CHAPTER 13

AMALGAMATION OF COMPANIES

LEARNING OUTCOMES

After studying this chapter, you will be able to:

- Understand the term "Amalgamation" and the methods of accounting for amalgamations.
- Appreciate the concept of transferee Company and the transferor company.
- Meaning of purchase consideration and Calculation of Purchase consideration under various Methods.
- Pass the entries to close the books of the vendor company.
- Pass the journal entries in the books of purchasing company to incorporate the assets and liabilities of the vendor company and also giving effect to other adjustments.
- Preparation of Balance sheet of transferee company after Amalgamation.

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CHAPTER OVERVIEW

This chapter deals with accounting for amalgamations and the treatment of any resultant goodwill or reserves. Amalgamation means an amalgamation pursuant to the provisions of the Companies Act 2013 or any other statute which may be applicable to companies.

Types of Amalgamation

- **Amalgamation in the nature of merger**
- **Amalgamation in the nature of purchase**

1. INTRODUCTION

In today's modern world, we are witnessing, the rise of different business ideas every other day. This has attributed to the immense increase in the competition. Some of the shrewd businesses survive through this cut throat competition, whereas some of them are wiped out due to the dynamics of this very competition.

Like the strategies to set up businesses, there has been wide increase in realizing the need to stay in the business through the different difficult market situations. Hence, the business world has also seen the growing importance of business-saving strategies.

There can be different strategies to ensure the business continues to exist, or existing companies find ways to increase market share by eliminating the competitors or to come out of financial crisis by restructuring the present capital structure and the like.

Such strategies are termed using different words like “corporate marriages”, “strategic alliances”, “business partnering”, etc. The same has been defined in the Accounting Standard 14 (AS 14).

In this chapter we shall understand the terms, meanings, methods, accounting treatments related to amalgamation in detail.

2. MEANING OF AMALGAMATION

Amalgamation refers to the process of merger of two or more companies into a single entity or where one company takes over the other by outright purchase. Therefore, the term ‘amalgamation’ contemplates two kinds of activities:

(*i*) two or more companies join to form a new company (Popularly known as Amalgamation) or

(*ii*) absorption and blending of one by the other (Popularly known as Absorption).

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

In amalgamation we have generally two companies called as – 1) vendor or Transferor Company and 2) Vendee or Transferee Company. Let us understand the concepts through the following examples-

Example 1- Company A and Company B amalgamate to form Company C. Company A and Co B are called transferor companies and Company C is called as the transferee company- this strategy is called as AMALGAMATION.

Example 2- Company A is taken over by Company B (purchased). Here, Company A is called as Transferor Company and Company B is Transferee Company. This strategy is called as ABSORPTION.

Example 3- Company A has been suffering from losses for past 5 years, a new Company B is floated to take over the existing Company A. Here, Company A is the transferor company and Company B is Transferee Company. This strategy is termed as EXTERNAL RECONSTRUCTION.

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The concept of the examples given above can be understood from the following table of differences-

Basis	Amalgamation	Absorption	External Reconstruction
Meaning	Two or more companies are wound up and **a new company** is formed to take over their business.	In this case **an existing company** takes over the business of **one or more** existing companies.	In this case, **a newly formed company** takes over the business of an **existing company**.
Minimum number of Companies involved	At least three companies are involved.	At least two companies are involved.	Only two companies are involved.
Number of new resultant companies	Only one resultant company is formed. Two companies are wound up to form a **single** resultant company.	**No** new resultant company is formed.	Only one resultant company is formed. Under this case **a newly formed company** takes over the business of an existing company.
Objective	Amalgamation is done to cut competition & reap the economies in large scale.	Absorption is done to cut competition & reap the economies in large scale.	External reconstruction is done to reorganize the financial structure of the company.

In every type of amalgamation, the assets and liabilities of the transferor company are amalgamated or transferred to the transferee company. The accounting treatment in the books of both the transferor and transferee is given in further sections.

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3. TYPES OF AMALGAMATION

The Institute of Chartered Accountants of India has introduced Accounting Standard -14 (AS 14) on 'Accounting for Amalgamations'. The standard recognizes two types of amalgamation –

Amalgamation in the nature of merger is an amalgamation where there is a genuine pooling not only of assets and liabilities of the transferor and transferee companies but also of the shareholders' interests and of the businesses of the companies. The accounting treatment of such amalgamations should ensure that the resultant figures of assets, liabilities, capital and reserves more or less represent the sum of the respective figures of the transferor and transferee companies.

Amalgamation in the nature of merger is an amalgamation, as per para 3(e) of AS-14, which satisfies all the following conditions:

(*i*) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.

(*ii*) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation.

(*iii*) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares.

(*iv*) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.

(*v*) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity

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of accounting policies. For example, if transferor company is following weighted average method for inventory valuation, the book value of the inventory of the transferor company will be revised by applying the FIFO method (if the transferee company follows FIFO method for inventory valuation).

If any one or more of the above conditions are not satisfied in an amalgamation, such amalgamation is called ***amalgamation in the nature of purchase.***

Difference between amalgamation in the nature of merger and amalgamation in the nature of purchase

Best of Distinction	**Amalgamation in the Nature of Merger**	**Amalgamation in the Nature of Purchase**
(a) Transfer of Assets and Liabilities	There is transfer of all assets & liabilities.	There need not be transfer for all assets & liabilities.
(b) Shareholders of transferor company	Equity shareholders holding 90% equity shares in transferor company become shareholders of transferee company.	Equity shareholders need not become shareholders of transferee company.
(c) Purchase Consideration	Purchase consideration is discharged wholly by issue of equity shares of transferee company (except cash only for fractional shares)	Purchase consideration need not be discharged wholly by issue of equity shares.
(d) 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 be intended to be carried on by the transferee company.

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(e) Recording of Assets & Liabilities	The assets & liabilities taken over are recorded at their existing carrying amounts except where adjustment is required to ensure uniformity of accounting policies.	The assets & liabilities taken over are recorded at their existing carrying amounts or the basis of their fair values.
(f) Method of Accounting	Journal entries for recording the merger are passed by pooling of interest method.	Journal entries for recording the purchase of business are passed by purchase method.

4. PURCHASE CONSIDERATION

For purpose of accounting for amalgamations, we are essentially guided by AS 14 'Accounting for Amalgamations'. Para 3(g) of AS 14 defines the term purchase consideration as the *"aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company"*.

In simple words, it is the price payable by the transferee company to the transferor company for taking over the business of the transferor company.

The important point to be noted here is the amount paid towards the equity shareholders and preference shareholders is only considered as part of the purchase consideration as per the definition under AS-14. Hence, it should be noted that purchase consideration ***does not include*** the sum which the transferee company will directly pay to the debenture-holders or creditors of the transferor company. If a certain liability of the transferor company has not been taken over by the transferee company it will be discharged by the transferor company.

The purchase consideration can be computed in the following methods-

1. **Lumpsum method**- Under this method, the transferee company agrees to pay a lumpsum/fixed amount to shareholders of the transferor company.

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2. **Net payment method**- Under this method the transferee company makes individual payments to the equity shareholders and preference shareholders either by way of cash, issue of shares and debentures.

3. **Net assets method**- Under this method, the purchase consideration is arrived based on the value of the Assets less the outside liabilities (excluding share capital and reserves) taken over by the transferee company. As per AS 14, the value of the assets and liabilities shall be at the value as agreed between the two parties. If there is no value agreed, then assets and liabilities taken at the book value.

   The purchase consideration essentially depends upon the fair value of its elements. For example, when the consideration includes securities, the value fixed by the statutory authority may be taken as the fair value. In case of other assets, the fair value may be determined by reference to the market value of the assets given up or in the absence of market value, net book value of the assets (i.e. cost less accumulated depreciation) are considered.

4. **Intrinsic value or share exchange method** – Under this method, the purchase consideration is calculated at the intrinsic value of shares of the transferor or transferee company. The ratio of shares to be issued is computed and multiplied with intrinsic value. Total share capital of the transferor company shall be divided by the total number of shares

Sometimes adjustments may have to be made in the purchase consideration in the light of one or more future events. When the additional payment is probable and can be reasonably estimated it is to be included in the calculation of purchase consideration.

Any of the methods or a combination of the above methods can be used by the companies to calculate the purchase consideration.

Purchase consideration either recorded at Issue price or at Par value.

The above methods have been explained in the following illustrations.

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Illustration 1

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

	₹
Sundry Assets	*13,00,000*
Share capital:	
2,000 7% Preference shares of ₹ 100 each (fully paid-up)	*2,00,000*
5,000 Equity shares of ₹ 100 each (fully paid-up)	*5,00,000*
Reserves	*3,00,000*
6% Debentures	*2,00,000*
Trade payables	*1,00,000*

Additional information:

P. Ltd. has agreed:

(i) to issue 9% Preference shares of ₹ 100 each, in the ratio of 3 shares of P. Ltd. for 4 preference shares in S. Ltd.

(ii) to issue to the debenture-holders in S Ltd. 8% Mortgage Debentures at ₹ 96 in lieu of 6% Debentures in S. Ltd. which are to be redeemed at a premium of 20%;

(iii) to pay ₹ 20 per share in cash and to issue six equity shares of ₹ 100 each issued at the market value ₹ 125 in lieu of every five shares held in S. Ltd.; and

(iv) to assume the liability to trade payables.

You are required to calculate the purchase consideration.

Solution

The purchase consideration will be

	₹	Form
Preference shareholders: 2,000 × 3/4 × 100	1,50,000	9% Pref. shares
Equity shareholders: 5,000 × 20	1,00,000	Cash
5,000 × 6/5 × 125	7,50,000	Equity shares
	10,00,000	

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Note:

1. According to AS 14, 'consideration' excludes the any amount payable to debenture-holders. The liability in respect of debentures of S Ltd. will be taken by P Ltd., which will then be settled by issuing new 8% debentures.

2. The issue of the equity shares is done at ₹ 125 (market value) as it has been mentioned in the question. The face value shall not be considered for this purpose.

Illustration 2

Following is the balance sheet of A Ltd. as on 31st March, 20X1

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

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Notes to accounts

1	***Share Capital***		***₹ in ('000)***
	Equity share capital		
	1,50,000 Equity Shares of ₹ 10 each		*15,00*
	7,500 14% Preference Shares of ₹ 100 each		*7,50*
			22,50
2	***Reserves and Surplus***		
	General reserve		*9,00*
3	***Long-term borrowings***		
	Secured		
	15% Debentures		*7,00*
4	***Property, plant and Equipment***		
	Land and Building		*32,50*
5	***Non-current investments***		
	Investments at cost		*6,00*

B Ltd agreed to take over the assets and liabilities on the following terms and conditions:

(a) Discharge 15% debentures at a premium of 10% by issuing 15% debentures of B Ltd.

(b) PPE at 10% above the book value and investments at par value.

(c) Current assets at a discount of 10% and Current liabilities at book value.

(d) Preference shareholders are discharged at a premium of 10% by issuing 15% preference shares of ₹ 100 each.

(e) Issue 3 equity shares of ₹ 10 each for every 2 equity shares in B Ltd. and pay the balance in cash.

Calculate Purchase consideration.

Solution

Calculation of Purchase Consideration (Net Asset value Method)

PARTICULARS	***(₹ in '000's)***
Value of assets taken over:	
Property, Plant and Equipment	35,75
Non-Current Investments	6,00
Current Assets	4,50
Total Assets (A)	46,25
Less: **Liabilities taken over:**	
15% Debentures	7,70
Current Liabilities	5,00
Total Liabilities (B)	12,70
Purchase consideration (A -B)	33,55
Mode of Purchase Consideration	
In the form of 15% Preference shares	8,25
In the form of Equity shares	22,50
In the form of Cash (Balance)	2,80
Total	33,55

Illustration 3

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

		Particulars	***Notes***	***₹ (000)***
		Equity and Liabilities		
1		***Shareholders' funds***		
	A	*Share capital*	*1*	*100,00*
	B	*Reserves and Surplus*	*2*	*12,50*
2		***Non-current liabilities***		
	A	*Long-term borrowings*	*3*	*40,00*
3		***Current liabilities***		
	A	*Trade Payables*		*20,00*
		Total		*172,50*

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		Assets		
1		***Non-current assets***		
	A	*Property, Plant and Equipment*	*4*	*105,50*
	B	***Non-current investments***	*5*	*5,00*
2		***Current assets***		
	a	*Inventories*		*23,00*
	b	*Trade receivables*		*24,00*
	c	*Cash and Cash equivalents*		*15,00*
		Total		*172,50*

Notes to accounts

			₹ in ('000)
1	***Share Capital***		
	Equity share capital		
	7,50,000 Equity Shares of ₹ 10 each		*75,00*
	25,000 14% Preference Shares of ₹ 100 each		*25,00*
			100,00
2	***Reserves and Surplus***		
	General reserve		*12,50*
			12,50
3	***Long-term borrowings***		
	Secured		
	14% Debentures		*40,00*
			40,00
4	***Property, plant and Equipment***		
	Land and Building		*50,00*
	Plant and machinery		*45,00*
	Furniture		*10,50*
			105,50
5	***Non-current investments***		
	Investments at cost		*5,00*
			5,00

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Other Information:

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

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

(iii) 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).

(iv) 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.

Solution

Computation of Purchase consideration	***(₹ in '000)***	***Form***
For Preference Shareholders of X Ltd.	3,000	30,000 15% Preference shares in Y Ltd.
For equity shareholders of X Ltd. (20/30 × 7,50,000) × ₹ 10 of ₹ 10 each	5,000	5,00,000 Equity shares of Y Ltd.
Total Purchase consideration	8,000	

Note: According to AS 14, amount paid to the debenture holders should not be included in the purchase consideration calculation. Such debentures will be taken over by Y Ltd. and then discharged by them later.

Illustration 4

Neel Ltd. and Gagan Ltd. amalgamated to form a new company on 1.04.20X1. Following is the Balance Sheet of Neel Ltd. and Gagan Ltd. as at 31.3.20X1:

		Particulars	Notes	Neel	Gagan
		Equity and Liabilities			
1		***Shareholders' funds***			
	A	*Share capital*		7,75,000	8,55,000
2		***Current liabilities***		6,23,500	5,57,600
		Total		13,98,500	14,12,600
		Assets			
1		***Non-current assets***			
	A	*Property, Plant and Equipment*	1	12,35,000	12,54,000
2		***Current assets***		1,63,500	1,58,600
		Total		13,98,500	14,12,600

***Notes to accounts**:*

1	***Property, plant and Equipment***			
	Land and Building		7,50,000	6,40,000
	Plant and machinery		4,85,000	6,14,000
			12,35,000	12,54,000

Following is the additional information:

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

	Neel	Gagan
	₹	₹
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000

(ii) *The purchase consideration is to be discharged as under:*

(a) *Issue 24,000 equity shares of ₹ 25 each fully paid up in the proportion of their profitability in the preceding 2 years.*

(b) *Profits for the preceding 2 years are given below:*

	Neel	**Gagan**
	₹	₹
1st year	*2,62,800*	*2,75,125*
IInd year	*2,12,200*	*2,49,875*
Total	*4,75,000*	*5,25,000*

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

You are required to compute the

(i) Equity and preference shares issued to Neel Ltd. and Gagan Ltd.,

(ii) Purchase consideration.

Solution

(i) Calculation of equity shares to be issued to Neel Ltd. and Gagan Ltd.

Profits of	**Neel**	**Gagan**
	₹	₹
I year	2,62,800	2,75,125
II year	2,12,200	2,49,875
Total	4,75,000	5,25,000

The total profits- ₹ 4,75,000+ ₹ 5,25,000= ₹ 10,00,000

No. of shares to be issued = 24,000 equity shares in the proportion of the preceding 2 years' profits.

	Neel	**Gagan**
24,000 x 475/1000	11,400 equity shares	
24,000 x 525/1000		12,600 equity shares

Calculation of 12% Preference shares to be issued to Neel Ltd. and Gagan Ltd.

	Neel	Gagan
	₹	₹
Net assets (Refer working note)	8,40,000	9,24,000
8% return on Net assets	67,200	73,920
12% Preference shares to be issued	56,000 shares	
$\left[67{,}200 \times \frac{100}{12}\right] = 5{,}60{,}000$ @ ₹ 10 each		
$\left[73{,}920 \times \frac{100}{12}\right] = 6{,}16{,}000$ @ ₹ 10 each		61,600 shares

(ii) Total Purchase Consideration

	Neel	Gagan
	₹	₹
Equity shares @ of ₹ 25 each	2,85,000	3,15,000
12% Preference shares @ of ₹ 10 each	5,60,000	6,16,000
Total	8,45,000	9,31,000

Working Note:

Calculation of Net assets as on 31.3.20X1

	Neel	Gagan
	₹	₹
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000
Current assets	1,63,500	1,58,600
Less: Current liabilities	(6,23,500)	(5,57,600)
	8,40,000	9,24,000

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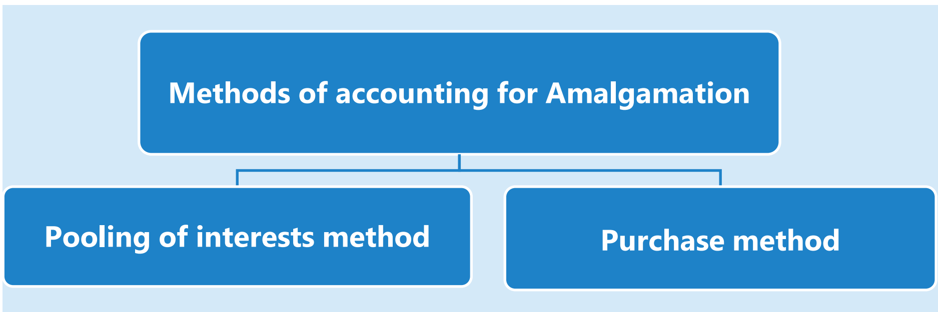
Note: Since the income from the preference shares shall be equal to the 8% return on assets, the shares are computed in such way that 12% dividend on them shall be equal to 8% of the return on Net assets.

5. METHODS OF ACCOUNTING FOR AMALGAMATIONS

There are two main methods of accounting for amalgamation viz,



The first method is used in case of amalgamation in the nature of merger where the conditions as per para 3(e) of AS-14, required are fulfilled and the second method is used in case of amalgamation in the nature of purchase.

Pooling of Interest Method

Under pooling of interests method, the assets, liabilities and reserves of the Transferor Company will be taken over by Transferee Company at existing carrying amounts unless any adjustment is required due to different accounting policies followed by these companies.

As a result 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 Transferor Company should be adjusted in the reserves of the financial statements of Transferee company (recorded as deduction from the reserves where the capital issued is more than the capital of the transferor company).

In simple terms, where in case of pooling method- the amount to be adjusted against the reserves- can be computed in the following 3 steps-

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Step I- Equity Share capital + Preference share capital issued+ any other additional consideration in form of cash and other assets by the Transferee Company.

Step II- Existing Equity share capital + Existing Preference share capital in the books of Transferor Company.

Step III- Step I- Step II= amount to be adjusted from the reserves of Transferee company.

Purchase Method

Assets and Liabilities: the assets and liabilities of the transferor company should be incorporated at their existing carrying amounts or the purchase consideration should be allocated to individual identifiable assets and liabilities on the basis of their fair values at the date of amalgamation.

Difference between the Purchase Consideration and Net Assets transferred: Any excess of the amount of purchase consideration over the value of the net assets of the transferor company acquired by the transferee company should be recognized as goodwill in the financial statement of the transferee company. Any short fall should be shown as capital reserve. Goodwill should be amortized over period of five years unless a somewhat longer period can be justified.

In simple terms, where in case of purchase method- the amount to be transferred to capital reserve or to be recorded as Goodwill- can be computed in the following 3 steps-

Step I- Find out the **Net assets** amount using the following formula- Total assets- Outside liabilities (Non-current liabilities + Current Liabilities)

Step II- Compute the purchase consideration using any of the methods as given under Purchase consideration computation.

Step III- (a) If Step I- Step II= Positive amount- then it is capital reserve- since the assets received more than the amount paid as purchase consideration to acquire them.

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(b) If Step I- Step II= Negative amount- then it is to be recorded as Goodwill (intangible asset) - since the amount paid for acquiring business is more than the Net assets, which is technically due to its goodwill.

Treatment of reserves under purchase method

No reserves, other than statutory reserves, of the transferor company should be incorporated in the financial statements of transferee-company.

The balance of Profit and Loss account, general reserves of the transferor company are not recorded at all.

Though, normally, in an amalgamation in the nature of purchase, the identity of reserves is not preserved, an exception is made only in respect of statutory reserves and such reserves shall retain their identity in the financial statements of the transferee company in the same form in which they appeared in the financial statements of the transferor company, till the time their identity is required to be maintained to comply with the relevant statute.

This exception is made only in those amalgamations where the requirements of the relevant statute for recording the statutory reserves in the books of the transferee company are complied with. Statutory reserves of the transferor company should be incorporated in the balance sheet of transferee company by way of the following journal entry.

Amalgamation Adjustment Reserve A/c Dr.

To Statutory Reserves

'**Amalgamation Adjustment Reserve**' is debited to bring in the statutory reserves of the transferor company. This is represented as deduction from the reserves of the transferee company after amalgamation.

Once after the time period to show such statutory reserves is over, both the reserves and the aforesaid account are reversed. **Amalgamation Adjustment Reserve**' has to be shown as a separate line item - which implies, that this debit "cannot be set off against Statutory reserve taken over" and therefore, the presentation will be as follows:

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Reserves

Description	Amount (Current year)	Amount (Previous Year)
Statutory Reserve (taken over from transferor company)		
General Reserve		
Retained Earnings		
Amalgamation Adjustment Reserve (negative balance)	(--)	(--)

6. JOURNAL ENTRIES TO CLOSE THE BOOKS OF VENDOR COMPANY

In case of amalgamation under any of the above methods, there shall be an accounting treatment both in the books of vendor (transferor) and vendee (transferee) companies.

We will now, understand the treatment in the books of vendor under this section- Since the books of the vendor will be closed upon amalgamation- the assets and the liabilities at the book values are transferred to a separate account called as the "Realization account".

The purchase consideration receivable is credited to the Realization account. On the receipt of the purchase consideration, it is debited to equity shareholders and preference shareholders' account. The balance of realization account (either profit/loss) is transferred to the equity shareholders' account.

Those assets and liabilities which are not taken over by vendee company but settled by the vendor company are also shown in the books of the vendor only.

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The journal entries have been explained with the following illustration:

Illustration 5

Wye Ltd. acquires the business of Zed Ltd. whose balance sheet as at 31st March, 20X1 is as under:

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	12,00,000
	B	Reserves and Surplus	2	1,58,000
2		**Non-current liabilities**		
	A	Long-term borrowings	3	2,00,000
3		**Current liabilities**		
	A	Trade Payables		1,20,000
	B	Other current liabilities		12,000
		(Interest payable on debentures)		
		Total		16,90,000
		Assets		
1		**Non-current assets**		
	A	Property, Plant and Equipment	4	10,00,000
	B	Intangible assets	5	2,90,000
2		**Current assets**		
	A	Inventories		1,50,000
	B	Trade receivables		1,80,000
	C	Cash and Cash equivalents		70,000
		Total		16,90,000

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Notes to accounts:

		₹
1	***Share Capital***	
	Equity Share capital (₹ 100 each)	*8,00,000*
	6% Preference Share capital (₹ 100 each)	*4,00,000*
		12,00,000
2	***Reserves and Surplus***	
	Capital reserve	*1,00,000*
	Profit and loss A/c	*50,000*
	Workmen compensation reserve (Expected liability ₹ 5,000)	*8,000*
		1,58,000
3	***Long-term borrowings***	
	6% Debentures	*2,00,000*
		2,00,000
4	***Property, Plant and Equipment***	
	Land and Building	*4,00,000*
	Plant and machinery	*6,00,000*
		10,00,000
5	***Intangible assets***	
	Goodwill	*2,40,000*
	Patents	*50,000*
		2,90,000

Wye Ltd. was to take over all assets (except cash) and liabilities (except for interest due on debentures) and to pay following amounts:

(i) *₹ 2,00,000 7% Debentures (₹ 100 each) in Wye Ltd. for the existing debentures in Zed Ltd.; for the purpose, each debenture of Wye Ltd. is to be treated as worth ₹ 105.*

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(ii) For each preference share in Zed Ltd. ₹ 10 in cash and one 9% preference share of ₹ 100 each in Wye Ltd.

(iii) For each equity share in Zed Ltd. ₹ 20 in cash and one equity share in Wye Ltd. of ₹ 100 each having the market value of ₹ 140.

(iv) Expense of liquidation of Zed Ltd. are to be reimbursed by Wye Ltd. to the extent of ₹ 10,000. Actual expenses amounted to ₹ 12,500.

Wye Ltd. valued Land and building at ₹ 5,50,000 Plant and Machinery at ₹ 6,50,000 and patents at ₹ 20,000 of Zed Ltd for the purpose of amalgamation.

Solution

Purchase Consideration

			₹	*Form*
(i)	Preference Shares: ₹ 10 per share	40,000		Cash
	Preference shares	4,00,000	4,40,000	Preference shares
(ii)	Equity shares: ₹ 20 per share	1,60,000		Cash
	8,000 equity shares in			
	Wye Ltd. @ ₹ 140	11,20,000	12,80,000	Equity shares
		17,20,000		

Steps to close the Books of the Vendor Company

1. Open Realization Account and transfer all assets at book value.

   Exception: If cash is not taken over by the purchasing company, it should not be transferred.

   Note: Profit and Loss Account (Dr.) and expenses not written off are not assets and should not be transferred to the Realization Account.

   The journal entry in the above case is:

		₹	₹
Realization A/c	Dr.	16,20,000	
To Sundries —			
Goodwill			2,40,000
Land & Building			4,00,000

Plant & Machinery	6,00,000
Patents	50,000
Inventory	1,50,000
Trade receivables	1,80,000

(Transfer of assets to Realization Account on sale of business to Wye Ltd.)

2. Transfer to the Realization Account the liabilities which the purchasing company is to take over. In case of the provisions, the portion which represents liability expected to arise in future should be so transferred and the portion which is not required (*i.e.*, the reserve portion) should be treated as profit. Accordingly, the following entry will be recorded:

		₹	₹
6% Debentures in Wye Ltd.	Dr.	2,00,000	
Workmen's Compensation Reserve	Dr.	5,000	
Trade payables	Dr.	1,20,000	
To Realization A/c			3,25,000
(Transfer of liabilities taken over by Wye Ltd. to Realization A/c)			

For liabilities not take over by the purchasing company, the profit or loss on discharge of such liabilities shall be transferred to Realization Account.

3. Debit purchasing company and credit Realization Account with the purchase consideration.

Wye Ltd.-	Dr.	17,20,000	
To Realization A/c			17,20,000
(Amount receivable from Wye Ltd. for sale of business)			

4. On receipt of the purchase consideration debit what is received (cash, debentures, shares etc.) and credit the purchasing company. Thus —

Cash	Dr.	2,00,000
9% Preference shares in Wye Ltd.	Dr.	4,00,000

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Equity shares in Wye Ltd.	Dr.	11,20,000	
To Wye Ltd.			17,20,000
(Receipt of purchase consideration from the purchase company)			

5. Expenses of liquidation have to be dealt with according to the circumstances of each case.

   (a) If the vendor company has to bear and pay them:

   Realization Account should be debited and Cash Account credited.

   (b) If the expenses are to be borne by the purchasing company, the question may be dealt within one of the two ways mentioned below:

   (i) It may be ignored in the books of the vendor company.

   (ii) If the expenses are to be paid first by the vendor company and afterwards reimbursed by the purchasing company, the following two entries will be passed:

   (a) Debit Purchasing company and credit Cash Account when expenses are paid by the vendor company; and

   (b) Debit Cash Account and credit purchasing company (on the expenses being reimbursed).

   In the above mentioned case Wye Ltd. has to pay maximum of ₹ 10,000 only whereas, the amount spent is ₹ 12,500. Hence ₹ 2,500 is to be borne by Zed Ltd.; the entries required will be :

		₹	₹
Wye Ltd.	Dr.	10,000	
Realization A/c	Dr.	2,500	
To Cash A/c			12,500
(Liquidation expenses out of which ₹ 10,000 is payable by Wye Ltd.)			

Cash A/c	Dr.	10,000	
To Wye Ltd.			10,000
(Account reimbursed by Wye Ltd. for expense)			

6. Liabilities not assumed by the purchasing company, have to be paid off. On payment, debit the liability concerned and credit cash. Any difference between the amount actually paid and the book figure must be transferred to the Realization Account. Zed Ltd. shall pass the following entries in this respect:

		₹	₹
Interest Outstanding	Dr.	12,000	
To Debentureholders A/c			12,000
(Amount due to debenture holders for debentures interest)			
Debentureholders	Dr.	12,000	
To Cash A/c			12,000
(Debentureholders paid cash ₹ 12,000 for outstanding interest)			

7. Credit the preference shareholders with the amount payable to them, debiting Preference Share Capital with the amount shown in the books, transferring the difference between the two, if any, to the Realization Account. Thus —

6% Pref. Share Capital A/c	Dr.	4,00,000	
Realization A/c	Dr.	40,000	
To Preference Shareholders A/c			4,40,000
(The amount due to preference shareholders for capital and the extra amount payable under the scheme of absorption)			

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Note: In the absence of any indication to the contrary, preference shareholders will be entitled only to the capital contributed by them. But if funds available after paying off creditors are not sufficient to satisfy the claim of preference shareholders fully, they will have to suffer a loss to the extent of the deficit.

8. Pay off preference shareholders by debiting them and crediting whatever is given to them. The entry in the above case is :

		₹	₹
Preference shareholders A/c	Dr.	4,40,000	
To Cash A/c			40,000
To 9% Preference shares in Wye Ltd.			4,00,000
(Cash and preference shares in Wye Ltd. given to preference shareholders)			

9. Transfer equity share capital and account representing profit or loss (including the balance in Realization Account) to Equity Shareholders Account. This will determine the amount receivable by the equity shareholders. Zed Ltd. shall pass the following entries in this regard :

		₹	₹
Equity Share Capital A/c	Dr.	8,00,000	
Capital Reserve A/c	Dr.	1,00,000	
Profit and Loss A/c	Dr.	50,000	
Workmen's Compensation Reserve A/c	Dr.	3,000	
Realization A/c	Dr.	3,82,500	
To Equity Shareholders A/c			13,35,500
(Various accounts representing capital and profit transferred to Equity Shareholders Account)			

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10. On satisfaction of the claims of the equity shareholders, debit their account and credit whatever is given to them. Hence:

Equity Shareholders A/c	Dr.	13,35,500	
To Equity Shares in Wye Ltd.			11,20,000
To Cash A/c (W.N.2)			2,15,500

Working Notes

1. Realization Account

		₹			₹
To	Sundry Assets	16,20,000	By	Sundry Liabilities	3,25,000
To	Cash (excess expenses of liquidation)	2,500	By	Wye Ltd.	17,20,000
To	Preference Shareholders	40,000			
To	Equity Shareholders A/c - profit transferred	3,82,500			
		20,45,000			20,45,000

2. Cash Account

	₹		₹
To Balance b/d	70,000	By Realization	2,500
To Wye Ltd. (consideration for amalgamation)	2,00,000	By Wye Ltd.	10,000
To Wye Ltd. (liquidation expenses reimbursed)	10,000	By Debenture-holders	12000
		By Preference shareholder	40000
		By Equity Shareholder (B/F)	215500
	280000		280000

7. ENTRIES IN THE BOOKS OF PURCHASING COMPANY

In the books of the purchasing/ vendee/ transferee company, the assets and liabilities which are taken overs are recorded at the agreed values and where there is no agreed value then at the book values.

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Continuing with the information given in Illustration 5:

1. Debit Business Purchase Account and Credit Liquidator of the vendor company with the account of the purchase consideration. Thus -

		₹	₹
Business Purchase A/c	Dr.	17,20,000	
To Liquidator of Zed Ltd.			17,20,000
(Amount payable to Zed Ltd. as per agreement dated....)			

2. (i) Debit assets acquired (except goodwill) at the value placed on them by the purchasing company;

   (ii) Credit liabilities taken over at agreed values and credit Business Purchase Account with the amount of purchase consideration; and

   (iii) If the credits as per (*ii*) above exceed debits as per (*i*) above, the difference should be debited to Goodwill Account, in the reverse case, the difference should be credited to Capital Reserve.

Note: The amount of Goodwill or Capital Reserve that shall be included will be the amount as has been arrived at only in foregoing manner.

In the above case the entry to be passed shall be:

		₹	₹
Land and Building A/c	Dr.	5,50,000	
Plant and Machinery A/c	Dr.	6,50,000	
Patents A/c	Dr.	20,000	
Inventory A/c	Dr.	1,50,000	
Trade receivables	Dr.	1,80,000	
Goodwill	Dr.	5,05,000	

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To

Provision for Workmen's Compensation A/c	5,000
Trade payables	1,20,000
Debentures in Z Ltd.	2,10,000
Business Purchases Account	17,20,000

(Various assets and liabilities taken over from Zed Ltd.Goodwill ascertained as a balancing figure)

3. On the payment to the vendor company the balance at its credit, the entry to be made by Wye Ltd. shall be:

		₹	₹
Liquidator of Zed Ltd.	Dr.	17,20,000	
To Cash			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
(Payment of cash and issue of shares in satisfaction of purchase consideration)			

4.

Debentures in Z Ltd. A/c	Dr.	2,10,000	
To 7% Debentures A/c			2,00,000
To Premium on Debentures A/c			10,000
(Debentures issued)			

5. If the purchasing company is required to pay the expenses of liquidation of the vendor company, the amount should be debited to the Goodwill or Capital Reserve Account, as the case may be. In the instant case, the entry shall be:

Goodwill Account	Dr.	10,000	
To Cash Account			10,000
(Amount paid towards liquidation expenses on Zed Ltd.)			

Typical adjustments which shall be noted while working out the problems

Entries at par value - The students will note that purchasing company is left with a large debit in the Goodwill Account (Step No. 2) accompanied by quite a large amount in the Securities Premium Account (Step No. 3). The two cannot be adjusted. However, it would be permissible to negotiate on the basis to the market value of the shares but to make entries only on the basis of par of shares of purchasing company. This will mean that Goodwill Account (or Capital Reserve) will be automatically adjusted for the securities premium.

Inter Company-owing - Should the purchasing company owe an amount to the vendor company or *vice versa,* the amount will be included in the book debts of one company and trade payables of the other. This should be adjusted by the entry:

Trade payables	Dr.
To Trade receivables	

The entry should be made after the usual acquisition entries have been passed. At the time of preparing the Realization Account and passing the business purchase entries, no attention need be paid to the fact that the two companies involved owed money mutually.

Adjustment of the value of stock - Inter-company owings arise usually from purchase and sale of goods; it is likely, therefore, that at the time, of the sale of business, the debtor company also has goods in stock which it purchased from the creditor company - the cost of the debtor company will include the profit made by the creditor company. After the takeover of the business it is essential that such a profit is eliminated. The entry for this will be made by the purchasing company. If it is the vendor company which has such goods in stock, at the time of passing the acquisition entries, the value of the stock should be reduced to its cost to the company which is acquiring the business; automatically goodwill or capital reserve, as the case may be, will be adjusted. But if the original sale was made by the vendor company and the stock is with the company acquiring the

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business, the latter company will have to debit Goodwill (or Capital Reserve) and credit stock with the amount of the profit included in the stock.

Inter-company Loans- Where there is any loan taken by the transferor company from the transferee company then the amount of the loan shall be taken over by the transferee company and adjustment entry to be passed as follows-

Loan (liability of Transferor co) A/c	Dr	XXX	
To Loans and advances (assets)			XXX
(Elimination of the inter-company loans taken by the transferor from transferee company).			

Illustration 6

The following Balance Sheets are given as at 31st March, 20X1:

		Particulars	***₹ Best Ltd. (in lakhs)***	***₹ Better Ltd. (in lakhs)***
		Equity and Liabilities		
1		***Shareholders' funds***		
	A	*Share capital*	*20*	*10*
		(shares of ₹ 100 each, fully pad)		
	B	*Reserves and Surplus*	*10*	*8*
2		***Current liabilities***	*20*	*2*
		Total	*50*	*20*
		Assets		
1		***Non-current assets***		
	A	*Property, Plant and Equipment*	*25*	*15*
	B	*Non-current investments*	*5*	*-*
2		***Current assets***	*20*	*5*
		Total	*50*	*20*

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The following further information is given:

(a) Better Limited issued bonus shares on 1st April, 20X1, in the ratio of one share for every two held, out of Reserves and Surplus.

(b) It was agreed that Best Ltd. will take over the business of Better Ltd., on the basis of the latter's Balance Sheet, the consideration taking the form of allotment of shares in Best Ltd.

(c) The value of shares in Best Ltd. was considered to be ₹ 150 and the shares in Better Ltd. were valued at ₹ 100 after the issue of the bonus shares. The allotment of shares is to be made on the basis of these values.

(d) Liabilities of Better Ltd., included ₹ 1 lakh due to Best Ltd., for purchases from it, on which Best Ltd., made profit of 25% of the cost. The goods of ₹ 50,000 out of the said purchases, remained in stock on the date of the above Balance Sheet.

Make the closing ledger in the Books of Better Ltd. and the opening journal entries in the Books of Best Ltd., and prepare the Balance Sheet as at 1st April, 20X1 after the takeover.

Solution

LEDGER OF BETTER LIMITED

Property, Plant and Equipment (PPE) Account

	₹		₹
To Balance b/d	15,00,000	By Realization A/c (transfer)	15,00,000

Current Assets Account

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

Liabilities Account

	₹		₹
To Realization A/c	2,00,000	By Balance b/d	2,00,000

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Realization Account

	₹		₹
To PPE A/c	15,00,000	By Liabilities A/c	2,00,000
" Current Assets A/c	5,00,000	" Best Limited	15,00,000
		(Purchase Consideration)	
		" Shareholders' A/c	3,00,000
		(Loss on Realization)	
	20,00,000		20,00,000

Share Capital Account

	₹		₹
To Sundry shareholders		By Balance b/d	10,00,000
A/c - (transfer)	15,00,000	" Reserves & Surplus A/c	
		(Bonus issue)	5,00,000
	15,00,000		15,00,000

Reserves & Surplus Account

	₹		₹
To Share Capital (Bonus issue)	5,00,000	By Balance b/d	8,00,000
" Sundry Shareholders	3,00,000		
	8,00,000		8,00,000

Best Ltd.

	₹		₹
To Realization A/c - Purchase		By Shares in Best Ltd	15,00,000
Consideration	15,00,000		
	15,00,000		15,00,000

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Shares in Best Ltd.

	₹		₹
To Best Ltd.	15,00,000	By Sundry Shareholders A/c	15,00,000

Sundry Shareholders Account

	₹		₹
To Realization A/c (Loss)	3,00,000	By Share Capital A/c	15,00,000
		" Reserves & Surplus A/c	3,00,000
" Share in Best Ltd.	15,00,000		
	18,00,000		18,00,000

Journal of Best Ltd.

20X1		Dr. ₹	Cr. ₹
Apr. 1	Property, Plant and Equipment A/c Dr.	15,00,000	
	Current Assets A/c Dr.	5,00,000	
	To Liabilities A/c		2,00,000
	To Liquidator of Better Ltd.		15,00,000
	To Capital Reserve A/c		3,00,000
	(Assets & Liabilities of Better Ltd. taken over for an agreed purchase consideration of ₹ 15,00,000 as per agreement dated....)		
	Liquidator of Better Ltd. Dr.	15,00,000	
	To Share Capital A/c		10,00,000
	To Securities Premium A/c		5,00,000
	(Discharge of Purchase consideration by the issue of equity shares of ₹ 10,00,000 at a premium of ₹ 50 per share as per agreement)		

Trade payables A/c Dr.		1,00,000	
To Trade receivables A/c			1,00,000
(Amount due from Better Ltd., and included in its creditors taken over, cancelled against own Trade receivables)			
Capital Reserve A/c	Dr.	10,000	
To Current Asset (Stock) A/c			10,000
(Unrealized profit on stock included in current assets of Better Ltd. written off to Reserve Account. 20% on sale value of ₹50,000 shall be eliminated as unrealized profit)			

Working Note :

Calculation of Purchase consideration:

Issued Capital of Better Ltd. (after bonus issue) at ₹ 100 per share ₹ 15,00,000

Purchase consideration has been discharged by Best Ltd. by the issue of shares for ₹ 10,00,000 at a premium of ₹ 5,00,000. This gives the value of ₹ 150 per share.

Balance Sheet of Best Ltd. (After absorption)

		Particulars	***Notes***	***₹***
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	30,00,000
	b	Reserves and Surplus	2	17,90,000
2		**Current liabilities**		21,00,000
		Total		68,90,000
		Assets		
1		**Non-current assets**		
	a	Property, Plant and Equipment	3	40,00,000
	b	Non-current investments		5,00,000
2		**Current assets**		23,90,000
		Total		68,90,000

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Notes to accounts

		₹
1 Share Capital		
Equity share capital		
Issued & Subscribed		
30,000 shares of ₹ 100 (of the above 10,000 shares have been issued for consideration other than cash)		30,00,000
Total		30,00,000
2 Reserves and Surplus		
Capital Reserve (3,00,000 – 10,000)		2,90,000
Securities Premium		5,00,000
Other reserves and surplus		10,00,000
Total		17,90,000
3 Property, Plant and Equipment		
PPE	25,00,000	
Acquired during the year	15,00,000	40,00,000
Total		40,00,000

Illustration 7

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

		Particulars	***Notes***	***₹ K Ltd.***	***₹ L Ltd.***
		Equity and Liabilities			
1		***Shareholders' funds***			
	A	*Share capital*	*1*	*12,00,000*	*6,00,000*
	B	*Reserves and Surplus*	*2*	*3,71,375*	*1,97,175*

2		***Non-current liabilities***			
	A	*Long-term borrowings*	3	2,00,000	2,00,000
3		***Current liabilities***			
	A	*Trade Payables*		1,00,000	2,10,000
		Total		18,71,375	12,07,175
		Assets			
1		***Non-current assets***			
	A	*Property, Plant and Equipment*	4	11,30,000	8,20,000
	B	*Intangible assets*	5	80,000	-
2		***Current assets***			
	A	*Inventories*		2,25,000	1,40,000
	B	*Trade receivables*		2,75,000	1,75,000
	C	*Cash and Cash equivalents*	6	1,61,375	72,175
		Total		18,71,375	12,07,175

Notes to accounts

1	***Share Capital***		***K Ltd.***	***L Ltd.***
	Equity shares of ₹ 100 each		8,00,000	3,00,000
	7% Preference Shares of ₹ 100 each		4,00,000	3,00,000
			12,00,000	6,00,000
2	***Reserves and Surplus***			
	General reserve		-	1,00,000
	Profit and loss account		3,71,375	97,175
			3,71,375	1,97,175
3	***Long-term borrowings***			
	5% Debentures		2,00,000	-
	Secured loan		-	2,00,000
			2,00,000	2,00,000

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4	***Property, plant and Equipment***			
	Land and Building		*4,50,000*	*3,00,000*
	Plant and machinery		*6,20,000*	*5,00,000*
	Furniture and fittings		*60,000*	*20,000*
			11,30,000	*8,20,000*
5	***Intangible assets***			
	Goodwill		*80,000*	*-*
			80,000	*-*
6	***Cash and Cash Equivalents***			
	Cash at Bank		*1,20,000*	*55,000*
	Cash in hand		*41,375*	*17,175*
			1,61,375	*72,175*

The terms of amalgamation are as under:

(A) (1) The assumption of liabilities of both the Companies.

(2) Issue of 5 Preference shares of ₹ 20 each in LK Ltd. @ ₹ 18 paid up at premium of ₹ 4 per share for each preference share held in both the Companies.

(3) Issue of 6 Equity shares of ₹ 20 each in LK Ltd. @ ₹ 18 paid up at a premium of ₹ 4 per share for each equity share held in both the Companies. In addition, necessary cash should be paid to the Equity Shareholders of both the Companies as is required to adjust the rights of shareholders of both the Companies in accordance with the intrinsic value of the shares of both the Companies.

(4) Issue of such amount of fully paid 6% debentures in LK Ltd. as is sufficient to discharge the 5% debentures in K Ltd. at a discount of 5% after takeover.

(B) (1) The assets and liabilities are to be taken at book values inventory and trade receivables for which provisions at 2% and 2 ½ % respectively to be raised before considering inter company adjustments.

(2) The trade receivables of K Ltd. include ₹ 20,000 due from L Ltd.

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(C) *The LK Ltd. is to issue 15,000 new equity shares of ₹ 20 each, ₹ 18 paid up at premium of ₹ 4 per share so as to have sufficient working capital. Prepare ledger accounts in the books of K Ltd. and L Ltd. to close their books.*

Solution

Books of K Ltd.
Realization Account

	₹		₹
To Goodwill	80,000	By 5% Debentures	2,00,000
To Land & Building	4,50,000	By Trade payables	1,00,000
To Plant & Machinery	6,20,000	By LK Ltd.	15,60,000
To Furniture & Fitting	60,000	(Purchase consideration)	
To Trade receivables	2,75,000	By Equity shareholders A/c	51,375
To Stores & inventory	2,25,000	(loss)	
To Cash at Bank	1,20,000		
To Cash in hand	41,375		
To Preference shareholders			
(excess payment)	40,000		
	19,11,375		19,11,375

Equity Shareholders Account

	₹		₹
To Realization A/c (loss)	51,375	By Share capital	8,00,000
To Equity Shares in LK Ltd.	10,56,000	By Profit & Loss A/c	3,71,375
To Cash	64,000		
	11,71,375		11,71,375

7% Preference Shareholders Account

	₹		₹
To Preference Shares in LK Ltd.	4,40,000	By Share capital	4,00,000
		By Realization A/c	40,000
	4,40,000		4,40,000

LK Ltd. Account

		₹			₹
To	Realization A/c	15,60,000	By	Equity Shares in LK Ltd.	
				For Equity 10,56,000	
				Pref. 4,40,000	14,96,000
			By	Cash	64,000
		15,60,000			15,60,000

Books of L Ltd.
Realization Account

		₹			₹
To	Land & Building	3,00,000	By	Trade payables	2,10,000
To	Plant & Machinery	5,00,000	By	Secured loan	2,00,000
To	Furniture & Fittings	20,000	By	LK Ltd. (Purchase	
To	Trade receivables	1,75,000		consideration)	7,90,000
To	Inventory of stores	1,40,000	By	Equity shareholders A/c—	
To	Cash at bank	55,000		Loss	37,175
To	Cash in hand	17,175			
To	Pref. shareholders	30,000			
		12,37,175			12,37,175

Equity Shareholders Account

		₹			₹
To	Equity shares in LK Ltd.	3,96,000	By	Share Capital	3,00,000
To	Realization	37,175	By	Profit & Loss A/c	97,175
To	Cash	64,000	By	Reserve	1,00,000
		4,97,175			4,97,175

7% Preference Shareholders Account

		₹			₹
To	Preference Shares in LK Ltd.	3,30,000	By	Share capital	3,00,000
			By	Realization A/c	30,000
		3,30,000			3,30,000

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LK Ltd. Account

	₹			₹
To Realization A/c	7,90,000	By Equity shares in LK Ltd.		
		For Equity	3,96,000	
		Preference	3,30,000	7,26,000
		By Cash		64,000
	7,90,000			7,90,000

Working Notes:

(i) Purchase consideration

	K Ltd. ₹	L Ltd. ₹
Payable to preference shareholders:		
Preference shares at ₹ 22 per share	4,40,000	3,30,000
Equity Shares at ₹ 22 per share	10,56,000	3,96,000
Cash [See W.N. (*ii*)]	64,000	64,000
	15,60,000	7,90,000

(ii) Value of Net Assets

	K Ltd. ₹	L Ltd. ₹
Goodwill	80,000	
Land & Building	4,50,000	3,00,000
Plant & Machinery	6,20,000	5,00,000
Furniture & Fittings	60,000	20,000
Trade receivables less 2.5%	2,68,125	1,70,625
Inventory less 2%	2,20,500	1,37,200
Cash at Bank	1,20,000	55,000
Cash in hand	41,375	17,175
	18,60,000	12,00,000

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Less : Debentures	2,00,000		–	
Trade payables	1,00,000		2,10,000	
Secured Loans	–	(3,00,000)	2,00,000	(4,10,000)
		15,60,000		7,90,000
Payable in shares		14,96,000		7,26,000
Payable in cash		64,000		64,000

Illustration 8

Consider the following balance sheets of X Ltd. and Y Ltd. as at 31st March, 20X1:

		Particulars	***Notes***	***₹ X Ltd ('000)***	***₹ Y Ltd. ('000)***
		Equity and Liabilities			
1		***Shareholders' funds***			
	A	*Share capital*	*1*	*72,00*	*47,00*
	B	*Reserves and Surplus*	*2*	*15,50*	*10,50*
2		***Non-current liabilities***			
	A	*Long-term borrowings*	*3*	*5,00*	*3,50*
3		***Current liabilities***			
	A	*Trade Payables*		*4,50*	*3,50*
	B	*Other current liabilities*		*2,00*	*1,50*
		Total		*99,00*	*66,00*
		Assets			
1		***Non-current assets***			
	A	*Property, Plant and Equipment*	*4*	*63,25*	*36,00*
	B	*Non-current investments*	*5*	*7,00*	*5,00*

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2		***Current assets***			
	A	*Inventories*		*12,50*	*9,50*
	B	*Trade receivables*		*9,00*	*10,30*
	C	*Cash and Cash equivalents*		*7,25*	*5,20*
		Total		*99,00*	*66,00*

Notes to accounts

		X Ltd ('000)	***Y Ltd ('000)***
1	***Share Capital***		
	Equity share capital (₹ 10 each)	*50,00*	*30,00*
	14% Preference Shares capital ₹ 100 each	*22,00*	*17,00*
		72,00	*47,00*
2	***Reserves and Surplus***		
	General reserve	*5,00*	*2,50*
	Export profit reserve	*3,00*	*2,00*
	Investment allowance reserve	*-*	*1,00*
	Profit and loss account	*7,50*	*5,00*
		15,50	*10,50*
3	***Long-term borrowings***		
	13% Debentures of ₹ 100 each	*5,00*	*3,50*
		5,00	*3,50*
4	***Property, Plant and Equipment***		
	Land and Building	*25,00*	*15,50*
	Plant and machinery	*32,50*	*17,00*
	Furniture	*5,75*	*3,50*
		63,25	*36,00*
5	***Non-current investments***		
	Investments at cost	*7,00*	*5,00*
		7,00	*5,00*

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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 (i) Journal entries and (ii) 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.

Solution

(a) Amalgamation in the nature of merger:

(i) Journal Entries in the Books of X Ltd.

		₹ '000	₹ ' 000
Business Purchase	Dr.	53,70	
To Liquidator of Y Ltd.			53,70
(Consideration payable for business taken over from Y Ltd)			
Sundry Assets of Y Ltd	Dr.	66,00	
General Reserve (Related to X Ltd)		4,20	
To Sundry Liabilities of Y Ltd			8,50
To Export profit Reserve			2,00
To Investment allowance Reserve			1,00
To Profit & Loss			5,00
To Business Purchase			53,70
(Incorporation of various assets and liabilities taken over from Y Ltd. at book values and difference of share capital and purchase consideration being adjusted with free Reserves)			
Liquidator of Y Ltd.	Dr.	53,70	

To Equity Share Capital			35,00
To 15% Preference Share Capital			18,70
(Discharge of consideration for Y Ltd.'s business)			
Sundry Liabilities in Y Ltd (13% Debentures in Y Ltd.)	Dr.	3,50	
To 13% Debentures			3,50
(Allotment of 13% Debentures to debenture holders of Y Ltd. at Par)			

(ii) Balance Sheet of X Ltd.

		Particulars	Notes	₹ in '000
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	12,570
	b	Reserves and Surplus	2	1,930
2		**Non-current liabilities**		
	a	Long-term borrowings	3	850
3		**Current liabilities**		
	a	Trade Payables		800
	b	Other current liabilities		350
		Total		16,500
		Assets		
1		**Non-current assets**		
	a	Property, Plant and Equipment	4	9,925
	b	Non-current investments		1,200
2		**Current assets**		
	a	Inventories		2,200
	b	Trade receivables		1,930
	c	Cash and cash equivalents		1,245
		Total		16,500

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Notes to accounts

			₹ in ‘ 000
1	**Share Capital**		
	Equity share capital		
	8,50,000 Equity Shares of ₹ 10 each		8,500
	Preference share capital		
	18,700, 15% Preference Shares of ₹ 100 each		1,870
	22,000, 14% Preference Shares of ₹ 100 each		2,200
	Total		12,570
2	**Reserves and Surplus**		
	General Reserve of X Ltd. 500		
	Add: General reserve of Y Ltd. 250	750	
	Less: Adjustment for amalgamation*	(670)	80
	Export Profit Reserve of X Ltd.	300	
	Add: Export Profit Reserve of Y Ltd.	200	500
	Investment Allowance Reserve		100
	Profit & Loss A/c of X Ltd.	750	
	Add: Profit & Loss A/c of Y Ltd.	500	1,250
	Total		1,930
3	**Long-term borrowings**		
	Secured		
	8,500 13% Debentures of ₹ 100 each		850
	Total		850
4	**Property, Plant and Equipment**		
	Land & Buildings		4,050
	Plant & Machinery		4,950
	Furniture & Fittings		925
	Total		9,925

*The difference between the amount recorded as share capital issued and the amount of share capital of transferor-company should be adjusted in reserves. Thus, Adjustment for amalgamation = ₹ '000 (53,70 – 47,00) = ₹ ('000) 670

(b) Amalgamation in the nature of purchase:

(i) Journal Entries in the Books of X Ltd.

		Dr. ₹	Cr. ₹
Business Purchase	Dr.	53,70,000	
To Liquidator of Y Ltd.			53,70,000
(Consideration payable for business taken over from Y Ltd)			
Sundry Assets of Y Ltd	Dr.	66,00,000	
To Sundry Liabilities of Y Ltd			8,50,000
To Capital Reserve			3,80,000
To Business Purchase			53,70,000
(Incorporation of various assets and liabilities taken over from Y Ltd. at book values and difference of Net assets and purchase consideration being credited to Capital reserve)			
Liquidator of Y Ltd.	Dr.	53,70,000	
To Equity Share Capital			35,00,000
To 15% Preference Share Capital			18,70,000
(Discharge of consideration for Y Ltd.' s business)			
13% Debentures in Y Ltd.	Dr.	3,50,000	
To 13% Debentures			3,50,000
(Allotment of 13% Debentures to debenture holders of Y Ltd. at Par)			

Balance Sheet of X Ltd.

		Particulars	*Notes*	*₹ in'000*
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	12,570
	b	Reserves and Surplus	2	1,930
2		**Non-current liabilities**		
	a	Long-term borrowings	3	850
3		**Current liabilities**		
	a	Trade Payables		800
	b	Other current liabilities		350
		Total		16,500
		Assets		
1		**Non-current assets**		
	a	Property, Plant and Equipment	4	9,925
	b	Non-current investments		1,200
2		**Current assets**		
	a	Inventories		2,200
	b	Trade receivables		1,930
	c	Cash and cash equivalents		1,245
		Total		16,500

Notes to accounts

		₹ in'000
1 Share Capital		
Equity share capital		
8,50,000 Equity Shares of ₹ 10 each		8,500
Preference share capital		
18,700, 15% Preference Shares of ₹ 100 each		1,870
22,000, 14% Preference Shares of ₹ 100 each		2,200
Total		12,570

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2	**Reserves and Surplus**		
	Capital Reserve		380
	General Reserve		500
	Amalgamation adjustment reserve		(300)
	Export Profit Reserve		500
	Investment Allowance Reserve		100
	Surplus (Profit & Loss A/c)		750
	Total		1,930
3	**Long-term borrowings**		
	Secured		
	8,500 13% Debentures of ₹ 100 each		850
	Total		850
4	**Property, Plant and Equipment**		
	Land & Buildings		4,050
	Plant & Machinery		4,950
	Furniture & Fittings		925
	Total		9,925

Workings Notes:

Capital Reserve arising on Amalgamation:

(A)	Net Assets taken over:	₹ ('000)	₹ ('000)
	Sundry Assets		66,00
	Less: 13% Debentures	3,50	
	Trade payables	3,50	
	Other current liabilities	1,50	(8,50)
			57,50
(B)	Purchase consideration:		
	To Equity Shareholders of Y Ltd.		35,00
	To Preference Shareholders of Y Ltd.		18,70
			53,70
(C)	Capital Reserve (A – B)		3,80

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Illustration 9

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

		Particulars	Notes	₹ P Ltd	₹ Q Ltd
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital	1	8,00,000	4,00,000
	B	Reserves and Surplus		3,00,000	2,00,000
2		**Non-current liabilities**			
	A	Long-term borrowings	2	2,00,000	1,50,000
3		**Current liabilities**			
	A	Trade Payables		2,50,000	1,50,000
		Total		15,50,000	9,00,000
		Assets			
1		**Non-current assets**			
	A	Property, Plant and Equipment		7,00,000	2,50,000
	B	Non-current investments		80,000	80,000
2		**Current assets**			
	A	Inventories		2,40,000	3,20,000
	B	Trade receivables		4,20,000	2,10,000
	C	Cash and Cash equivalents		1,10,000	40,000
		Total		15,50,000	9,00,000

Notes to accounts

			P Ltd.	Q Ltd.
1	**Share Capital**			
	Equity shares of ₹ 10 each		6,00,000	3,00,000
	10% Preference Shares of ₹ 100 each		2,00,000	1,00,000
			8,00,000	4,00,000
2	**Long term borrowings**			
	12% Debentures		2,00,000	1,50,000
			2,00,000	1,50,000

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Details of Trade receivables and trade payables are as under:

	P Ltd. (₹)	Q Ltd. (₹)
Trade receivables		
Debtors	3,60,000	1,90,000
Bills Receivable	60,000	20,000
	4,20,000	2,10,000
Trade payables		
Sundry Creditors	2,20,000	1,25,000
Bills Payable	30,000	25,000
	2,50,000	1,50,000

Property, plant and equipment of both the companies are to be revalued at 15% above book value. Both the companies are to pay 10% Equity dividend, but 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 ₹ 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.*

(v) *Inventory in Trade and Debtors are taken over at 5% lesser than their book value by P Ltd.*

Prepare:

(a) *Journal entries in the books of P Ltd.*

(b) *Statement of consideration payable by P Ltd.*

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Solution

(a) Journal Entries in the Books of P Ltd.

		Dr. ₹	Cr. ₹
Property, Plant and Equipment	Dr.	1,05,000	
To Revaluation Reserve			1,05,000
(Revaluation of PPE at 15% above book value)			
Reserve and Surplus	Dr.	60,000	
To Equity Dividend			60,000
(Declaration of equity dividend @ 10%)			
Equity Dividend	Dr.	60,000	
To Bank Account			60,000
(Payment of equity dividend)			
Business Purchase Account	Dr.	4,90,000	
To Liquidator of Q Ltd.			4,90,000
(Consideration payable for the business taken over from Q Ltd.)			
Property, Plant and Equipment (115% of ₹ 2,50,000)	Dr.	2,87,500	
Inventory (95% of ₹ 3,20,000)	Dr.	3,04,000	
Debtors	Dr.	1,90,000	
Bills Receivable	Dr.	20,000	
Investment	Dr.	80,000	
Cash at Bank	Dr.	10,000	
(₹ 40,000 –₹ 30,000 dividend paid)			
To Provision for Bad Debts (5% of ₹ 1,90,000)			9,500
To Sundry Creditors			1,25,000
To 12% Debentures in Q Ltd.			1,62,000
To Bills Payable			25,000

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To Business Purchase Account			4,90,000
To Capital Reserve (Balancing figure)			80,000
(Incorporation of various assets and liabilities taken over from Q Ltd. at agreed values and difference of net assets and purchase consideration being credited to capital reserve)			
Liquidator of Q Ltd.	Dr.	4,90,000	
To Equity Share Capital			4,00,000
To 10% Preference Share Capital			90,000
(Discharge of consideration for Q Ltd.' s business)			
12% Debentures in Q Ltd. (₹ 1,50,000 × 108%)	Dr.	1,62,000	
Discount on Issue of Debentures	Dr.	18,000	
To 12% Debentures			1,80,000
(Allotment of 12% Debentures to debenture holders of Q Ltd. at a discount of 10%)			
Sundry Creditors of Q Ltd.	Dr.	10,000	
To Sundry Debtors of P Ltd.			10,000
(Cancellation of mutual owing)			
Goodwill	Dr.	30,000	
To Bank			30,000
(Being liquidation expenses reimbursed to Q Ltd.)			
Capital Reserve	Dr.	30,000	
To Goodwill			30,000
(Being goodwill set off)			

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(b) Statement of Consideration payable by P Ltd. for 30,000 shares (payment method)

Shares to be allotted $\frac{30,000}{6} \times 8$ = 40,000 shares of P Ltd.

Issued 40,000 shares of ₹ 10 each i.e.	₹ 4,00,000	(i)
For 10% preference shares, to be paid at 10% discount		
₹ $\frac{1,00,000 \times 90}{100}$	₹ 90,000	(ii)
Consideration amount [(i) + (ii)]	₹ 4,90,000	

Illustration 10

The financial position of two companies Hari Ltd. and Vayu Ltd. as at 31st March, 20X1 was as under:

		Particulars	Notes	Hari Ltd.	Vayu Ltd.
		Equity and Liabilities			
1		***Shareholders' funds***			
	A	*Share capital*	1	11,00,000	4,00,000
	B	*Reserves and Surplus*	2	70,000	70,000
2		***Non-current liabilities***			
	A	*Long term provisions*	3	50,000	20,000
3		***Current liabilities***			
	A	*Trade Payables*		1,30,000	80,000
		Total		13,50,000	5,70,000
		Assets			
1		***Non-current assets***			
	A	*Property, Plant and Equipment*	4	8,00,000	2,50,000
	B	*Intangible assets*	5	50,000	25,000

2		***Current assets***			
	A	*Inventories*		*2,50,000*	*1,75,000*
	B	*Trade receivables*		*2,00,000*	*1,00,000*
	C	*Cash and Cash equivalents*		*50,000*	*20,000*
		Total		*13,50,000*	*5,70,000*

Notes to accounts

			Hari Ltd.	Vayu Ltd.
1	***Share Capital***			
	Equity shares of ₹ 10 each		*10,00,000*	*3,00,000*
	9% Preference Shares of ₹ 100 each		*1,00,000*	*--*
	10% Preference Shares of ₹ 100 each		*--*	*1,00,000*
			11,00,000	*4,00,000*
2	***Reserves and Surplus***			
	General reserve		*70,000*	*70,000*
			70,000	*70,000*
3	***Long term Provisions***			
	Retirement gratuity fund		*50,000*	*20,000*
			50,000	*20,000*
4	***Property, plant and Equipment***			
	Land and Building		*3,00,000*	*1,00,000*
	Plant and machinery		*5,00,000*	*1,50,000*
			8,00,000	*2,50,000*
5	***Intangible assets***			
	Goodwill		*50,000*	*25,000*
			50,000	*25,000*

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Hari Ltd. absorbs Vayu Ltd. on the following terms:

(a) 10% Preference Shareholders are to be paid at 10% premium by issue of 9% Preference Shares of Hari Ltd.

(b) Goodwill of Vayu Ltd. is valued at ₹ 50,000, Buildings are valued at ₹ 1,50,000 and the Machinery at ₹ 1,60,000.

(c) Inventory to be taken over at 10% less value and Provision for Doubtful Debts to be created @ 7.5%.

(d) Equity Shareholders of Vayu Ltd. will be issued necessary Equity Shares @ 5% premium.

Prepare necessary Ledger Accounts to close the books of Vayu Ltd. and show the acquisition entries in the books of Hari Ltd. Also draft the Balance Sheet after absorption as at 31st March, 20X1.

Solution

In the Books of Vayu Ltd.
Realization Account

		₹			₹
To	Sundry Assets	5,70,000	By	Retirement Gratuity Fund	20,000
To	Preference Shareholders (Premium on Redemption)	10,000	By	Trade payables	80,000
To	Equity Shareholders (Profit on Realization)	50,000	By	Hari Ltd. (Purchase Consideration)	5,30,000
		6,30,000			6,30,000

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Equity Shareholders Account

	₹		₹
To Equity Shares of Hari Ltd.	4,20,000	By Share Capital	3,00,000
		By General Reserve	70,000
		By Realization Account (Profit on realization)	50,000
	4,20,000		4,20,000

Preference Shareholders Account

	₹		₹
To 9% Preference Shares of Hari Ltd.	1,10,000	By Preference Share Capital	1,00,000
		By Realization Account (Premium on Redemption of Preference Shares)	10,000
	1,10,000		1,10,000

Hari Ltd. Account

	₹		₹
To Realization Account	5,30,000	By 9% Preference Shares	1,10,000
		By Equity Shares	4,20,000
	5,30,000		5,30,000

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In the Books of Hari Ltd.

Journal Entries

		Dr.	Cr.
		₹	₹
Business Purchase A/c	Dr.	5,30,000	
To Liquidators of Vayu Ltd. Account			5,30,000
(Being business of Vayu Ltd. taken over)			
Goodwill Account	Dr.	50,000	
Building Account	Dr.	1,50,000	
Machinery Account	Dr.	1,60,000	
Inventory Account	Dr.	1,57,500	
Trade receivables Account	Dr.	1,00,000	
Bank Account	Dr.	20,000	
To Retirement Gratuity Fund Account			20,000
To Trade payables Account			80,000
To Provision for Doubtful Debts Account			7,500
To Business Purchase A/c			5,30,000
(Being Assets and Liabilities taken over as per agreed valuation).			
Liquidators of Vayu Ltd. A/c	Dr.	5,30,000	
To 9% Preference Share Capital A/c			1,10,000
To Equity Share Capital A/c			4,00,000
To Securities Premium A/c			20,000
(Being Purchase Consideration satisfied as above).			

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Balance Sheet of Hari Ltd. (after absorption) as at 31st March, 20X1

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	16,10,000
	B	Reserves and Surplus	2	90,000
2		**Non-current liabilities**		
	A	Long-term provisions	3	70,000
3		**Current liabilities**		
	A	Trade Payables		2,10,000
		Total		19,80,000
		Assets		
1		**Non-current assets**		
	A	Property, Plant and Equipment	4	11,10,000
	B	Intangible assets	5	1,00,000
2		**Current assets**		
	A	Inventories		4,07,500
	B	Trade receivables	6	2,92,500
	C	Cash and cash equivalents		70,000
		Total		19,80,000

Notes to accounts

		₹
1 Share Capital		
Equity share capital		
1,40,000 Equity Shares of ₹ 10 each fully paid (Out of above 40,000 Equity Shares were issued in consideration other than for cash)		14,00,000

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	Preference share capital		
	2,100 9% Preference Shares of ₹ 100 each (Out of above 1,100 Preference Shares were issued in consideration other than for cash)		2,10,000
	Total		16,10,000
2	**Reserves and Surplus**		
	Securities Premium		20,000
	General Reserve		70,000
	Total		90,000
3	**Long-term provisions**		
	Retirement Gratuity fund		70,000
	Total		70,000
4	**Property, Plant and Equipment**		
	Buildings		4,50,000
	Machinery		6,60,000
	Total		11,10,000
5	**Intangible assets**		
	Goodwill		1,00,000
6	**Trade receivables**		3,00,000
	***Less*: Provision for Doubtful Debts**		7,500
			2,92,500

Working Notes:

Purchase Consideration:	**₹**
Goodwill	50,000
Building	1,50,000
Machinery	1,60,000
Inventory	1,57,500

Trade receivables	92,500
Cash at Bank	20,000
	6,30,000
Less: Liabilities:	
Retirement Gratuity Fund	(20,000)
Trade payables	(80,000)
Net Assets/ Purchase Consideration	5,30,000
To be satisfied as under:	
10% Preference Shareholders of Vayu Ltd.	1,00,000
Add: 10% Premium	10,000
1,100 9% Preference Shares of Hari Ltd.	1,10,000
Equity Shareholders of Vayu Ltd. to be satisfied by issue of 40,000 Equity Shares of Hari Ltd. at 5% Premium	4,20,000
Total	5,30,000

Illustration 11

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

		Particulars	***Notes***	***₹ A Ltd (in'000)***	***₹ B Ltd (in'000)***
		Equity and Liabilities			
1		***Shareholders' funds***			
	A	*Share capital*	*1*	*2,000*	*1,000*
	B	*Reserves and Surplus*	*2*	*1,000*	*(800)*
2		***Non-current liabilities***			
	A	*Long-term borrowings*	*3*	*750*	*450*
3		***Current liabilities***			
	A	*Trade Payables*		*300*	*300*
	B	*Short term Borrowings – Bank overdraft*		*--*	*50*
		Total		*4,050*	*1,000*

		Assets			
1		***Non-current assets***			
	A	*Property, Plant and Equipment*		*2,700*	*850*
	B	*Non-current investments*		*700*	*--*
2		***Current assets***			
	A	*Trade receivables*		*400*	*150*
	B	*Cash and Cash equivalents (cash at bank)*		*250*	*--*
		Total		*4050*	*1000*

Notes to accounts

1	***Share capital***	***A Ltd. ('000)***	***B Ltd. ('000)***
	Equity shares of ₹ 100 each	*2000*	*1000*
		2000	*1000*
2	***Reserves and Surplus***		
	General reserve	*1000*	*--*
	Profit and loss A/c (debit balance)	*--*	*(800)*
		1000	*(800)*
3	***Long term borrowings***		
	10% debentures	*500*	*--*
	Loan from banks	*250*	*450*
		750	*450*

B Ltd. 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).

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(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.

Solution

Calculation of purchase consideration

One share of B Ltd. will be issued in exchange of every share of A Ltd. (i.e. 20,000 equity shares of B Ltd. will be issued against 20,000 equity shares of A Ltd.)	20,000 shares

Journal Entries in the books of B Ltd.

Date			***(₹ in thousands)***	
20X1			***Dr.***	***Cr.***
March,31	Loan from bank A/c	Dr.	60	
	To Capital reduction A/c			60
	(Being loan from bank waived off to the extent of ₹ 60 thousand)			
	Equity share capital A/c (₹ 100)	Dr.	1,000	
	To Equity share capital A/c (₹ 10)			100
	To Capital reduction A/c			900
	(Being equity shares of ₹ 100 each reduced to ₹ 10 each)			
	Equity share capital A/c (₹ 10)	Dr.	100	
	To Equity share capital A/c (₹ 100 each)			100
	(Being 10 equity shares of ₹ 10 each consolidated to one share of ₹ 100 each)			

	Capital reduction A/c	Dr.	960	
	To Profit and loss A/c			800
	To Capital reserve A/c			160
	(Being accumulated losses set off against reconstruction A/c and balance transferred to capital reserve account)			
	Property, plant and equipment A/c	Dr.	2,700	
	Investment A/c	Dr.	700	
	Trade receivables A/c	Dr.	400	
	Cash at bank A/c	Dr.	250	
	To Trade payables A/c			300
	To Loans from bank A/c			250
	To 10% Debentures A/c			500
	To Liquidator of A Ltd. A/c			2,000
	To Reserves A/c			1,000
	(Being assets, liabilities and reserves taken over under pooling of interest method and amount due to Liquidator)			
	Liquidator of A Ltd. A/c	Dr.	2,000	
	To Equity share capital A/c			2,000
	(Being payment made to liquidators of A Ltd. by allotment of 20,000 new equity shares)			
	Trade payables A/c	Dr.	100	
	To Trade receivables A/c			100
	(Being mutual owing cancelled)			

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Balance Sheet of B Ltd. after merger as at 31.3.20X1

		Particulars	Notes	₹ in '000
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	2,100
	b	Reserves and Surplus	2	1,160
2		**Non-current liabilities**		
	a	Long term borrowings	3	1,140
3		**Current liabilities**		
	a	Trade payables		500
	b	Short term borrowings	4	50
		Total		4,950
		Assets		
1		**Non-current assets**		
	a	Property, Plant and Equipment		3,550
	b	Non-current investments		700
2		**Current assets**		
	a	Trade receivables		450
	b	Cash and cash equivalents		250
		Total		4,950

Notes to accounts

	₹ in '000
1 Share Capital	
21,000, Equity shares of ₹ 100 each fully paid	2,100
(Out of the above, 20,000 shares have been issued for consideration other than cash)	

2	**Reserves and Surplus**		
	Capital reserve	160	
	General reserve	1,000	
	Total		1,160
3	**Long Term Borrowings**		
	10% Debentures	500	
	Loan from Bank (250+450-60)	640	1,140
4	**Short term borrowings**		
	Bank overdraft		50

SUMMARY

- Amalgamation means joining of two or more existing companies into one company, the joined companies lose their identity and form themselves into a new company.
- Amalgamation includes- absorption and external reconstruction within its scope as per AS 14.
- In absorption, an existing company takes over the business of another existing company. Thus there is only one liquidation and that is of the merged company.
- A company which is merged into another company is called a transferor company or a vendor company.
- A company into which the vendor company is merged is called transferee company or vendee company or purchasing company.
- Amalgamation is of two types- in the nature of merger and in the nature of purchase.
- In amalgamation in the nature of merger there is genuine pooling of:
  - (a) Assets and liabilities of the amalgamating companies,
  - (b) Shareholders' interest.

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Also the business of the transferor company is intended to be carried on by the transferee company. The conditions as laid down in para 3(e) of AS-14 should be satisfied in full. Even if one condition is not satisfied, then it will be called as amalgamation in nature of purchase.

- In amalgamation in the nature of purchase, one company acquires the business of another company.
- Purchase Consideration can be defined as the aggregate of the shares and securities issued and the payment made in form of cash or other assets by the transferee company to the shareholders of the transferor company.
- There can be different methods to compute the purchase consideration- Lumpsum payment method, Net Payment method, Net assets method, Intrinsic value or share exchange method.
- There are two main methods of accounting for amalgamation:

  (a) The pooling of interests method, and

  (b) The purchase method.
- Under pooling of interests method, the assets, liabilities and reserves of the transferor company will be taken over by transferee company at existing carrying amounts and the difference between the share capital issued by the transferee company to the transferor and the actual existing share capital is adjusted with the reserves.
- Under purchase method, the assets and liabilities of the transferor company should be incorporated at their existing carrying amounts or the purchase consideration should be allocated to individual identifiable assets and liabilities on the basis of their fair values at the date of amalgamation.
- The difference between the purchase consideration and the net assets (at agreed values) of the transferor company shall be recorded as goodwill or capital reserve in the books of the transferee company.
- All inter-company adjustments shall be eliminated from the books of the transferee company after the amalgamation.

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TEST YOUR KNOWLEDGE

Multiple Choice Questions

1. *In case of amalgamation, the entry for elimination of unrealized profit or loss on stock is made*

   (a) By the vendor company

   (b) By the purchasing company

   (c) By the third party

   (d) By the court

2. *If expenses of liquidation of the vendor company are paid by the purchasing company then, in purchasing company's book, the account debited is*

   (a) Goodwill account.

   (b) Liquidation expense account.

   (c) Vendor company account.

   (d) General reserve.

3. *Amalgamation adjustment reserve is opened in the books of the amalgamated company to incorporate*

   (a) Assets of the amalgamating company.

   (b) Non- Statutory reserves of the amalgamating company.

   (c) Statutory reserves of the amalgamating company.

   (d) General reserve of the amalgamating company.

4. *Amalgamation Adjustment Reserve is presented in the financial statements of the transferee company as*

   (a) Other current asset.

   (b) Separate line item with a negative sign under the head 'Reserves and Surplus'.

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(c) *Other non-current assets.*

(d) *Investment of the company*

5. *A company into which the vendor company is merged is called*

(a) *Transferee company.*

(b) *Transferor company.*

(c) *Selling company.*

(d) *Acquiree company.*

6. *If the purchase consideration is more than net assets (at agreed values) of the transferor company, difference shall be recorded as _________ in the books of the transferee company.*

(a) *Goodwill.*

(b) *Capital Reserve.*

(c) *Profit.*

(d) *Loss.*

Theoretical Questions

7. *What are the conditions, which, according to AS 14 on Accounting for Amalgamations, must be satisfied for an amalgamation in the nature of merger?*

8. *Distinguish between (i) the pooling of interests method and (ii) the purchase method of recording transactions relating to amalgamation.*

Scenario based Questions

9. *The following are the Balance Sheets of Yes Ltd. and No Ltd. as at 31st March, 20X1:*

		Particulars	***Notes***	***₹ Yes Ltd (in crores)***	***₹ No Ltd (in crores)***
		Equity and Liabilities			
1		***Shareholders' funds***			

	A	*Share capital*	*1*	*12*	*5*
	B	*Reserves and Surplus*		*88*	*10*
2		***Non-current liabilities***			
	A	*Long term borrowings*	*2*	*--*	*10*
3		***Current liabilities***		*33*	*15*
		Total		*133*	*40*
		Assets			
1		***Non-current assets***			
	A	*Property, Plant and Equipment*	*3*	*20*	*6*
	B	*Non-current investments*	*4*	*13*	*--*
2		***Current assets***		*100*	*34*
		Total		*133*	*40*

Notes of accounts

			Yes Ltd.	**No Ltd.**
1	***Share Capital***			
	Equity share capital			
	Authorized share capital		*25*	*5*
	Issued and subscribed:			
	Equity shares of ₹ 10 each fully paid		*12*	*5*
			12	*5*
2	***Long term borrowings***			
	Unsecured loan from Yes Ltd.		*--*	*10*
			--	*10*

3	**Property, Plant and Equipment**			
	Gross value		70	30
	Depreciation		(50)	(24)
			20	6
4	**Non-current investments**			
	30 lakhs equity shares of ₹ 10 each		3	--
	Long term loan to No Ltd.		10	--
			13	--

On that day Yes Ltd. absorbed No Ltd. The members of No Ltd. are to get one equity share of Yes Ltd. issued at a premium of ₹ 2 per share for every five equity shares held by them in No Ltd. The necessary approvals are obtained.

You are asked to pass journal entries in the books of the two companies to give effect to the above if the amalgamation is in the nature of merger.

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

		Particulars	Notes	₹ X Ltd.	₹ Y Ltd.
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital	1	1,00,000	50,000
	B	Reserves and Surplus	2	10,000	(10,000)
2		**Non-current liabilities**			
	A	Long term borrowings	3	--	15,000
3		**Current liabilities**			
	A	Trade Payables		25,000	5,000
		Total		135,000	60,000
		Assets			
1		**Non-current assets**			
	A	Property, Plant and Equipment		1,20,000	60,000

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	B	Non-current investments	4	15,000	--
		Total		135,000	60,000

Notes to accounts

1	Share Capital		X Ltd.	Y Ltd.
	Equity share capital		1,00,000	50,000
			1,00,000	50,000
2	**Reserves and Surplus**			
	Profit and loss A/c		10,000	--
	Profit and loss A/c (debit balance)		--	(10,000)
			10,000	(10,000)
3	**Long term borrowings**			
	Loan from X Ltd.		--	15,000
4	**Non-current investments**			
	Loan to Y Ltd.		15,000	--
			15,000	--

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.

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

		Particulars	Notes	Super Express Ltd. ₹	Fast Express Ltd. ₹
		Equity and Liabilities			
1		**Shareholders' funds**			
	A	Share capital	1	20,00,000	10,00,000
	B	Reserves and Surplus	2	1,00,000	2,60,000

2		***Non-current liabilities***			
	A	*Long term provisions*	3	1,00,000	--
2		***Current liabilities***			
	A	*Trade Payables*		60,000	40,000
		Total		22,60,000	13,00,000
		Assets			
1		***Non-current assets***			
	A	*Property, Plant and Equipment*	4	14,00,000	11,00,000
	B	*Intangible assets*	5	--	1,00,000
2		***Current assets***			
	A	*Inventories*		3,00,000	40,000
	B	*Trade receivables*		2,40,000	40,000
	C	*Cash and Cash equivalents*	6	3,20,000	20,000
		Total		22,60,000	13,00,000

Notes to accounts

		Super Express Ltd. ₹	***Fast Express Ltd.₹***
1	***Share Capital***		
	Equity shares of ₹ 100 each	20,00,000	10,00,000
2	***Reserves and Surplus***		
	Insurance reserve	1,00,000	--
	Employee profit sharing reserve	--	60,000
	Reserve account	--	1,00,000
	Surplus	--	1,00,000
		1,00,000	2,60,000
3	***Long term provisions***		
	Provident fund	1,00,000	--
	Total	1,00,000	--

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4	***Property, Plant and Equipment***		
	Land and Building	*10,00,000*	*6,00,000*
	Plant and machinery	*4,00,000*	*5,00,000*
		14,00,000	*11,00,000*
5	***Intangible assets***		
	Goodwill	*--*	*1,00,000*
		--	*1,00,000*
6.	***Cash and Cash Equivalents***		
	Cash at Bank	*2,20,000*	*10,000*
	Cash in hand	*1,00,000*	*10,000*
		3,20,000	*20,000*

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 (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.

12. *The following were the Balance Sheets of P Ltd. and V Ltd. as at 31st March, 20X1:*

		Particulars	***Notes***	***₹ P Ltd (₹ in Lakhs)***	***₹ V Ltd (₹ in Lakhs)***
		Equity and Liabilities			
1		***Shareholders' funds***			
	A	*Share capital*	*1*	*15,000*	*6,000*
	B	*Reserves and Surplus*	*2*	*15,370*	*4,335*
2		***Non-current liabilities***			
		Long term borrowings	*3*	*--*	*1,000*
3		***Current liabilities***			
	A	*Trade Payables*		*1,200*	*463*

	B	*Short term provisions*		*1,830*	*702*
		Total		*33,400*	*12,500*
		Assets			
1		***Non-current assets***			
	A	*Property, Plant and Equipment*	*4*	*22,304*	*6,750*
2		***Current assets***			
	A	*Inventories*		*7,862*	*4,041*
	B	*Trade receivables*		*2,120*	*1,100*
	C	*Cash and Cash equivalents*		*1,114*	*609*
		Total		*33,400*	*12,500*

Notes to accounts

			₹ P Ltd (₹ in Lakhs)	***₹ V Ltd (₹ in Lakhs)***
1	***Share Capital***		*15,000*	*6,000*
2	***Reserves and Surplus***			
	Securities premium		*3,000*	*--*
	Foreign project reserve		*--*	*310*
	General reserve		*9,500*	*3,200*
	Profit and loss account		*2,870*	*825*
			15,370	*4,335*
3	***Long term borrowings***			
	12% debentures		*--*	*1,000*
			--	*1,000*
4	***Property, Plant and Equipment***			
	Land and Building		*6,000*	*--*
	Plant and machinery		*14,000*	*5,000*

	Furniture and fixtures		*2,304*	*1,750*
			22,304	*6,750*

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:

	P Ltd. (₹ in lakhs)	V Ltd. (₹ in lakhs)
Trade payables		
Bills Payable	120	-
Trade Creditors	1,080	463
	1,200	463
Trade receivables		
Trade 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. and (ii) prepare P Ltd.'s Balance Sheet immediately after the merger.

13. *Sun and Neptune had been carrying on business independently. They agreed to amalgamate and form a new company Jupiter Ltd. with an authorised share capital of ₹ 4,00,000 divided into 80,000 equity shares of ₹ 5 each. On 31st March, 20X3 the respective information of Sun and Neptune were as follows:*

	Sun (₹)	**Neptune (₹)**
Share capital	*3,65,000*	*3,52,500*

Current liabilities	*5,97,000*	*1,80,250*
Property, Plant and Equipment	*6,35,000*	*3,65,000*
Current assets	*3,27,000*	*1,67,750*

Additional Information:

(a) Revalued figures of non-current and Current assets were as follows:

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

(b) The debtors and creditors include ₹ 43,350 owed by Sun to Neptune.

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

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

	Sun (₹)	**Neptune (₹)**
20X1 Profit	*4,49,576*	*2,73,900*
20X2 (Loss)/Profit	*(2,500)*	*3,42,100*
20X3 Profit	*3,77,924*	*3,59,000*

(ii) 15% debenture in Jupiter Ltd. at par to provide an income equivalent to 8% return business as on capital employed in their respective business as on 31st March, 20X3 after revaluation of assets.

You are required to:

(1) Compute the amount of debentures and shares to be issued to Sun and Neptune.

(2) A Balance sheet of Jupiter Ltd. showing the position immediately after amalgamation.

14. *The following information from Balance Sheet of X Ltd. as at 31st March, 20X1:*

	₹
4,000 Equity shares of ₹ 100 each	4,00,000
10% Debentures	2,00,000
Loans	80,000
Trade payables	1,60,000
General Reserve	40,000
Building	1,70,000
Machinery	3,20,000
Inventory	1,10,000
Trade receivables	1,30,000
Bank	68,000
Patent	65,000
Share issue Expenses	17,000

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

(1) Y Ltd. would take over all assets, except bank balance 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) Y Ltd. is to take over trade payables at book value.

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

The average profit is ₹ 62,200. The liquidation expenses amounted to ₹ 8,000. Y Ltd. sold prior to 31st March, 20X1 goods costing ₹ 60,000 to X Ltd. for ₹ 80,000. ₹ 50,000 worth of goods are still in Inventory of X Ltd. on 31st March, 20X1. Trade payables of X Ltd. include ₹ 20,000 still due to Y Ltd.

Show the necessary Ledger Accounts to close the books of X Ltd. and prepare the Balance Sheet of Y Ltd. as at 1st April, 20X1 after the takeover.

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ANSWERS/HINTS

Answer to the Multiple Choice Questions

1.	(b)	**2.**	(a)	**3.**	(c)	**4.**	(b)	**5.**	(a)	**6.**	(a)

Answer to the Theoretical Questions

7. Refer Para 3 of chapter.

8. Refer Para 5 of chapter.

Answer to the Scenario based Questions

9. **Journal Entries in the books of No Ltd.**

(Rupees in crores)

		Dr.	*Cr.*
Realization Account	Dr.	64.00	
To Property, plant and equipment Account			30.00
To Current Assets Account			34.00
(Being the assets taken over by Yes Ltd. transferred to Realization Account)			
Provision for depreciation Account	Dr.	24.00	
Current Liabilities Account	Dr.	15.00	
Unsecured Loan from Yes Ltd. Account	Dr.	10.00	
To Realization Account			49.00
(Being the transfer of liabilities and provision to Realization Account)			
Yes Ltd.	Dr.	1.2	
To Realization Account			1.2
(Being the amount of consideration due from Yes Ltd. credited to Realization Account)			

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Equity Shareholders Account	Dr.	13.80	
To Realization Account			13.80
(Being the loss on Realization transferred to equity share-holders account)			
Equity Share Capital Account	Dr.	5.00	
Reserves and Surplus Account	Dr.	10.00	
To Equity Shareholders Account			15.00
(Being the amount of share capital, reserves and surplus credited to equity shareholders account)			
Equity shares of Yes Ltd.	Dr.	1.20	
To Yes Ltd.			1.20
(Being the receipt of 10 lakhs equity shares of ₹ 10 each at ₹ 12 per share for allotment to shareholders)			
Equity shareholders Account	Dr.	1.20	
To Equity shares of Yes Ltd.			1.20
(Being the distribution of equity shares received from Yes Ltd. to shareholders)			

Journal Entries in the books of Yes Ltd.

(Rupees in crores)

		Dr.	*Cr.*
Business Purchase Account	Dr.	1.2	
To Liquidator of No Ltd. Account			1.2
(Being the amount of purchase consideration agreed under approved scheme of amalgamation- W.N. 1)			

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Property, plant and equipment	Dr.	6.00	
Current Assets	Dr.	34.00	
To Current Liabilities			15.00
To Unsecured Loan (from Yes Ltd.)			10.00
To Business Purchase Account			1.20
To Reserve & Surplus A/c			10.00
To Profit & loss A/c*			3.80
(Being the assets and liabilities taken over and the surplus transferred to Profit and loss account)			
Liquidator of No Ltd.	Dr.	1.20	
To Equity Share Capital Account			1.00
To Securities Premium Account			0.20
(Being the allotment to shareholders of No Ltd. 10 lakhs equity shares of ₹ 10 each at a premium of ₹ 2 per share)			
Unsecured Loan (from Yes Ltd.)	Dr.	10.00	
To Loan to No. Ltd.			10.00
(Being the cancellation of unsecured loan given to No Ltd.)			

Working Note:

Purchase Consideration	*₹ in crores*
$\frac{50\text{lakhs}}{5}$ × ₹ 12 i.e., 10 lakhs equity shares at ₹ 12 per share	1.20

Number of equity shares of ₹ 10 each to be issued $\left[\frac{1.20 \text{ crores}}{12}\right]$ = 10 lakhs.

* *As amalgamation in the nature of merger so balancing figure will be transferred to Profit & Loss account.*

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10.

Books of X Ltd.
Realization Account

	₹		₹
To Sundry Assets	1,20,000	By Trade payables	25,000
		By XY Ltd. (Purchase consideration)	75,000
		By Shareholders (Loss on realization)	20,000
	1,20,000		1,20,000

Shareholders Account

	₹		₹
To Realization Account (Loss)	20,000	By Equity Share Capital	1,00,000
To Shares in XY Ltd.	90,000	By Profit and Loss Account	10,000
	1,10,000		1,10,000

Loan Y Ltd.

	₹		₹
To Balance b/d	15,000	By Shares in XY Ltd.	15,000

Shares in XY Ltd.

	₹		₹
To XY Ltd.	75,000	By Shareholders	90,000
To Loan Y Ltd.	15,000		
	90,000		90,000

XY Ltd.

	₹		₹
To Realization Account	75,000	By Shares in XY Ltd.	75,000

11.

Balance Sheet of Super Fast Express Ltd.

		Particulars	Notes	₹
		Equity and Liabilities		
1		**Shareholders' funds**		
	a	Share capital	1	30,00,000
	b	Reserves and Surplus	2	3,60,000

2		**Non-current liabilities**		
	a	Long-term provisions	3	1,00,000
3		**Current liabilities**		
	a	Trade Payables		1,00,000
		Total		35,60,000
		Assets		
1		**Non-current assets**		
	a	Property, Plant and Equipment	4	25,00,000
	b	Intangible assets	5	1,00,000
2		**Current assets**		
		Inventories		3,40,000
		Trade receivables		2,80,000
		Cash and cash equivalents	6	3,40,000
		Total		35,60,000

Notes to Accounts

			₹
1	**Share Capital**		
	Equity share capital		
	Issued, subscribed and paid up		
	30,000 Equity shares of ₹ 100 each		30,00,000
	Total		30,00,000
2	**Reserves and Surplus**		
	Reserve account		1,00,000
	Surplus		1,00,000
	Insurance reserve		1,00,000
	Employees profit sharing account		60,000
	Total		3,60,000
3	**Long-term provisions**		
	Provident fund		1,00,000
	Total		1,00,000

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4	**Property, Plant and Equipment**		
	Buildings		16,00,000
	Machinery		9,00,000
	Total		25,00,000
5	**Intangible assets**		
	Goodwill		1,00,000
	Total		1,00,000
6	**Cash and cash equivalents**		
	Balances with banks		2,30,000
	Cash on hand		1,10,000
	Total		3,40,000

12. **Books of P Ltd.**

Journal Entries

		Dr. (₹ in Lacs)	Cr. (₹ in Lacs)
Business Purchase A/c	Dr.	9,000	
To Liquidator of V Ltd.			9,000
(Being business of V Ltd. taken over for Consideration settled as per agreement)			
Plant and Machinery	Dr.	5,000	
Furniture & Fittings	Dr.	1750	
Inventory	Dr.	4,041	
Debtors	Dr.	1,020	
Cash at Bank	Dr.	609	
Bills Receivable	Dr.	80	

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To Foreign Project Reserve			310
To General Reserve (3,200 - 3,000)			200
To Profit and Loss A/c (825)			825
To Liability for 12% Debentures			1,000
To Creditors			463
To Provisions			702
To Business Purchase			9,000
(Being assets & liabilities taken over from V Ltd.)			
Liquidator of V Ltd. A/c	Dr.	9,000	
To Equity Share Capital A/c			9,000
(Purchase consideration discharged in the form of equity shares)			
Goodwill A/c	Dr.	1	
To Bank A/c			1
(Liquidation expenses paid by P Ltd debited to Goodwill A/c)			
Profit and loss A/c	Dr.	1	
To Goodwill A/c			1
(being the Goodwill charged to Profit and loss account)			
Liability for 12% Debentures A/c	Dr.	1,000	
To 13% Debentures A/c			1,000
(12% debentures discharged by issue of 13% debentures)			
Bills Payable A/c	Dr.	80	
To Bills Receivable A/c			80
(Cancellation of mutual owing on account of bills)			

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Balance Sheet of P Ltd. as at 1st April, 20X1 (after merger)

		Particulars	*Notes*	*₹ (in lakhs)*
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	24,000
	B	Reserves and Surplus	2	16,704
2		**Non-current liabilities**		
	A	Long-term borrowings	3	1,000
3		**Current liabilities**		
	A	Trade Payables (1,543 + 40)		1,583
	B	Short-term provisions		2,532
		Total		45,819
		Assets		
1		**Non-current assets**		
	A	Property, Plant and Equipment	4	29,054
2		**Current assets**		
	A	Inventories		11,903
	B	Trade receivables		3,140
	C	Cash and cash equivalents		1,722
		Total		45,819

Notes to accounts

	₹
1. Share Capital	
Equity share capital	
Authorized, issued, subscribed and paid up	
24 crores equity shares of ₹ 10 each	24,000
(Of the above shares, 9 crores shares have been issued for consideration other than cash)	
Total	24,000

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2. Reserves and Surplus	
General Reserve	9,700
Securities Premium	3,000
Foreign Project Reserve	310
Profit and Loss Account	3,694
Total	16,704
3. Long-term borrowings	
Secured	
13% Debentures	1,000
4. Property, Plant and Equipment	
Land & Buildings	6,000
Plant & Machinery	19,000
Furniture & Fittings	4,054
Total	29,054

Working Note:

Computation of purchase consideration

The purchase consideration was discharged in the form of three equity shares of P Ltd. for every two equity shares held in V Ltd.

Purchase consideration = ₹ 6,000 lacs × $\frac{3}{2}$ = ₹ 9,000 lacs.

13. (1) Computation of Amount of Debentures and Shares to be issued:

		Sun	*Neptune*
(i)	*Average Net Profit*		
	₹ (4,49,576-2,500+3,77,924)/3	= 2,75,000	
	₹ (2,73,900+,3,42,100+3,59,000)/3		= 3,25,000

(ii) *Equity Shares Issued*

(a) Ratio of distribution

Sun: Neptune

275 325

(b) Number

Sun : 27,500

Neptune: 32,500

60,000

(c) Amount

27,500 shares of ₹ 5 each = 1,37,500

32,500 shares of ₹ 5 each = 1,62,500

(iii) *Capital Employed (after revaluation of assets)*

	₹	₹
Property, plant and equipment	7,10,000	3,90,000
Current Assets	2,99,500	1,57,750
	10,09,500	5,47,750
Less: Current Liabilities	(5,97,000)	(1,80,250)
	4,12,500	3,67,500

(iv) *Debentures Issued*

8% Return on capital employed	33,000	29,400

15% Debentures to be issued to provide equivalent income:

Sun: $33,000 \times \frac{100}{15}$ = 2,20,000

Neptune: $29,400 \times \frac{100}{15}$ = 1,96,000

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(2) **Balance Sheet of Jupiter Ltd.**
As at 31st March 20X3 (after amalgamation)

Particulars	Note No	₹
I. Equity and Liabilities		
(1) Shareholders' Funds		
(a) Share Capital	1	3,00,000
(b) Reserves and Surplus	2	64,000
(2) Non-Current Liabilities		
(a) Long-term borrowings	3	4,16,000
(3) Current Liabilities		
(a) Other current liabilities		7,33,900
Total		15,13,900
II. Assets		
(1) Non-current assets		
(a) PPE		11,00,000
(2) Current assets		
(a) Other current assets		4,13,900
Total		15,13,900

Notes to Accounts

		₹
1	Share Capital	
	Authorized	
	80,000 Equity Shares of ₹ 5 each	4,00,000
	Issued and Subscribed	
	60,000 Equity Shares of ₹ 5 each	3,00,000
	(all the above shares are allotted as fully paid-up pursuant to a contract without payment being received in cash)	

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2	Reserve and Surplus	
	Capital Reserve	64,000
3	Long-term borrowings	
	Secured Loans	
	15% Debentures	4,16,000

Working Notes:

			Sun ₹	***Neptune*** ₹	***Total*** ₹
(1)		*Purchase Consideration*			
		Equity Shares Issued	1,37,500	1,62,500	3,00,000
		15% Debentures Issued	2,20,000	1,96,000	4,16,000
			3,57,500	3,58,500	7,16,000
(2)		*Capital Reserve*			
	(a)	Net Assets taken over			
		Property, plant & equipment	7,10,000	3,90,000	11,00,000
		Current Assets	2,99,500	1,14,400*	4,13,900
			10,09,500	5,04,400	15,13,900
		Less: Current Liabilities	(5,53,650**)	(1,80,250)	(7,33,900)
			4,55,850	3,24,150	7,80,000
	(b)	Purchase Consideration	3,57,500	3,58,500	7,16,000
	(c)	Capital Reserve [(a) - (b)]	98,350		
	(d)	Goodwill [(b) - (a)]		34,350	
	(e)	Capital Reserve [Final Figure(c) -(d)]			64,000

*1,57,750–43,350= 1,14,400

** 5,97,000–43,350= 5,53,650

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14. **Books of X Limited**

Realisation Account

	₹		₹
To Building	1,70,000	By Trade payables	1,60,000
To Machinery	3,20,000	By Y Ltd.	6,05,000
To Inventory	1,10,000	By Equity Shareholders (Loss)	38,000
To Trade receivables	1,30,000		
To Patent	65,000		
To Bank (Exp.)	8,000		
	8,03,000		8,03,000

Bank Account

To Balance b/d	68,000	By Realisation (Exp.)	8,000
To Y Ltd.	3,00,000	By 10% Debentures	2,00,000
		By Loan	80,000
		By Equity shareholders	80,000
	3,68,000		3,68,000

10% Debentures Account

To Bank	2,00,000	By Balance b/d	2,00,000
	2,00,000		2,00,000

Loan Account

To Bank	80,000	By Balance b/d	80,000
	80,000		80,000

Share Issue Expenses Account

To Balance b/d	17,000	By Equity shareholders	17,000
	17,000		17,000

General Reserve Account

To Equity	40,000	By Balance b/d	40,000

shareholders	40,000		40,000

Y Ltd. Account

To Realisation A/c	6,05,000	By Bank	3,00,000
		By Equity share in Y Ltd. (2,440 shares at ₹ 125 each)	3,05,000
	6,05,000		6,05,000

Equity Shares in Y Ltd. Account

To Y Ltd.	3,05,000	By Equity shareholders	3,05,000
	3,05,000		3,05,000

Equity Share Holders Account

To Realisation	38,000	By Equity share capital	4,00,000
To Share issue Expenses	17,000	By General reserve	40,000
To Equity shares in B Ltd.	3,05,000		
To Bank	80,000		
	4,40,000		4,40,000

Y Ltd

Balance Sheet as on 1st April, 20X1 (An extract)*

	Particulars	***Notes***	**₹**
	Equity and Liabilities		
1	**Shareholders' funds**		
a	Share capital	1	2,44,000
b	Reserves and Surplus	2	53,500
2	**Current liabilities**		
a	Trade Payables	3	1,40,000

**In the absence of the particulars of assets and liabilities (other than those of X Ltd.), the complete Balance Sheet of Y Ltd. after takeover cannot be prepared.*

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b	Bank overdraft		3,00,000
	Total		7,37,500
	Assets		
1	**Non-current assets**		
a	Property, Plant and Equipment	4	4,41,000
	Intangible assets	5	1,08,000
2	**Current assets**		
a	Inventories	6	91,500
b	Trade receivables	7	97,000
			7,37,500

Notes to Accounts

			₹
1	**Share Capital**		
	Equity share capital		
	2,440 Equity shares of ₹ 100 each (Shares have been issued for consideration other than cash)		2,44,000
	Total		2,44,000
2	**Reserves and Surplus (an extract)**		
	Securities Premium		61,000
	Profit and loss account	.....	
	Less: Unrealised profit	(7,500)	(7,500)
	Total		53,500
3	**Trade payables**		
	Opening balance	1,60,000	
	Less: Inter-company transaction cancelled upon amalgamation	(20,000)	1,40,000

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4	**Property, Plant and Equipments**		
	Buildings		1,53,000
	Machinery		2,88,000
	Total		4,41,000
5	**Intangible assets**		
	Goodwill		1,08,000
6	**Inventories**		
	Opening balance	99,000	
	Less: Cancellation of profit upon amalgamation	(7,500)	91,500
7	**Trade receivables**		
	Opening balance	1,17,000	
	Less: Intercompany transaction cancelled upon amalgamation	(20,000)	97,000

Working Notes:

1. Valuation of Goodwill	₹
Average profit	62,200
Less: 8% of ₹ 4,40,000	(35,200)
Super profit	27,000
Value of Goodwill = 27,000 x 4	1,08,000
2. Net Assets for purchase consideration	
Goodwill as valued in W.N.1	1,08,000
Building	1,53,000
Machinery	2,88,000
Inventory	99,000
Trade receivables (1,30,000-13,000)	1,17,000
Total Assets	7,65,000

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Less: Trade payables	(1,60,000)
Net Assets	6,05,000

Out of this ₹ 3,00,000 is to be paid in cash and remaining i.e., (6,05,000 – 3,00,000) ₹ 3,05,000 in shares of ₹ 125. Thus, the number of shares to be allotted 3,05,000/125 = 2,440 shares.

3. Unrealised Profit on Inventory	₹
The Inventory of X Ltd. includes goods worth ₹ 50,000 which was sold by Y Ltd. on profit. Unrealized profit on this Inventory will be [20,000/80,000 x 50,000]	12,500
As Y Ltd purchased assets of X Ltd. at a price 10% less than the book value, 10% need to be adjusted from the Inventory i.e., 10% of ₹ 50,000.	(5,000)
Amount of unrealized profit	7,500

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