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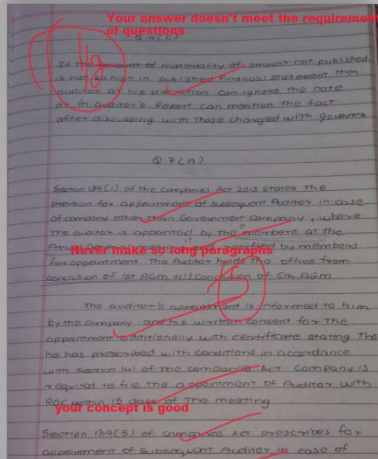
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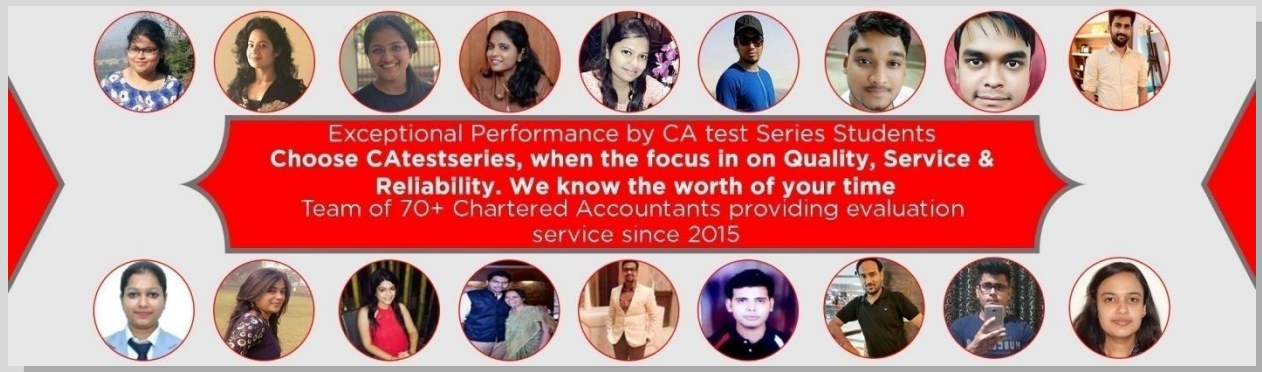


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Amalgamation

Question 1

The following is the summarized Balance Sheet of A Ltd. as at 31st March, 2006:

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
Loan from A	1,60,000	Stock	2,20,000
Creditors	3,20,000	Debtors	2,60,000
General Reserve	80,000	Bank	1,36,000
		Goodwill	1,30,000
		Misc. Expenses	34,000
		(Share issue Expenses)	—
	<u>17,60,000</u>		<u>17,60,000</u>

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

- (1) B Ltd. would take over all assets, except bank balance 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 creditors 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 31st March, 2006 goods costing ₹ 1,20,000 to A Ltd. for ₹ 1,60,000. ₹ 1,00,000 worth of goods are still in stock of A Ltd. on 31st March, 2006. Creditors of A Ltd. include ₹

40,000 still due to B Ltd.

Show the necessary Ledger Accounts to close the books of A Ltd. and prepare the Balance Sheet of B Ltd. as at 1st April, 2006 after the takeover.

Answer

Books of A Limited

Realisation Account

	₹		₹
To Building	3,40,000	By Creditors	3,20,000
To Machinery	6,40,000	By B Ltd.	12,10,000
To Stock	2,20,000	By Equity Shareholders (Loss)	76,000
To Debtors	2,60,000		
To Goodwill	1,30,000		
To Bank (Exp.)	<u>16,000</u>		
	<u>16,06,000</u>		<u>16,06,000</u>

Bank Account

To Balance b/d	1,36,000	By Realisation (Exp.)	16,000
To B Ltd.	6,00,000	By 10% debentures	4,00,000
		By Loan from A	1,60,000
		By Equity shareholders	<u>1,60,000</u>
			<u>7,36,000</u>
	<u>7,36,000</u>		

10% Debentures Account

To Bank	<u>4,00,000</u>	By Balance b/d	<u>4,00,000</u>
	<u>4,00,000</u>		<u>4,00,000</u>

Loan from A Account

To	Bank	<u>1,60,000</u>	By	Balance b/d	<u>1,60,000</u>
		<u>1,60,000</u>			<u>1,60,000</u>

Misc. Expenses Account

To	Balance b/d	<u>34,000</u>	By	Equity shareholders	<u>34,000</u>
		<u>34,000</u>			<u>34,000</u>

General Reserve Account

To	Equity shareholders	<u>80,000</u>	By	Balance b/d	<u>80,000</u>
		<u>80,000</u>			<u>80,000</u>

B Ltd. Account

To	Realisation A/c	<u>12,10,000</u>	By	Bank	<u>6,00,000</u>
			By	Equity share in B Ltd.(4,880 shares at ₹ 125 each)	<u>6,10,000</u>
		<u>12,10,000</u>			<u>12,10,000</u>

Equity Shares in B Ltd. Account

To	B Ltd.	<u>6,10,000</u>	By	Equity shareholders	<u>6,10,000</u>
		<u>6,10,000</u>			<u>6,10,000</u>

Equity Share Holders Account

To	Realisation	<u>76,000</u>	By	Equity share capital	<u>8,00,000</u>
To	Misc. Expenses	<u>34,000</u>	By	General reserve	<u>80,000</u>
To	Equity shares in B Ltd.	<u>6,10,000</u>			
To	Bank	<u>1,60,000</u>			
		<u>8,80,000</u>			<u>8,80,000</u>

B Ltd

Balance Sheet as on 1st April, 2006 (An extract)*

	Particulars	Notes	₹
	Equity and Liabilities		
1	Shareholders' funds		
a	Share capital	1	4,88,000
b	Reserves and Surplus	2	1,07,000
2	Current liabilities		
a	Trade Payables	3	2,80,000
b	Bank overdraft		6,00,000
	Total Assets		14,75,000
1	Non-current assets		
a	Fixed assets	4	8,82,000
	Tangible		
	assets Intangible assets	5	2,16,000
2	Current assets		
a	Inventories	6	1,83,000
b	Trade receivables	7	1,94,000
			14,75,000

Notes to accounts

			₹
1	Share Capital		
	Equity share capital		
	4,880 Equity shares of ₹100 each		4,88,000
	(Shares have been issued for consideration)		4,88,000

2	other than cash)	Total		1,22,000
	Reserves and Surplus (an extract)			
	Securities Premium			
	Profit and loss account			
	Less: Unrealised profit	(15,000)	(15,000)	
	Total		1,07,000	
3	Trade payables			
	Opening balance	3,20,000		
	Less: Inter-company transaction cancelled upon	(40,000)	2,80,000	
4	amalgamation			
	Tangible assets			3,06,000
	Buildings Machinery			5,76,000
	Total		8,82,000	
5	Intangible assets			
	Goodwill			2,16,000
6	Inventories Opening			
	balance	1,98,000		
	Less: Cancellation of profit upon amalgamation	(15,000)	1,83,000	
7	Trade receivables			
	Opening balance	2,60,000		
	Less: Intercompany transaction cancelled upon amalgamation	(40,000)		
		(26,000)	1,94,000	
	Less: Provision for doubtful debts			

Working Notes:

1. Valuation of Goodwill		₹
Average profit		1,24,400
Less: 8% of ₹ 8,80,000		<u>(70,400)</u>
Super profit		<u>54,000</u>
Value of Goodwill = 54,000 x 4		<u>2,16,000</u>
2. Net Assets for purchase consideration		
Goodwill as valued in W.N.1		2,16,000
Building		3,06,000
Machinery		5,76,000
Stock		1,98,000
Debtors		<u>2,60,000</u>
Total Assets		15,56,000
Less: Creditors	3,20,000	
Provision for bad debts	<u>26,000</u>	<u>(3,46,000)</u>
Net Assets		<u>12,10,000</u>

Out of this ₹ 6,00,000 is to be paid in cash and remaining i.e., (12,10,000 – 6,00,000) ₹ 6,10,000 in shares of ₹ 125. Thus, the number of shares to be allotted $6,10,000/125 = 4,880$ shares.

Unrealised Profit on Stock

₹

The stock of A Ltd. includes goods worth ₹ 1,00,000 which was sold by B

Ltd. on profit. Unrealized profit on this stock will be $\frac{40,000}{1,60,000} \times 1,00,000$ 25,000

As B Ltd purchased assets of A Ltd. at a price 10% less than the book value, 10% need to be adjusted from the stock i.e., 10% of ₹ 1,00,000. (10,000)

Amount of unrealized profit **15,000**

Question 2

The following are the Balance Sheets of M Ltd. and N Ltd. as at 31st March, 2009:

	(₹ in lakhs)	
Liabilities	M Ltd.	N Ltd.
Fully paid equity shares of ₹ 10 each	3,600	900
10% Preference shares of ₹ 10 each, fully paid up	1,200	-
Capital Reserve	600	-
General Reserve	2,100	-
Profit and Loss Account	780	-
8% Redeemable debentures of ₹ 1,000 each	-	300
Trade Creditors	2,421	369
Provisions	870	93
	<u>11,571</u>	<u>1,662</u>
Assets		
Plant and Machinery	4,215	468
Furniture and Fixtures	2,400	183
Motor Vehicles	-	51
Stock	2,370	444
Sundry Debtors	1,044	237
Cash at Bank	1,542	240
Preliminary Expenses	-	33 ³
Discount on Issue of Debentures	-	6
	<u>11,571</u>	<u>1,662</u>

A new Company MN Ltd. was incorporated with an authorised capital of ₹ 15,000 lakhs divided into shares of ₹ 10 each. For the purpose of amalgamation in the nature of merger, M Ltd. and N Ltd. were merged into MN Ltd. on the following terms:

- (i) Purchase consideration for M Ltd.'s business is to be discharged by issue of 120 lakhs fully paid 11% preference shares and 720 lakhs fully paid equity shares of MN Ltd. to the preference and equity shareholders of M Ltd. in full satisfaction of their claims.
- (ii) To discharge purchase consideration for N Ltd.'s business, MN Ltd. to allot 90 lakhs fully paid up equity shares to shareholders of N Ltd. in full satisfaction of their claims.
- (iii) Expenses on the liquidation of M Ltd. and N Ltd. amounting to ₹ 6 lakhs are to be borne by MN Ltd.
- (iv) 8% redeemable debentures of N Ltd. to be converted into 8.5% redeemable debentures of MN Ltd.
- (v) Expenses on incorporation of MN Ltd. were ₹ 15 lakhs.

You are requested to:

- (a) Pass necessary Journal Entries in the books of MN Ltd. to record above transactions, and
- (b) Prepare Balance Sheet of MN Ltd. after merger.

Answer

In the books of MN Ltd.

Journal Entries

(₹ in lakhs)		
	Dr.	Cr.
Business Purchase Account	Dr.	9,300
To Liquidator of M Ltd.		8,400
To Liquidator of N Ltd.		900
(Being consideration payable to liquidators of the two companies taken over)		

Plant and Machinery Account (4,215+468)	Dr.	4,683	
Furniture and Fixtures Account (2,400+183)	Dr.	2,583	
Motor Vehicles Account	Dr.	51	
Stock Account (2,370+444)	Dr.	2,814	
Sundry Debtors Account (1,044+237)	Dr.	1,281	
Cash at Bank Account (1,542+240)	Dr.	1,782	
Preliminary Expenses Account	Dr.	33	
Discount on issue of Debentures Account	Dr.	6	
Profit and Loss Account (Refer W.N.)	Dr.	120	
To 8% Redeemable Debentures of N Ltd. Account			300
To Trade Creditors Account (2,421+369)			2,790
To Provisions Account (870+93)			963
To Business Purchase Account			9,300
(Being incorporation of all the assets and liabilities and the excess of consideration over the share capital being adjusted against reserves and surplus)			
Liquidator of M Ltd. Account	Dr.	8,400	
Liquidator of N Ltd. Account	Dr.	900	
To Equity Share Capital Account (7,200+900)			8,100
To 11% Preference Share Capital Account			1,200
(Being allotment of fully paid shares in discharge of purchase consideration)			
Profit and Loss Account	Dr.	6	
To Bank Account			6
(Being payment of liquidation expenses of M Ltd. and N Ltd.)			
Preliminary Expenses Account	Dr.	15	
To Bank Account			15

(Being expenses on incorporation of MN Ltd.)		
8% Redeemable Debentures of N Ltd. Account	Dr.	300
To 8.5% Redeemable Debentures Account		300
(Being conversion of 8% Debentures of N Ltd. into 8.5% Debentures)		
Profit and Loss Account	Dr.	48
To Preliminary Expenses Account (33+15)		48
(Being Preliminary Expenses are charged to Profit & Loss A/c in the year it is incurred and not shown in the Balance Sheet as per para 56 of AS 26)		

Balance Sheet of MN Ltd.

Particulars	Notes	₹ in lakhs
EQUITY & LIABILITY		
1. Shareholders' Funds		
a Share capital	1	9,300
b Reserve & Surplus	2	(174)
2. Non-Current-Liabilities	3	300
a Long- term borrowings		2,790
3. Current-Liabilities	4	963.
a Trade Payables		13,179
b Short term provisions		
Total		
ASSETS		
1. Non-current assets	5	7,317
a Fixed assets	6	6
Tangible assets		2,814
Other Non-current asset		1,281
b Other Non-current asset	7	<u>1,761</u>

2. Current assets		<u>13,179</u>
a Inventories		
b Trade receivables		
c Cash and cash equivalents	Total	

Note to Accounts

	₹ in lakhs
1 Share Capital Authorised share capital	
15 crore shares of ₹10 each	<u>15,000</u>
Issued, subscribed and paid up	
810 lakhs Equity shares of ₹10 each, fully paid	8,100
Reserves and Surplus 120 lakhs 11% Preference shares of ₹10 each, fully paid	<u>1,200</u>
(All the above mentioned shares have been issued for consideration other than cash)	<u>9,300</u>
Total	
2 Reserves and Surplus	
Profit and Loss Account (120+6+48)	(174)
3 Long-term borrowings	
Secured	300
8.5% Redeemable Debentures	963
4 Short-term provisions	4,683
Others	2,583
5 Tangible assets	<u>51</u>
Plant and Machinery Furniture and Fixtures Plant and	<u>7,317</u>
	<u>6</u>

machinery	Total	1,761
6 Other non-current assets		
Discount on Issue of Debentures		
7 Cash and cash equivalents		
Cash at Bank (1,782–6–15)		

Working Note:

Profit and Loss Account	(₹ in lakhs)	
Total consideration = ₹ (8,400 + 900) lakhs		9,300
Less: Share Capital of Companies taken over [₹ (3,600+1,200+900) lakhs]		<u>5,700</u>
		3,600
Amount to be adjusted:		
Capital Reserve	600	
General Reserve	2,100	
Profit & Loss A/c	<u>780</u>	<u>3,480</u>
Debit balance of Profit & Loss Account		<u>120</u>

Question 3

The Balance Sheet of Reckless Ltd. as on 31st March, 2008 is as follows:

	₹
Assets:	
Freehold premises	2,20,000
Machinery	1,77,000
Furniture & fittings	90,800
Stock	3,87,400

Sundry debtors	80,000	
Less : Provision for doubtful debts	<u>4,000</u>	76,000
Cash in hand		2,300
Cash at bank		1,56,500
Bills receivable		<u>15,000</u>
		<u>11,25,000</u>
Liabilities:		
60,000 Equity shares of ₹10 each		6,00,000
Pre-incorporation profit		21,000
Contingency reserve		1,35,000
Profit and loss appropriation account		1,26,000
Acceptances		20,000
Creditors		1,13,000
Provision for income-tax		<u>1,10,000</u>
		<u>11,25,000</u>

Careful Ltd. decided to take over Reckless Ltd. from 31st March, 2008 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:

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

Answer

- (i) **Calculation of the number of equity shares and preference shares to be allotted by Careful Ltd. in discharge of purchase consideration**

Calculation of purchase consideration:	₹
Agreed value of assets taken over:	
Bills receivable	15,000
Freehold premises	4,00,000
Furniture & fittings	80,000
Machinery	1,60,000
Stock	<u>3,45,000</u>
	<u>10,00,000</u>

Discharge of purchase consideration:

1. Amount paid by allotment of 13% preference shares

$$= \text{Rs. } 10,00,000 \times \frac{1}{4}$$

$$= \text{Rs. } 2,50,000$$

Number of 13% preference shares of ₹ 100 each

$$= \frac{2,50,000}{100} = 2,500 \text{ preference shares}$$

2. Amount paid by allotment of equity shares

$$= ₹ 10,00,000 - ₹ 2,50,000 = ₹ 7,50,000$$

Paid up value of one equity share = ₹ 8 each

Hence, the number of equity shares allotted

(ii) **Ledger accounts in the books of Reckless Ltd.**

Realisation Account

	₹		₹
To Freehold Premises	2,20,000	By Creditors	1,13,000
To Machinery	1,77,000	By Acceptances	20,000
To Furniture & Fittings	90,800	By Provision for tax	1,10,000
To Stock	3,87,400	By Provision for doubtful debts	4,000
To Sundry Debtors	80,000	By Careful Ltd.	10,00,000
To Bills Receivable	15,000	By Cash/Bank:	
To Cash/ Bank:		Sundry Debtors	79,500
Acceptances	19,000		
Provision for tax	1,11,600		
Creditors	1,03,700		
To Cash/Bank			
Liquidation expenses	4,000		
To Profit	<u>1,18,000</u>		
	<u>13,22,500</u>		<u>13,22,500</u>

Cash and Bank Account

	₹		₹
To Balance b/d (cash at bank)	1,56,500	By Realisation A/c	19,000

To	Cash in hand	2,300	Acceptances	1,11,600
To	Realisation A/c (Debtors)	79,500	Provision for tax	4,000
			By Realisation (Expenses)	<u>1,03,700</u>
			By Realisation A/c [Creditors (bal fig.)]	
		<u>2,38,300</u>		<u>2,38,300</u>

Equity Shareholders Account

	₹		₹
To 13% Cumulative preference shares in Careful Ltd.	2,50,000	By Equity Share Capital	6,00,000
To Equity Shares in Careful Ltd.	7,50,000	By Pre-incorporation profit	21,000
		By Contingency reserve	1,35,000
		By Profit & Loss	1,26,000
		Appropriation Account	<u>1,18,000</u>
	<u>10,00,000</u>	By Realisation Account	<u>10,00,000</u>

Careful Ltd. Account

	₹		₹
To Realisation Account	10,00,000	By 13% Cumulative preference shares in Careful Ltd.	2,50,000
	_____	By Equity shares in Careful Ltd.	<u>7,50,000</u>
	<u>10,00,000</u>		<u>10,00,000</u>

(iii)

Journal Entries in the books of Careful Ltd.

		₹	₹
Business purchase Account	Dr.	10,00,000	
To Liquidator of Reckless Ltd. Account			10,00,000
(Being amount payable to liquidator of Reckless Ltd. for assets taken over)			
Bills receivable Account Freehold	Dr.	15,000	
premises Account Furniture &	Dr.	4,00,000	
fittings Account Machinery	Dr.	80,000	
Account	Dr.	1,60,000	
Stock Account	Dr.	3,45,000	
To Business purchase Account (Being assets taken over from Reckless Ltd.)	Dr.		10,00,000
Liquidator of Reckless Ltd.	Dr.	10,00,000	
To 13% Cumulative preference share capital Account			2,50,000
To Equity share capital Account			7,50,000
(Being allotment of 13% cumulative preference shares of ₹100 each fully paid up and equity shares of ₹10 each ₹8 paid up)			

Question 4

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

Liabilities	₹	Assets	₹
Share Capital:		Fixed Assets:	
1,00,000 Equity shares of ₹10		Land and building	7,64,000

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

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	7,70,000
Bills receivable	30,000

(2) Purchase consideration will be settled by Jupiter Ltd. as under:

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 ₹ 8 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.

Answer

(i) Calculation of number of shares to be allotted

Particulars	Amount (₹)
Land and building	10,80,000
Stock	7,70,000
Bills receivable	<u>30,000</u>
Total	<u>18,80,000</u>
Amount discharged by issue of preference shares	4,10,000
Number of preference shares to be issued (4,10,000/100)	4,100 shares
Amount discharged by issue of equity shares (₹ 18,80,000 – 4,10,000)	14,70,000
Number of equity shares to be issued (₹ 14,70,000 / 8)	1,83,750 Shares

(ii) Ledger Accounts in the books of Mars Limited

Realization Account

Particulars	₹	Particulars	₹
To Land and building To	7,64,000	By Provision for doubtful debts	8,000
Stock	7,75,000	By Bills payable	40,000
To Sundry debtors To	1,60,000	By Sundry creditors	2,26,000
Bills receivable	30,000	By Provision for taxation By	2,20,000

To Bank A/c –liquidation expenses	3,000	Jupiter Ltd. (purchase consideration)	18,80,000
To Bank A/c- bills payable	38,000	By Bank A/c- sundry debtors	1,50,000
To Bank A/c –income tax	2,22,000		
To Bank A/c –sundry creditors	2,16,000		
To Profit transferred to equity shareholders A/c	<u>3,16,000</u>		
	<u>25,24,000</u>		<u>25,24,000</u>

Note: Liquidation expenses paid = ₹ 8,000 – ₹ 5,000(reimbursed by Jupiter Ltd) = 3,000

Bank Account

Particulars	₹	Particulars	₹
To Balance b/d	3,29,000	By Realisation A/c (liquidation expenses)	3,000
To Realisation A/c (payment received from debtors)	1,50,000	By Jupiter Ltd. By Bills payable	5,000
To Jupiter Ltd. (liquidation expenses)	5,000	By Income tax	38,000
		By Sundry creditors	2,22,000
		(Bal.fig.)	<u>2,16,000</u>
	<u>4,84,000</u>		<u>4,84,000</u>

Equity Shareholders Account

Particulars	₹	Particulars	₹
To 10% Preference shares in Jupiter Limited	4,10,000	By Equity share capital A/c	10,00,000
To Equity shares in Jupiter Limited	14,70,000	By Capital reserve	42,000
		By Contingency reserve	2,70,000
		By Profit and loss A/c	2,52,000
		By Realisation A/c (profit)	<u>3,16,000</u>
	<u>18,80,000</u>		<u>18,80,000</u>

Jupiter Limited Account

Particulars	₹	Particulars	₹
To Realisation A/c	18,80,000	To 10% Preference shares in Jupiter Limited	4,10,000
		To Equity shares in Jupiter Limited	<u>14,70,000</u>
	<u>18,80,000</u>		<u>18,80,000</u>

Question 5

The summarized Balance Sheet of Srishti Ltd. as on 31st March, 2014 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	Tangible Fixed Assets	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	<u>1,00,000</u>	Preliminary Expenses	<u>50,000</u>
	<u>50,50,000</u>		<u>50,50,000</u>

Anu Ltd. agreed to absorb the business of Srishti Ltd. with effect from 1st April, 2014.

(a) The purchase consideration settled by Anu Ltd. as agreed:

- (i) 4,50,000 equity Shares of ₹ 10 each issued by Anu Ltd. by valuing its share @ ₹ 15 per share.
- (ii) Cash payment equivalent to ₹ 2.50 for every share in Srishti Ltd.

(b) 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%.

- (c) Anu Ltd. will take over the Tangible Fixed Assets at 100% more than the book value, Stock at ₹ 7, 10,000 and Debtors at their face value subject to a provision of 5% for doubtful Debts.
- (d) 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.
- (e) Statutory Reserves are to be maintained for 1 more year.

You are required to:

- (i) Close the books of Srishti Ltd. by preparing Realisation Account, Anu Ltd. Account, Shareholders Account and Debenture Account, and
- (ii) Pass Journal Entries in the books of Anu Ltd. regarding acquisition of business.

Answer

(i) Purchase consideration computation

	₹
Cash payment for (3,00,000 x ₹ 2.5)	7,50,000
Equity Shares (4,50,000 x ₹ 15)	<u>67,50,000</u>
	<u>75,00,000</u>

In the books of Srishti Ltd.

Realisation Account

	₹		₹
To Goodwill	5,00,000	By 9% Debentures	5,00,000
To Tangible Fixed Assets	30,00,000	By Creditors	1,00,000
To Stock	10,40,000	By By Anu Ltd.	75,00,000
To Debtors	1,80,000	(Purchase consideration)	
To Cash & Bank A/c (2,80,000- 25,000)	2,55,000		
To Cash & Bank A/c (Realization expenses)	25,000		

To Profit on realization transfer to shareholders	31,00,000		
	81,00,000		81,00,000

Equity Shareholders A/c

		₹		₹
To Preliminary expenses	50,000	By Equity Share Capital	30,00,000	
To Equity Shares in Anu Ltd.	67,50,000	By Export Profit Reserves	8,50,000	
To Cash & Bank A/c	7,50,000	By General Reserves	50,000	
		By P & L A/c	5,50,000	
		By Realization A/c	31,00,000	
	75,50,000		75,50,000	

9% Debentures Account

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

Anu Ltd.

	₹		₹
To Realization A/c	75,00,000	By Share Capital By	67,50,000
		Bank A/c	7,50,000
	75,00,000		75,00,000

(ii) Journal Entries in the books of Anu Ltd.

			₹	₹
1	Business Purchase A/c To Liquidator of Srishti Ltd (Being business of Srishti Ltd. taken over)	Dr.	75,00,000	75,00,000

2	Tangible Fixed Assets Stock	Dr	60,00,000	
	Debtors	Dr	7,10,000	
	Cash & Bank A/c Goodwill A/c	Dr	1,80,000	
	(Bal. fig.)	Dr	2,55,000	
	To Provision for doubtful debts To	Dr	10,64,000	
	Liability for 9 % Debentures To			9,000
	Creditors			6,00,000
	To Business Purchase account			1,00,000
	(Being assets and liabilities taken over)			75,00,000
3	Amalgamation Adjustment A/c To	Dr.	8,50,000	
	Export Profit Reserves			8,50,000
	(Being statutory Reserves taken over)			
4	Goodwill	Dr.	50,000	
	To Bank A/c			50,000
	(Liquidation expenses reimbursed))			
5	Liquidator of Shristi Ltd.	Dr.	75,00,000	
	To Equity Share Capital To			45,00,000
	Securities Premium To Bank A/c			22,50,000
	(Being purchase consideration discharged)			7,50,000
6	Liability for 9% Debentures (5,00,000 x 120/100)	Dr.	6,00,000	
	Discount on issue of debentures		25,000	
	To 8% Debentures (6,00,000 x 100/96)			6,25,000
	(Being liability of debenture holders' discharged)			