CHAPTER 5

AMALGAMATION OF COMPANIES

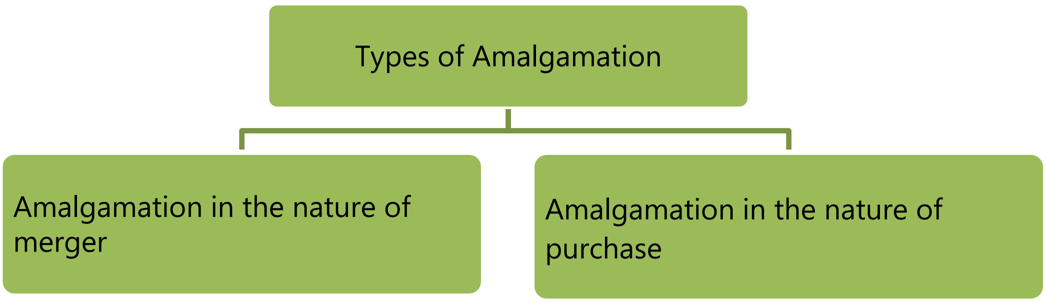
LEARNING OUTCOMES

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.
- Calculate purchase consideration under both the methods of amalgamation as per AS 14.
- 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.

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. The accounting for amalgamation depends on whether amalgamation is in the nature of merger or in the nature of purchase.



1. MEANING OF AMALGAMATION

In an amalgamation, two or more companies are combined into one by merger or by one taking over the other. Therefore, the term 'amalgamation' contemplates two kinds of activities:

(*i*) two or more companies join to form a new company or

(*ii*) absorption and blending of one by the other.

Thus, amalgamation include absorption.

The purpose of companies joining together is to secure various advantages such as economies of large scale production, avoiding competition, increasing efficiency, expansion etc.

The companies going into liquidation or merged companies are called vendor companies or transferor companies. The new company which is formed to take over the liquidated companies or the company with which the transferor company is merged is called transferee or vendee.

In the case of amalgamation the assets and liabilities of transferor company(s) are amalgamated and the transferee company becomes vested with all such assets and liabilities.

Wherever an undertaking is being carried on by a company and is in substance transferred, not to an outsider, but to another company consisting substantially of the same shareholders with a view to its being continued by the transferee company, there is **external reconstruction**. Such external reconstruction is essentially covered under the category 'amalgamation in the nature of merger' in AS (Accounting Standard) 14, Accounting for Amalgamations.

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 reorganise the financial structure of the company.
Example	A Ltd. and B Ltd. amalgamate to form C Ltd.	A Ltd. takes over the business of another existing company B Ltd.	B Ltd. is formed to take over the business of an existing company A Ltd.

2. 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 merely 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 of accounting policies. For example, if transferor company is following straight line method of depreciation, the book value of the assets of the transferor company will be revised by applying the written down method of depreciation.

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.
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.

3. PURCHASE CONSIDERATION

For the 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.

It is notable that purchase consideration ***does not include*** the sum which the transferee company will directly pay to the debentureholders 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 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.

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.

Illustration 1

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

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

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. (2/3 × 7,50,000) × ₹ 10 of ₹ 10 each	5,000	5,00,000 Equity shares of Y Ltd.
Total Purchase consideration	8,000	

Note: Consideration for debenture holders should not be included above. Such debentures will be taken over by Y Ltd. and then discharged.

Illustration 2

S. Ltd. is absorbed by P. Ltd. The draft balance sheet of S. Ltd. is as under:

Balance Sheet

	₹		*₹*
Share Capital:			
2,000 7% Preference shares of ₹ 100 each (fully paid-up)	*2,00,000*	*Sundry Assets*	*13,00,000*
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*		
	13,00,000		*13,00,000*

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 (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	

According to AS 14, 'consideration' for the amalgamation means 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. Therefore, debentures issued to the debenture holders will not be included in purchase consideration. Like trade payables, 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.

Illustration 3

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

	₹		₹
3,000 Equity shares of		*Net assets*	*2,90,000*

₹ 100 each (fully paid)	*3,00,000*	*Profit and Loss Account*	*70,000*
Preference shares	*60,000*		
	3,60,000		*3,60,000*

Y Ltd. agrees to take over the net assets of X Ltd. An equity share in X Ltd., for purposes of absorption, is valued @ ₹ 70. Y Ltd. agrees to pay ₹ 60,000 in cash for payment to preference shareholders equity shares will be issued at value of ₹ 120 each. Calculate purchase consideration to be paid by Y Ltd. and how will it be discharged?

Solution

Value of 3,000 shares of X Ltd. @ ₹ 70 = ₹ 2,10,000

The purchase consideration will be:

= ₹ 2,10,000 for equity shares + ₹ 60,000 for Liability towards preference shareholders

= ₹ 2,70,000

₹ 60,000 out of the above will be in cash and ₹ 2,10,000 in the form of equity shares of Y Ltd., issued at ₹ 120 per share; the number of shares that will be issued = 2,10,000/120 = 1,750 equity shares.

Illustration 4

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

Liabilities	*Neel*	*Gagan*	*Assets*	*Neel*	*Gagan*
	₹	*₹*		*₹*	*₹*
Capital	*7,75,000*	*8,55,000*	*Plant & Machinery*	*4,85,000*	*6,14,000*
Current liabilities	*6,23,500*	*5,57,600*	*Building*	*7,50,000*	*6,40,000*
			Current assets	*1,63,500*	*1,58,600*
	13,98,500	*14,12,600*		*13,98,500*	*14,12,600*

Following are the additional information:

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

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

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

(iv) *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

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

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

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

	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

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

	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

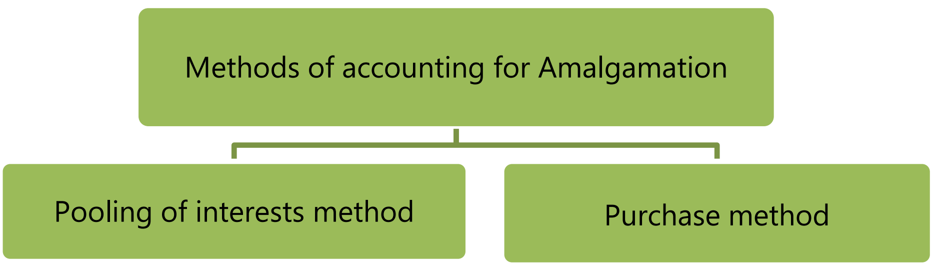
Working Note:

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

4. 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* 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 reserves.

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.

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

Though, normally, in an amalgamation in the nature of purchase, the identity of reserves is not preserved, an exception is made in respect of reserves of the aforesaid nature (referred to hereinafter as 'statutory reserves') and such reserves 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, so long as 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

The balance of Profit and Loss account of the transferor company is not recorded at all.

In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g., '**Amalgamation Adjustment Reserve**') which is presented as a separate line item. When the identity of the statutory reserves is no longer required to be maintained, 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:

Reserves

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

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 recognised as goodwill in the financial statement of the transferee company. Any short fall should be shown as capital reserve. Goodwill should be amortised over period of five years unless a somewhat longer period can be justified.

Illustration 5

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

Balance Sheet as on 31st March, 20X1

Liabilities	*X Ltd.*	*Y Ltd.*	*Assets*	*X Ltd.*	*Y Ltd.*
	₹ '000	*₹ '000*		*₹ '000*	*₹ '000*
Equity Share Capital	*50,00*	*30,00*	*Land & Building*	*25,00*	*15,50*
(₹ 10 each)			*Plant & Machinery*	*32,50*	*17,00*
14% Preference Share	*22,00*	*17,00*	*Furniture & Fittings*	*5,75*	*3,50*
Capital (₹ 100 each)			*Investments*	*7,00*	*5,00*
General Reserve	*5,00*	*2,50*	*Inventory*	*12,50*	*9,50*
Export Profit Reserve	*3,00*	*2,00*	*Trade receivables*	*9,00*	*10,30*
Investment Allowance		*1,00*	*Cash & Bank*	*7,25*	*5,20*
Reserve					
Profit & Loss A/c	*7,50*	*5,00*			

13% Debentures (₹ 100 each)	*5,00*	*3,50*		
Trade payables	*4,50*	*3,50*		
Other Current Liabilities	*2,00*	*1,50*		
	99,00	*66,00*	*99,00*	*66,00*

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

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

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

The debentures of Y Ltd. will be converted into equivalent number of debentures of X Ltd. The statutory reserves of Y Ltd. are to be maintained for 2 more years.

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

(a) the amalgamation is in the nature of merger.

(b) the amalgamation is in the nature of purchase.

Solution

(a) Amalgamation in the nature of merger:

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 Equipment		
		Tangible assets	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			
85,00, 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	**Tangible assets**		
	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:

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 Equipment		
		Tangible assets	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		
85,00, 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		
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	**Tangible assets**		
	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

5. JOURNAL ENTRIES TO CLOSE THE BOOKS OF VENDOR COMPANY

The journal entries will be illustrated with the following case.

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

Liabilities	*₹*	*Assets*	*₹*
Share capital divided into		*Goodwill*	*2,00,000*
shares of ₹ 100 each		*Land & Buildings*	*4,00,000*
6% Preference share capital	*4,00,000*	*Plant and Machinery*	*6,00,000*
Equity share capital	*8,00,000*	*Patents*	*50,000*
Capital Reserve	*1,00,000*	*Inventory*	*1,50,000*
Profit & Loss A/c	*50,000*	*Trade receivables*	*1,80,000*
6% Debentures	*2,00,000*	*Cash at bank*	*70,000*
Interest outstanding on above	*12,000*	*Underwriting commission*	*40,000*

Workmen's compensation reserve		
(Expected liability ₹ 5,000)	*8,000*	
Trade payables	*1,20,000*	
	16,90,000	*16,90,000*

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

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

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

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

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

Wye Ltd. valued Land and building at ₹ 5,50,000 Plant and Machinery at ₹ 6,50,000 and patents at ₹ 20,000.

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 Realisation 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 Realisation Account.

The journal entry in the above case is:		₹	₹
Realisation A/c	Dr.	15,80,000	
To Sundries —			
Goodwill			2,00,000
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 Realisation Account on sale of business to Wye Ltd.)			

2. Transfer to the Realisation 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 Realisation A/c			3,25,000
(Transfer of liabilities taken over by Wye Ltd. to Realisation A/c)			

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

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

Wye Ltd.-	Dr.	17,20,000	
To Realisation 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	
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:

Realisation 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	
Realisation 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 Realisation 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 Realisation Account. Thus —

6% Pref. Share Capital A/c	Dr.	4,00,000	
Realisation 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)			

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 Realisation 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	
Realisation A/c	Dr.	4,22,500	
To Sundry Equity Shareholders A/c			13,75,500
(Various accounts representing capital and profit transferred to Equity Shareholders Account)			
Equity Shareholders A/c	Dr.	40,000	
To Underwriting Commission A/c			40,000
(Underwriting Commission A/c closed by transfer to Equity Shareholders A/c)			

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. Realisation Account

	₹		₹
To Sundry Assets	15,80,000	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	4,22,500		
	20,45,000		20,45,000

2. Cash Account

	₹		₹
To Balance b/d	70,000	By Realisation	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 Debentureholder	12000
		By Preference shareholder	40000
		By Equity Shareholder (B/F)	215500
	280000		280000

6. ENTRIES IN THE BOOKS OF PURCHASING COMPANY

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*) Credit the account showing shares held in the company, if any, with the cost of such shares.

   (*iv*) If the creditors as per (*ii*) and (*iii*) 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	
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/cDr. 2,10,000

To 7% Debentures A/c		2,00,000
To Premium on Debentures A/c		10,000

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.)			

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 Realisation 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 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.

Illustration 6

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

	(₹ in lakhs)			(₹ in lakhs)	
	Best Ltd. ₹	Better Ltd. ₹		Best Ltd. ₹	Better Ltd. ₹
Share Capital:			Fixed Assets	25	15
Shares of ₹ 100, each			Investments	5	–
fully paid	20	10	Current Assets	20	5
Reserve and Surplus	10	8			
Other Liabilities	20	2			
	50	20		50	20

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

Fixed Assets Account

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

Current Assets Account

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

Liabilities Account

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

Realisation Account

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

Share Capital Account

	₹		₹
To Sundry shareholders A/c - (transfer)	15,00,000	By Balance b/d	10,00,000
		" 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 Realisation A/c - Purchase Consideration	15,00,000	By Shares in Best Ltd	15,00,000
	15,00,000		15,00,000

Shares in Best Ltd.

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

Sundry Shareholders Account

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

Journal of Best Ltd.

20X1			Dr. ₹	Cr. ₹
Apr. 1	Fixed Assets 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)			

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		
		Tangible assets	3	40,00,000
	b	Non-current investments		5,00,000
2		**Current assets**		23,90,000
		Total		**68,90,000**

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	**Tangible assets**		
	Fixed Assets	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 on the date of amalgamation was as under:

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

The terms of amalgamation are as under:

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

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

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

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

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

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

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

Solution

Books of K Ltd.

Realisation 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 Realisation 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 Realisation A/c	40,000
	4,40,000		4,40,000

LK Ltd. Account

	₹			₹
To Realisation 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.

Realisation 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 Realisation	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 Realisation A/c	30,000
	3,30,000		3,30,000

LK Ltd. Account

	₹			₹
To Realisation 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
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

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

	(₹ in thousands)	
Liabilities	*A Ltd.*	*B Ltd.*
Share capital:		
Equity shares of 100 each fully paid up	*2,000*	*1,000*
Reserves	*1,000*	*---*
10% Debentures	*500*	*---*
Loans from Banks	*250*	*450*
Bank overdrafts	*---*	*50*
Trade payables	*300*	*300*

Total	*4,050*	*1,800*

Assets		
Tangible assets/fixed assets	*2,700*	*850*
Investments	*700*	*---*
Trade receivables	*400*	*150*
Cash at bank	*250*	*---*
Accumulated loss	*---*	*800*
Total	*4,050*	*1,800*

B 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).

(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)			
	Business purchase A/c	Dr.	2,000	
	To Liquidator of A Ltd.			2,000
	(Being purchase of business of A Ltd.)			
	Fixed asset 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 Business purchase A/c			2,000
	To Reserves A/c			1,000
	(Being assets, liabilities and reserves taken over under pooling of interest method)			
	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)			

Balance Sheet of B Ltd. after merger as on 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		
		Tangible assets		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		250

Illustration 9

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

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

Liabilities:					
Trade payables	2,50,000	1,50,000			
	15,50,000	9,00,000		15,50,000	9,00,000

Details of Trade receivables and trade payables are as under:

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

Fixed Assets of both the companies are to be revalued at 15% above book value. Inventory in Trade and Debtors are taken over at 5% lesser than their book value. Both the companies are to pay 10% Equity dividend, Preference dividend having been already paid.

After the above transactions are given effect to, P Ltd. will absorb Q Ltd. on the following terms:

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

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

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

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

Prepare:

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

(b) Statement of consideration payable by P Ltd.

Solution

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

		Dr. ₹	Cr. ₹
Fixed Assets	Dr.	1,05,000	
To Revaluation Reserve			1,05,000
(Revaluation of fixed assets 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.)			
Fixed Assets (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

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			30,00
(Being goodwill set off)			

(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 on 31st March, 20X1 was as under:

Assets	*Hari Ltd. (₹)*	*Vayu Ltd. (₹)*
Goodwill	*50,000*	*25,000*
Building	*3,00,000*	*1,00,000*
Machinery	*5,00,000*	*1,50,000*
Inventory	*2,50,000*	*1,75,000*
Trade receivables	*2,00,000*	*1,00,000*
Cash at Bank	*50,000*	*20,000*
	13,50,000	*5,70,000*
Liabilities	*Hari Ltd. (₹)*	*Vayu Ltd. (₹)*
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*
General Reserve	*70,000*	*70,000*
Retirement Gratuity fund	*50,000*	*20,000*
Trade payables	*1,30,000*	*80,000*
	13,50,000	*5,70,000*

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 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.

Realisation 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 Realisation)	50,000	By Hari Ltd. (Purchase Consideration)	5,30,000
	6,30,000		6,30,000

Equity Shareholders Account

	₹		₹
To Equity Shares of Hari Ltd.	4,20,000	By Share Capital	3,00,000
		By General Reserve	70,000
		By Realisation Account (Profit on Realisation)	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 Realisation Account (Premium on Redemption of Preference Shares)	10,000
	1,10,000		1,10,000

Hari Ltd. Account

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

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).			

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
	B	Short term provision		7,500
		Total		**19,87,500**
		Assets		
1		**Non-current assets**		
	A	Property, Plant and Equipment		
		Tangible assets	4	11,10,000
		Intangible assets	5	1,00,000
2		**Current assets**		
	A	Inventories		4,07,500
	B	Trade receivables	6	3,00,000
	C	Cash and cash equivalents		70,000
		Total		**19,87,500**

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
	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**		
	Gratuity fund		70,000
	Total		**70,000**
4	**Short term Provisions**		
	Provision for Doubtful Debts		**7,500**
5	**Tangible assets**		
	Buildings		4,50,000
	Machinery		6,60,000
	Total		**11,10,000**
6	**Intangible assets**		
	Goodwill		1,00,000
	Total		**1,00,000**
7	**Trade receivables**		3,00,000

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	(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

SUMMARY

1. 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.

2. 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.

3. A company which is merged into another company is called a transferor company or a vendor company.

4. A company into which the vendor company is merged is called transferee company or vendee company or purchasing company.

5 In amalgamation in the nature of merger there is genuine pooling of:

   a) Assets and liabilities of the amalgamating companies,

   b) Shareholders' interest,

   Also the business of the transferor company is intended to be carried on by the transferee company.

6. In amalgamation in the nature of purchase, one company acquires the business of another company.

7. 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 share holders of the transferor company.

8. There are two main methods of accounting for amalgamation:

   a) The pooling of interests method, and

   b) The purchase method.

9. 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.

10. 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

TEST YOUR KNOWLEDGE

MCQs

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

2. Under the 'pooling of interests' method, the difference between the purchase consideration and share capital of the transferee company should be adjusted to

   (a) General reserve.

   (b) Amalgamation adjustment account.

   (c) Goodwill or capital reserve.

3. At the time of amalgamation, purchase consideration does not include

   (a) The sum which the transferee company will directly pay to the creditors of the transferor company

   (b) Payments made in the form of assets by the transferee company to the shareholders of the transferor company

   (c) Preference shares issued by the transferee company to the preference shareholders of the transferor company

4. As per AS 14, purchase consideration is the amount agreed payable to

   (a) Shareholders

   (b) Shareholders, debenture holders and creditors

   (c) Shareholders and debenture holders

5 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.

6. Amalgamation adjustment reserve is opened in the books of the amalgamating company to incorporate

   (a) Assets of the amalgamating company

   (b) Non- Statutory reserves of the amalgamating company

   (c) Statutory reserves of the amalgamating company

7. 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'.

(c) Other non-current assets.

Theoretical Questions

Question 1

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

Question 2

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

Practical Questions

Question 1

The following are the summarised Balance Sheets of Yes Ltd. and No Ltd. as on 31st October, 20X1:

	Yes Ltd.	No Ltd.
	₹ (in crores)	₹ (in crores)
Sources of funds:		
Share capital:		
Authorised	25	5
Issued and Subscribed :		
Equity Shares of ₹ 10 each fully paid	12	5
Reserves and surplus	88	10
Shareholders funds	100	15
Unsecured loan from Yes Ltd.	—	10
	100	25
Funds employed in :		
Fixed assets: Cost	70	30
Less: Depreciation	(50)	(24)
Written down value	20	6
Investments at cost:		
30 lakhs equity shares of ₹ 10 each	3	

Long-term loan to No. Ltd.		10		
Current assets	100		34	
Less : Current liabilities	(33)	67	(15)	19
		100		25

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.

Question 2

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

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

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

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

Question 3

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

Super Express Ltd.

Balance Sheet as at 31st December, 20X1

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

Fast Express Ltd.

Balance Sheet as at 31st December, 20X1

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

The assets and liabilities of both the companies were taken over by the new company at their book values. The companies were allotted equity shares of ₹ 100 each in lieu of purchase consideration amounting to ₹ 30,000 (20,000 for Super Fast Express Ltd and 10,000 for Fast Express Ltd.).

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

Question 4

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

Liabilities	P Ltd. (₹ in lakhs)	V Ltd. (₹ in lakhs)
Equity Share Capital (Fully paid shares of ₹ 10 each)	15,000	6,000
Securities Premium	3,000	–
Foreign Project Reserve	–	310
General Reserve	9,500	3,200
Profit and Loss Account	2,870	825
12% Debentures	–	1,000
Trade payables	1,200	463
Provisions	1,830	702
	33,400	12,500

Assets	P Ltd. (₹ in lakhs)	V Ltd. (₹ in lakhs)
Land and Buildings	6,000	–
Plant and Machinery	14,000	5,000
Furniture, Fixtures and Fittings	2,304	1,700
Inventory	7,862	4,041
Trade receivables	2,120	1,100
Cash at Bank	1,114	609
Cost of Issue of Debentures	—	50
	33,400	12,500

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

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

Details of trade receivables and trade payables as under:

Assets	P Ltd. (₹ in lakhs)	V Ltd. (₹ in lakhs)	
Trade payables			
Bills Payable	120	-	
Creditors	1,080	463	
	1,200	**463**	
Trade receivables			
Trade receivables	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 considering that the cost of issue of debentures shown in the balance sheet of the V Ltd. company is not transferred to the P Ltd. company.

ANSWERS/HINTS

MCQs

[**1.** (b), **2.** (a), **3.** (a), **4.** (a), **5.** (a), **6.** (c); **7.** (b)]

Theoritical Questions

Answer 1

Refer Para 2

Answer 2

Refer Para 2

Practical Questions

Answer 1

Journal Entries in the books of No Ltd.

(Rupees in crores)

		Dr.	Cr.
Realisation Account	Dr.	64.00	
To Fixed Assets Account			30.00
To Current Assets Account			34.00
(Being the assets taken over by Yes Ltd. transferred to Realisation Account)			
Provision for depreciation Account	Dr.	24.00	
Current Liabilities Account	Dr.	15.00	
Unsecured Loan from Yes Ltd. Account	Dr.	10.00	
To Realisation Account			49.00
(Being the transfer of liabilities and provision to Realisation Account)			
Yes Ltd.	Dr.	1.2	
To Realisation Account			1.2
(Being the amount of consideration due from Yes Ltd. credited to Realisation Account)			
Equity Shareholders Account	Dr.	13.80	
To Realisation Account			13.80
(Being the loss on realisation 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)			
Fixed Assets	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 capital reserve)			
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.)			

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

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.

Answer 2

Books of X Ltd.

Realisation Account

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

Shareholders Account

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

Answer 3

Balance Sheet of Super Fast Express Ltd

as at 1st Jan., 20X2

		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**		
		Tangible assets	4	25,00,000
		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
4	**Tangible assets**	
	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**

Answer 4...

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.	1,700	
Inventory	Dr.	4,041	
Debtors	Dr.	1,020	
Cash at Bank	Dr.	609	
Bills Receivable	Dr.	80	
To Foreign Project Reserve			310
To General Reserve (3,200 - 3,000)			200
To Profit and Loss A/c (825 – 50*)			775
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)			
Profit & loss A/c	Dr.	1	

To Bank A/c			1
(Liquidation expenses paid by P Ltd.)			
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)			

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	16,654
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		**45,769**
		Assets		
1		**Non-current assets**		
	A	Property, Plant and Equipment		
		Tangible assets	4	29,004
2		**Current assets**		
	A	Inventories		11,903
	B	Trade receivables		3,140
	C	Cash and cash equivalents		1,722
		Total		**45,769**

Notes to accounts

	₹
1. Share Capital	
Equity share capital	
Authorised, issued, subscribed and paid up	
24 crores equity shares of ₹ 10 each (Of the above shares, 9 crores shares have been issued for consideration other than cash)	24,000
Total	**24,000**
2. Reserves and Surplus	
General Reserve	9,700
Securities Premium	3,000
Foreign Project Reserve	310
Profit and Loss Account	3,644
Total	**16,654**
3. Long-term borrowings	
Secured	
13% Debentures	1,000
4. Tangible assets	
Land & Buildings	6,000
Plant & Machinery	19,000
Furniture & Fittings	4,004
Total	**29,004**

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.

* Cost of issue of debenture adjusted against P & L Account of V Ltd.