80,000	
	To Goodwill a/c			2,00,000
	To Tangible Fixed Assets			10,50,000
	To Stock a/c			1,50,000
	To Book debts a/c			1,55,000
	To Bills Receivable a/c			25,000
	(Being the transfer of various assets to Realization a/c)			
	6% Debentures a/c Dr.		2,00,000	
	Trade Creditors a/c Dr.		1,00,000	
	Bills Payable a/c Dr.		20,000	
	Workmen's compensation Payable a/c Dr.		5,000	
	To Realization a/c			3,25,000
	(Being the transfer of various liabilities to Realization a/c)			
	P Ltd. a/c Dr.		17,20,000	
	To Realization a/c			17,20,000
	(Being the purchase consideration due from the			

	purchasing company)			
	Equity shares in P Ltd. a/c Dr. 9% Preference Shares in P Ltd. a/c Dr. Bank a/c Dr. To P Ltd. a/c (Being the receipt of purchase consideration)		11,20,000 4,00,000 2,00,000	 17,20,000
	Realization a/c Dr. P Ltd. a/c Dr. To Bank a/c (Being the payment of Realization Expenses)		2,500 10,000	 12,500
	Bank a/c Dr. To P Ltd. a/c (Being the reimbursement of realization a/c)		10,000	 10,000
	Interest on 6% debentures a/c Dr. To Bank a/c (Being the payment of liability not taken over)		12,000	 12,000
	6% Preference share Capital a/c Dr. Realization a/c Dr. To 6% Pref. Shareholder's a/c (Being the loss on redemption of Pref. share provided for)		4,00,000 40,000	 4,40,000
	Preference Share holder's a/c Dr. To 9% Preference Share in P Ltd. a/c To Bank a/c (Being the claims of Pref. shareholders discharged)		4,40,000	 4,00,000 40,000
	Realization a/c Dr. To Equity shareholders' a/c (Being the transfer of profit on realization)		4,22,500	 4,22,500
	Equity share capital a/c Dr.		8,00,000	

	Statutory Reserves a/c Dr. Profit and Loss a/c [71,600 – 56,000 – 5,600] Dr. Workmen's compensation Reserve a/c Dr. To Equity shareholders' a/c (Being the transfer of equity share capital & accumulated profits & reserves)		78,400 10,000 3,000	 8,91,400
	Equity shareholders' a/c Dr. To Underwriting Commission a/c (Being the transfer of accumulated losses)		40,000	 40,000
	Equity shareholders' a/c Dr. To Equity shares in P Ltd. a/c To Bank a/c (Being the claims of Equity shareholders discharged)		12,73,900	 11,20,000 1,53,900

REALIZATION A/C

Particulars	Rs	Particulars	Rs
To Goodwill a/c	2,00,000	By Trade creditors a/c	1,00,000
To Tangible Fixed Assets	10,50,000	By Bills payable a/c	20,000
To Stock a/c	1,50,000	By 6% Debenture a/c	2,00,000
To Book debts a/c	1,55,000	By Workmen's compensation payable a/c	5,000
To Bills Receivable a/c	25,000	By P Ltd. (Purchase consideration)	17,20,000
To Bank a/c (Liquidation exp)	2,500		
To Pref. shareholders' a/c	40,000		
To Equity shareholders' a/c (Realization Profit)	4,22,500		
	20,45,000		20,45,000

EQUITY SHAREHOLDERS' ACCOUNT

Particulars	Rs	Particulars	Rs

To Underwriting Commission	40,000	By Equity share capital a/c	8,00,000
To Equity share in P Ltd.	11,20,000	By Statutory Reserves a/c	78,400
To Bank a/c	1,53,900	By Profit and Loss a/c	10,000
		By Workmen's compensation Reserve a/c	3,000
		By Realization a/c	4,22,500
	13,13,900		13,13,900

BANK ACCOUNT

Particulars	Rs	Particulars	Rs
To Balance b/d	70,000	By Pref. Dividend payable a/c	24,000
To P Ltd. (Reimbursement of liquidation expenses)	10,000	By Equity Dividend payable a/c	32,000
		By Corporate Dividend Tax a/c	5,600
To P Ltd. (Payment of purchase consideration)	2,00,000	By Interest on 6% Debentures	12,000
		By Realization a/c	2,500
		By P Ltd.	10,000
		By Pref. shareholders' a/c	40,000
		By Equity shareholders' a/c	1,53,900
	2,80,000		2,80,000

JOURNAL OF P LTD.

Particulars		L.F.	Dr. (Rs)	Cr. (Rs)
Business purchase a/c	Dr.		17,20,000	
To Liquidators of V Ltd.				17,20,000
(Being the purchase consideration payable to liquidation of Y Ltd. for business purchase as per agreement dated…)				
Tangible Fixed Assets a/c	Dr.		12,20,000	
Stock a/c	Dr.		1,50,000	
Book debts a/c	Dr.		1,55,000	

Bills Receivable a/c Dr.		25,000	
Goodwill a/c Dr.		5,05,000	
To 6% Debentures			2,10,000
To Trade Payable			1,00,000
To Bills Payable			20,000
To Workmen's Compensation Payable			5,000
To Business Purchase a/c			17,20,000
(being the assets & liabilities of V Ltd. taken over recorded)			
Liquidation of V Ltd. a/c Dr.		17,20,000	
To Bank a/c			2,00,000
To 9% Preference share capital a/c			4,00,000
To Equity share capital a/c			8,00,000
To Securities Premium a/c			3,20,000
(Being the purchase consideration discharged by the issue of 2,000 Pref. shares & 8,00,000 Equity shares and cash Rs 2,00,000)			
6% Debentures a/c Dr.		2,10,000	
To 7% Debentures a/c			2,00,000
To Debentures Premium a/c			10,000
(Being the discharge of debentures of V Ltd.)			
Goodwill a/c Dr.		10,000	
To Bank a/c			10,000
(Being the payment of realization exp of V Ltd.)			
Goodwill a/c Dr.		2,000	
To Stock a/c			2,000
(Being the elimination of unrealized profit included in goods purchased from V Ltd.)			
B/P a/c Dr.		25,000	

To B/R a/c (V Ltd.) (Being the capitalization of Inter. Co. Owing)				25,000
Creditors a/c To Debtors a/c (V Ltd.) (Being the capitalization of Inter. Co. Owing)	Dr.		60,000	 60,000
Amalgamation Adjustment a/c To Statutory reserve a/c (Being the identity of statutory reserves retained)	Dr.		78,400	 78,400