

Dr.Babasaheb Ambedkar Open University



**DAA
DIPLOMA IN ADVANCE
ACCOUNTING**

Block

4

Development In Accounts

Unit – 7

Amalgamation and Absorption

04

Unit – 8

**Recent trends in preparation and presentation
in financial statements**

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Unit : 7 : Amalgamation and Absorption

Introduction:

The concept of amalgamation was increasingly developed in last decade. In case of amalgamation two corporates close their operations and a new body corporate is generated to run the operations. Whereas in case of absorption, one body corporate is taken over by the other body corporate so the personal operations of the body corporate which is taken over will be closed. During last few years, many amalgamations have taken place. Production on large scale and giant industrial units are the outstanding characteristics of modern business world. Some of the causes of such trend are as follows : Cut-throat competition at national and international level is harmful to all business enterprises; therefore, they turn to amalgamation to save themselves from this competition.

Structure of the chapter:

7.1 Objectives:

7.2 Meaning:

7.3 Purchase Consideration

7.4 Accounting Entries

7.4.1 Entries In The Books of Vendor Body corporate :

7.4.2 Entries In The Books of Buying Body corporate

7.5 Practical:

7.6 Practical Exercise

7.1 Objectives:

By the end of this chapter the students will learn about

- ☐ Meaning of amalgamation, absorption
- ☐ Entries to be made in vendor body corporate
- ☐ Entries to be made in buying body corporate

7.2 Meaning:

There are various ways of combining two or more corporates, which mainly includes amalgamation and absorption :

- (i) **Amalgamation :** Here, we can see the combination or merger of two firms. When two or more corporates carrying on similar business decide to combine, a new body corporate is formed to take over their business. This process is known as

Amalgamation. The existing corporates go into liquidation.

A special resolution is passed by the existing corporates and liquidators are appointed to carry out the scheme of liquidation. Here, the assets and liabilities of both the companies shall be sold. Here, both the company shall stop their operation and a new company shall be formatted to take over the business of both the companies. Accordingly, liquidators sell the assets and liabilities of the existing corporates and in exchange -they receive the shares of the. new- body corporate, in payment of purchase consideration, which would be distributed among the shareholders of the existing corporates.

(ii) **Absorption :**

Here, one company is taking over the whole business of othre company and the company whose business is taken over will go in to liquidation. So, one company shall go in to liquidation where as the other shall carry on its operation. When one of the existing corporates takes over business of another body corporate or corporates, it is known as Absorption. The body corporate whose business is taken over, goes into liquidation. Under the Companies Act, Absorption is also treated as one type of Amalgamation.

7.3 Purchase Consideration

Purchase consideration means the sum which will be paid by the buying body corporate to the vendor body corporate in consideration of business purchase. There are two techniques of calculating the purchase consideration :

(a) **Net Assets Technique**

(b) **Consideration Technique**

(a) **Net Assets Technique :**

In normal sense the net assets means the assets less liabilities and the new company shall pay the amount to the vendor or the closing company same as the net assets of that company. The buying body corporate may agree to take over the business of vendor body corporate by stating the values of various assets (including goodwill) and various liabilities. Then in this case, the purchase consideration will be the difference between total value of assets taken over at new values agreed upon and total value of liabilities taken over.

Purchase Price = Value of total assets taken over — Value of liabilities taken over.

Note that if the new values are agreed upon for the assets and liabilities taken over, then these new agreed values would be taken into account while calculating the purchase consideration and in such case the old values shall not be taken in to consideration.

Points to be noted for calculation of consideration :

While calculating purchase consideration by Net Assets Technique, the following points should be kept in mind :

Only those assets and liabilities which are taken over should be involved. If the buying body corporate takes over assets and liabilities of the vendor body corporate at an agreed valuation and no other assets, moreover, if the new values are given for the assets and liabilities then such new values shall be considered. . But if the value at which assets or liabilities are taken over is not mentioned then it is to be assumed that they are taken over at book value. Various fictitious assets and intangible assets should not be involved in the total assets, as they are not real assets rather they are misc. expenses written off, mainly they include: Preliminary expenses, Discount on shares or debentures, Underwriting commission etc. The following credit balances should not be incorporated in liabilities as they are accumulated profits belonging to shareholders : General Reserve; Credit balance of Profit & Loss Account; Insurance Fund; Dividend Equalisation Account; Debenture Redemption Fund; Workmen's Compensation Fund etc. Workmen's Compensation Fund represents the accumulated profits and cannot be deducted from total assets as they are simply reserves available for the distribution among the shareholders. If however, some liability on account of compensation is accepted by the body corporate, then it must be deducted. When only assets of the vendor body corporate are taken over, the liabilities should not be deducted from assets for calculating net assets.

Consideration Technique :

Here, the buying company is not paying amount to the selling company on the basis of the net assets rather it is given on lumpsum basis. The buying body corporate may agree to pay to the vendor body corporate a certain lump sum of money either in the form of shares or debentures or cash to the vendor body corporate. The total of all such sums payable will be the purchase consideration. So, form of payment may be anything it may be shares, debentures or cash.

Following points must be remembered while calculating purchase price under consideration technique :

There are certain techniques for determination of consideration as per this method. The purchase consideration is obtained by totalling the values of the consideration given. Moreover if in-the example the values of shares and debentures are given and it is stated that '*the balance is given in cash*', it is not possible to use the consideration technique, because the sum of cash is not given because as per the consideration method the we need the amount to be given as per the payments. In such a case, the purchase consideration is obtained by net assets technique. While computing the purchase price by consideration technique, all 'sums given for whatever purpose, must be totalled up. Moreover, if the buying body corporate pays any sum towards dissolution expenses, it must be incorporated in the purchase price. If while calculating the number of shares to be issued by the buying body corporate, some fraction of a share is obtained, then the market price of such fractional share is treated as paid in cash so in simple terms it means the amount shall be treated as given in cash and not in shares.

Goodwill or Capital Reserve :

When net assets are more than the purchase consideration, the excess is the goodwill, which is calculated as follows :

Goodwill = Purchase Consideration - Net Assets

Conversely, if the net assets is more than the purchase consideration, the difference is the capital reserve. It is calculated as follows :

$$\text{Capital Reserve} = \text{Net Assets} - \text{Purchase Consideration.}$$

Is short goodwill is the excess of net assets over purchase price while, capital reserve is the excess of purchase price over net assets.

7.4 ACCOUNTING ENTRIES

In case of amalgamation, two or more corporates are wound up and a new body corporate is formed to take over their business. So, this transactions need certain entries in the books of accounts. This matter of writting entries for the amalgamation transactions are highly technical matter so, it requires certain consideeration. The corporates which are wound up will sell their business to a new body corporate. It thus follows that the books of corporates being wound up must be closed and entries for purchase of business must be made in the books of the new body corporate.

In absorption, one of the existing corporates, takes over the business of the other body corporate. Thus the books of accounts of vendor body corporate are closed, while the buying body corporate passes necessary entries for the purchase of business of the vendor body corporate. One company or two company which are sold will give entries for closing their books of accounts where as the one company which is purchasing one will give entries for recording transactions related to assets and liabilities in the books of accounts.

So, if we consider accounting entries then, in amalgamation and absorption, one or more corporates go into voluntary liquidation and sells it business' to another body corporate whereas another body corporate takes over the business of vendor body corporate. Thus the accounting entries are divided in two parts :

- (i) Entries in the Books of Vendor Body corporate.
- (ii) Entries in the Books of Buying Body corporate.

7.4.1 Entries In The Books Of Vendor Body corporate :

Following steps are taken to close the books of the vendor body corporate :

1. Open necessary Accounts like Realization A/cs.
2. Balances given in B/s to be transferred to these A/cs.
3. Share Capital A/c, P & L A/c etc. are transferred to Shareholders' A/c.
4. Two entries for Purchase Consideration should be made
 - (i) For P.C. due
 - (ii) For P.C. received
5. Assets and Liabilities not taken over must be disposed off; Expenses to be paid.

6. Realization A/c to be closed and Profit or Loss transferred.
7. Payment made to shareholders and their A/c closed.

Now we shall see how books of the Vendor Body corporate are closed with the help of following steps :

- (1) All assets taken over are transferred to Realization Account, at book values, for which the entry would be :

Realization Account Dr.
To Sundry Assets Account

- (2) All liabilities taken over must be transferred to the credit of Realization Account at book values for which, the following entry must be passed :

Creditors & Other Liabilities Account Dr
To Realization Account

- (3) Now, Share Capital and all items appearing under the heading of 'Reserves and Surplus' such as General Reserve, Profit and Loss A/c (Credit balance), Dividend Equalization Reserve, Sinking Fund, Share Premium, Capital Reserve etc. would be transferred to Shareholders' Account. The accounting entry would be as under :

Share Capital A/c.	Dr.
Share Premium A/c.	Dr.
Capital Reserve A/c.	Dr.
General Reserve A/c.	Dr.
Profit & Loss A/c. (Cr. Bal.)	Dr.
Sinking Fund etc., A/c. Dr.	
To Shareholders' A/c	

Profit & Loss A/c. (debit balance) and fictitious assets like Preliminary expenses, Advertisement Suspense - Account, Discount on shares or debentures etc. (Dr.) are transferred to Shareholders' Account. The entry would be

Equity Shareholders A/c Dr.	-
To Profit & Loss A/c	-
To Preliminary -Expenses A/c	-
To Discount on Shares A/c	-

- 4) Two entries are made for purchase consideration (i) With the purchase consideration agreed upon, Buying Body corporate's Account must be debited and Realization Account must be credited. The entry would be :

Purchasing Company Account Dr. -

To Realization Account -

- (ii) For purchase consideration received, the form in which it is received such as shares, debentures, or cash account are debited and Buying Body corporate Account it credited. The entry is an under :

Bank Account Dr. -

Debentures of purchasing Company a/c . Dr.

Shares in purchasing company A/c. Dr. -

To Buying Body corporate's A/c. -

- (5) If an asset is not taken over by the buying body corporate, it is disposed off.

(a) If the asset not taken over is not transferred to Realization Account,

then with the sum realized on sale of asset, Bank Account is debited and Asset Account is credited. Then the sum of profit or loss on sale of asset is transferred to Realization Account. The accounting entries would be as under : (i) Bank A/c Dr. (with sale proceeds of asset)

	Bank A/C	Dr.	(with sale proceeds of asset)
(i)	To Assets A/C		
	Realization A/C	Dr.	(if there is loss on sale of asset)
(ii)	To Assets A/C		
	OR		
(iii)	Assets A/C	Dr.	(if there is profit on sale of asset)
	To Realization A/c		

- (a) If the asset not taken over by the Buying Body corporate is transferred to Realization Account, then with the sale proceeds of the asset, Bank Account is debited and Realization Account is credited. In this case no separate entry is passed for profit or loss on sale of asset because it is already adjusted in Realization Account. The accounting entry would

be as under :

(b)

Bank A/c	Dr.	(with sale proceeds of assets)
To Realization A/c		

(c) If any liability is not taken over by the buying body corporate, then it would be paid by the liquidator of the vendor body corporate.

(i) If any liability not taken over has not been transferred to Realization Account, then on payment of such- liability, Liability Account is debited and Bank Account is credited. The difference between the book value of liability and the sum paid is transferred to Realization Account. The accounting entries would be as under :

(i) Liabilities A/c Dr	(with sum paid)
To Bank A/c	

(ii) Liabilities A/c Dr	(with sum paid less i.e. gain on payment of liability)
To Realization A/c	

If more sum is paid than actual liability, then with the excess sum paid, Realization Account is debited and Liability Account is credited.

(ii) If any liability not taken over is transferred to Realization Account, then on payment of such liability, Realization Account is debited and Bank Account is credited. No separate entry is required for gain or loss on payment of such liability. Thus the entry would be as follows :

Realisation A/c	Dr. (with the sum of liability paid)
To Bank A/c	

(6) Now the balance of Realisation Account, -i.e. profit or loss on realisation will be transferred to Shareholders' Account and Realisation Account will be closed.

If there is profit on realisation, it is credited to Shareholders' Account. The accounting entry will be :

Realisation	A/c	-
Dr.		-
To Equity Shareholders' Account		

If there is a loss on realisation, then reverse entry is passed, i.e. Shareholders' Account is debited and Realisation Account is credited. The entry would be :

Equity Shareholders' Account	-
Dr.	-
To Realisation Account	

- (7) Now the Shareholders' Account must be closed for which the balance of Shares, Debentures or Cash received from the Buying Body corporate are given to the Shareholders of the Vendor Body corporate for which the following entry is passed :

Equity Shareholders' A/c	Dr. -	-
To Shares in purchasing company A/c.	-	-
To Debentures in purchasing company A/c.	-	-
To Bank	-	-

(Payment made to shareholders in full settlement of their account.)

The Shareholders' Account must be closed. The totals of its two sides must be equal. There should be no balance.

8. Loss to Debenture holders : If buying body corporate gives anything less than the sum of debentures, then the difference is discount and it is debited to Debenture-holders' Account and credited to Realisation Account.

If the buying body corporate does not take, over the Debentures of vendor body corporate and if it is not transferred to Realisation Account, then the sum of premium or discount on payment of such debentures is transferred to Realisation Account. The accounting entry would be as under :

Realisation A/c Dr.	(With the sum of premium)
To Debenture holders A/c	

If debentures are to be paid at a discount, then the entry would be reverse i.e. Debenture-holder's Account is debited and Realisation Account is credited.

9. Payment to Preference Shareholders : Sometimes, there may be preference share capital in case of vendor body corporate. In such a case,

separate Preference Shareholders Account is to be prepared. Preference share capital is transferred to Preference Shareholders Account and the Preference Shareholders Account will be debited with the sum paid to them. If more sum is paid to preference shareholders, it is considered as profit to them and it is debited to Realisation Account. If less sum is paid, it is a loss to them and Realisation Account is credited. Thus profit or loss on realisation is divided between two types of shareholders.

The Realisation Account will appear as follows : Realisation Account

Particulars	Rs.	Particulars	Rs.
To Sundry Assets A/c	—	By Sundry Liabilities A/c	—
To Cash or Bank A/c		By Buying Body corporate A/c	
(Liquidation Expenses)	—	(Purchase Price)	-
To Asset A/c (Loss on sale of asset)	—	By Assets A/c (Profit on sale of assets)	—
To Liabilities A/c (Loss on Payment)	-	By Liabilities A/c (Profit on Payment of Liability)	-
To Debentureholders A/c	-	By Debentureholders A/c	-
To Preference Shareholders A/c	-	By Preference Shareholders A/c	-
To Profit-Equity Shareholders A/c	-	By Loss : Equity Shareholders A/c	-

Purchasing Company Account			
Particulars	Rs.	Particulars	Rs.
To Realisation A/c		By Cash or Bank A/c	—
- Purchase Price	—	By Equity Shares in purchasing company A/c	-
		By Preference Shares in purchasing company A/c	—
		By Debentures in purchasing company A/c	
		Body corporate A/c	—
	-		-

Equity Shareholder's Account			
Particulars	Rs.	Particulars	Rs.

To Shares or Debentures	-	By Equity Share Capital	-
Discount A/c	-	By Share Premium	-
To Preliminary Expenses A/c	-	By General Reserve	-
To Profit and Loss A/c	-	By Profit and Loss A/c	-
To Realisation A/c (Loss)	-	By Capital Reserve	-
To Cash or Bank A/c	-	By Insurance Fund	-
To Equity Shares in Buying	-	By Forfeited Shares -	-
Body corporate A/c	-	By Realisation A/c (Profit)	-
To Preference Shares in purchasing company A/c	-		
To Debentures in purchasing company A/c	-		-

7.4.2 ENTRIES IN THE BOOKS OF BUYING BODY CORPORATE :

here, we shall discuss about the various entries in the books of buying body corporate:

(1) For assets and liabilities of the vendor body corporate taken over, at an agreed price.

Sundry Assets A/c	Dr.	-
*Goodwill A/c	Dr	-
To Capital Reserve		-
To Sundry Liabilities A/c		-
To Liquidator of Vendor Co		-

*Note : In above entry either Goodwill Account is debited or Capital Reserve Accounts credited,

Sometimes, it is required to open Business Purchase A/c. In such a case two entries will be made as under, instead of one entry as above :

(1) Business Purchase Account Dr.	-
To Liquidator of Vendor Co.	-
(Purchase price due to Ltd. as per agreement dated)	

In the second entry, the Business Purchase Account is closed, and assets

and liabilities taken over are debited & credited respectively.

(2) Sundry Assets Account
Dr.

To Sundry Liabilities A/c

To Business Purchase A/c

(Assets and liabilities of...Ltd. taken
over as per agreement dated...)

(1) For purchase price paid to the liquidator of vendor body corporate.

Liquidator of Vendor Co.
Dr.

To Share Capital A/c

*To Share Premium A/c

To Debentures A/c

To Bank A/c

*Note : If shares are issued at a premium, then share premium account is credited.

(4) If the Buying Body corporate has agreed to pay the liquidation expenses of the Vendor Body corporate, then it may be involved in purchase consideration. If it is involved in purchase consideration, no separate entry is to be made for liquidation expenses.

But when the liquidation expenses of the Vendor Body corporate are to be paid by the Buying Body corporate and if it is not involved in the purchase price, then on payment of such liquidation expenses of vendor body corporate by Buying Body corporate, the following entry is passed

Goodwill or Capital Reserve Dr.

To Bank

(2) Preparing B/S :

The buying body corporate prepares the B/S after the amalgamation process is over. Various items are written in the new B/S as follows with relevant points:

All assets taken over are shown at their new values agreed upon. Similarly assets of both body corporate are totaled up. All liabilities taken over are shown at their new values.

The Goodwill or Capital Reserve is shown in the new B/S, if the purchase price paid is more or less than Net Assets. If the new body corporate has given its shares for purchase consideration, it will be shown as its paid up share capital.

The paid up values of shares issued to both the corporates are totalled up, including the value of shares issued to the public, if any. Reserves or Profit of any type of the old corporates will not be transferred to the new body corporate and so they will not be shown in the B/S of the new co.

Accounting treatment for absorption:

Accounting treatment for absorption is almost similar to the amalgamation, the only difference here is that only one body corporate is closed and entries in the books of vendor body corporate will be in respect only one body corporate and in preparing Balance Sheet the items of vendor body corporate will be added with the items of the buying body corporate.

Inter Body corporate Debts

Sometimes, the debts of the buying body corporate include debts due from the vendor body corporate or Vice-versa. Moreover, the bills drawn by the buying body corporate are accepted by vendor body corporate or Vice-versa. Such inter body corporate indebtedness or inter-body corporate transactions will have to be eliminated or cancelled on amalgamation of business.

INTER-BODY CORPORATE TRANSACTIONS :

Debtors and Bills Receivable : At the time of amalgamation or absorption of corporates, if the vendor body corporate owes to the buying body corporate or vice versa, then such inter-body corporate owings (indebtedness) will have to be eliminated.

Unrealised Profit in Stock :

If the buying body corporate has sold goods to the vendor body corporate at a profit and a certain portion or whole of the goods are still in stock of the vendor body corporate, then the question of eliminating, unrealised profit arises.

While making entries for transfer of assets and liabilities of the vendor body corporate, the buying body corporate will debit Stock Account at book-value. Then an additional entry will be passed debiting goodwill account and crediting stock account with sum of unrealised profit.

Conversely, when the vendor body corporate has sold goods to the buying body corporate and on the date of absorption, some of these goods may be in stock of Buying Co., then for reducing such stock to its cost price, the following entry would be made by the Buying Co. :

Goodwill (or Capital Reserve)	Dr.
To Stock Account	

Calculating Intrinsic Value Of Shares :

Once purchase, consideration is fixed," the buying body corporate will issue its shares in satisfaction of purchase price. While exchanging new shares for

old shares the intrinsic value of shares is taken into account. Intrinsic value of shares is arrived at by dividing the value of net assets by the number of shares.

Accounting Standard (As) – 14 Amalgamation

The following is the text of Accounting Standard (AS) 14, Accounting for Amalgamations, issued by the council for the Institute of Chartered Accountants of India.

This standard will come into effect in respect of accounting periods commencing on or after 1-4-1995 and will be mandatory in nature. The Guidance Note on Accounting Treatment of Reserves in Amalgamations issued by the Institute in, 1983 will stand withdrawn from the aforesaid date.

Introduction

This statement deals with accounting for amalgamations and the treatment of any resultant goodwill or reserves. This statement is directed principally to body body corporates although some of its requirements also apply to financial statements of other enterprises.

This statement does not deal with cases of acquisitions which arise when there is a purchase by one body corporate (referred to as the acquiring body corporate) of the whole or part of the shares, or the whole or part of the assets, of another body corporate (referred to as the acquired body corporate) in consideration for payments in cash or by issue of shares or other securities in the acquiring body corporate or partly in one form and partly in the other. The distinguishing feature of an acquisition is that the acquired body corporate is not dissolved and its separate entity continues to exist.

Definitions

The following terms are used in this statement with the meanings specified :

- (a) Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 1956, or any other statute which may be applicable to body corporates.
- (b) Transferor body corporate means the body corporate which is amalgamated into another body corporate.
- (c) Transferee Body corporate means the body corporate into which a transferor body corporate is amalgamated.
- (d) Reserve means the portion of earnings, receipts or other surplus of an enterprise (Whether capital or revenue) appropriated by the management for a general or a specific purpose other than a provision for depreciation or diminution in the value of assets or for a known liability.
- (e) Amalgamation in the nature of merger is an amalgamation which satisfies all the following conditions :
 - (i) All the assets and liabilities of the transferor body corporate become, after amalgamation, the assets and liabilities of the transferee body corporate.
 - (ii) Shareholders holding not less than 90% of the face value of the

equity shares of the transferor body corporate (other than the equity shares already held therein, immediately before the amalgamation, by the transferee body corporate or its subsidiaries or their nominees) become equity shareholders of the transferee body corporate by virtue of the amalgamation.

- (iii) The consideration for the amalgamation receivable by those equity shareholders of the transferor body corporate who agree to become equity shareholders of the transferee body corporate is discharged by the transferee body corporate wholly by the issue of equity shares in the transferee body corporate, except that cash may be paid in respect of any fractional shares.
- (iv) The business of the transferor body corporate is intended to be carried on, after amalgamation, by the transferee body corporate.
- (v) No adjustment is intended to be made to the book values of the assets and liabilities of the Transferor Body corporate when they are in body corporate in the financial statements of the Transferee Body corporate except to ensure uniformity of accounting policies.
- (f) Amalgamation in the nature of purchase is an amalgamation, which does not satisfy any or more of the conditions specified in subparagraph (e) above.
- (g) 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 Body corporate to the shareholders of the Transferor Body corporate.
- (h) Fair value is the sum for which an asset could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction.
- (i) Polling of interests is a technique of accounting for amalgamations the object of which is to account for the amalgamations as if the separate businesses of the amalgamating body corporates were intended to be continued by the transferee body corporate. Accordingly, only minimal changes are made in aggregating the individual financial statements of the amalgamating body corporates.

Explanation

Types of Amalgamations

Generally speaking amalgamations fall into two broad categories. In the first category are those amalgamations where there is a genuine pooling not merely of the assets and liabilities of the amalgamating body corporates but also of the shareholder's interests and of the businesses of these body corporates? Such

amalgamations are amalgamations which are in the nature of 'merger' and 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 relevant figures of the amalgamating body corporates. In the second category are those amalgamations which are in effect a mode by which one body corporate acquires another body corporate and as a consequence, the shareholders of the body corporate which is acquired normally do not continue to have a proportionate share in the quite of the combined body corporate or the business of the body corporate which is acquired is not intended to be continued. Such amalgamations are amalgamations in the nature of 'purchase'.

An amalgamation is classified as an 'amalgamation in the nature of merger' when all the conditions listed above are satisfied. There are, however differing views regarding the nature of any further conditions that may apply. Some believe that in addition to an exchange of equity shares it is necessary that the shareholders of the transferor body corporate obtain a substantial share in the transferee body corporate even to the extent that it should not be possible to identify any one party as dominant therein. This belief is based in part on the view that the exchange of control of one body corporate for an insignificant share in a larger body corporate does not sum to a mutual sharing of risks and benefits.

Other believe that the substance of an amalgamation in the nature of merger is evidenced by meeting certain criteria regarding the relationship of the parties, such as the former independence of the amalgamating body corporates, the manner of their amalgamation the absence of planned transactions that would undermine the effect of the amalgamation, and the continuing participation by the management of the transferor body corporate in the management of the transferee body corporate after the amalgamation.

Techniques of Accounting for Amalgamations

There are two main techniques of accounting for Amalgamations :

- (a.) the pooling of interests technique; and
- (b) The purchase technique.

The use of the pooling of interest technique is confined to circumstances which meet the criteria referred for an Amalgamation in the nature of merger.

The object of the purchase technique is to account for the Amalgamation by applying the same principles as are applied in the normal purchase of assets. The technique is used in accounting for Amalgamations in the nature of purchase.

The Pooling of Interests Technique

Under the pooling of interest's technique, the assets, liabilities and reserves of the transferor body corporate are recorded by the transferee body corporate at their existing carrying sums

If at the time of the Amalgamation, the transferor and the transferee body corporates have conflicting accounting policies, Amalgamations uniform set of accounting policies is adopted following the Amalgamations. The effects on the financial statements of any changes in accounting policies are reported in accordance with Accounting Standard (AS) 5, 'Prior Period and Extraordinary Items and Changes in Accounting Policies'.

Under the purchase technique the Transferee Body corporate accounts for the Amalgamation wither by incorporating the assets and liabilities at their existing carrying sums or by allocating the consideration to individual identifiable assets and liabilities of the transferor body corporate on the basis of their fair value at the date of Amalgamation. The identifiable assets and liabilities may include assets and liabilities not recorded in the financial statements of the transferor body corporate.

Where assets and liabilities are restated on the basis of their fair values, the determination of fair values may be influenced by the intentions of the Transferee Body corporate. For example, the Transferee Body corporate may have Amalgamations specialized use for an asset, which is not available to other potential buyers. The transferee body corporate may intend to effect changes in the activities of the transferor body corporate which necessitate the creation of specific provisions for the expected costs, e.g. planned employee termination and plant relocation costs.

Consideration

The consideration for the Amalgamation may consist of securities, cash or other assets. In determining the value of the consideration, an assessment is made of the fair value of its elements. Amalgamation variety of techniques is applied in arriving at fair value. For example, when the consideration includes securities, the value fixed by the statutory authorities may be taken to be 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. Where the market value of the assets given up cannot be reliably assessed, such assets may be valued at their respective net book values.

Many Amalgamations recognize that adjustments may have to be made to the consideration in the light of one or more future events. When the additional payment is probable and can reasonably be estimated at the date of Amalgamation, it is involved in the calculation of the consideration. In all other cases, the adjustment is recognized as soon as the sum is determinable [see. Accounting Standard (AS) 4 Contingencies and Event Occurring after the Balance Sheet Date].

Treatment of Reserves on Amalgamation

If the amalgamation is an 'amalgamations in the nature of merger'. The identify of the reserves is preserved and they appear in the financial statements of the transferee body corporate in the same form in which they appeared in the

financial statements of the transferor body corporate. Thus, for example, the General Reserve of the Transferor Body corporate becomes the General Reserve of the Transferee Body corporate, the Capital Reserve of the Transferor Body corporate becomes the Capital Reserve of the Transferee Body corporate and the Revaluation Reserve of the Transferor Body corporate becomes the Revaluation Reserve of the Transferee Body corporate. As a result of preserving the identify, reserves which are available for distribution as dividend before the amalgamations would also be available for distribution as dividend after the Amalgamations. The difference between the sum recorded as share capital issued (plus any additional consideration in the form of cash or other assets) and the sum of share capital of the Transferor Body corporate is adjusted in reserves in the financial statements of the Transferee Body corporate.

If the amalgamation is an 'amalgamation in the nature of purchase', the identify of the reserves, other than the statutory reserves death with, is not preserved. The sum of the consideration is deducted from the value of the net assets of the transferor body corporate acquired by the transferee body corporate. If the result of the computation is negative, the difference is debited to goodwill arising on amalgamation and dealt with in the manner stated. If the result of the computation is positive, the difference is credited to Capital Reserve.

Certain reserves may have been created by the Transferor Body corporate pursuant to the requirements of, or to avail of the benefit under the Revenue-tax Act 1961; for examples, Development Allowance Reserve, or Investment Allowance Reserve. The Act requires that the identify of the reserves should be preserved for Amalgamations specified period. Likewise, certain other reserves may have been created in the financial statements of the Transferor Body corporate in terms of the requirements of other statutes. Though, normally in an amalgamation in the nature of purchase, the identify 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 identify in the financial statements of the transferee body corporate in the same form in which they appeared in the financial statement of the transferor body corporate, so long as their identify 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 Body corporate are complied. In such cases, the statutory reserves are recorded in the financial statements of the transferee body corporate by Amalgamations corresponding debit to Amalgamations suitable account head (e.g. 'Amalgamations Adjustment Account') which is disclosed as part of "miscellaneous expenditure" or other similar category in the balance sheet. When the identify of the statutory reserves is no longer required to be maintained, both the reserves and the aforesaid account are reversed.

Treatment of Goodwill arising on Amalgamation

Goodwill arising on arising on amalgamation represents Amalgamations payment made in anticipation of future revenue and it is appropriate to treat it as an asset to be amortized to revenue on Amalgamations systematic basis over its useful life. Due to the nature of goodwill, it is frequently difficult to estimate its

useful life with reasonable certainty. Such estimation is however, made on Amalgamations prudent basis. Accordingly it is considered appropriate to amortize goodwill over Amalgamations period not exceeding five years unless Amalgamations somewhat longer period can be justified.

Factors which may be considered in estimating the useful life of goodwill arising on Amalgamation include :

The foreseeable life of the business or industry;

The effects of product obsolescence, in demand and other economic factors;

The service life expectancies of key individuals or groups of employees;

Expected actions by competitors or potential competitors; and

Legal, regulatory or contractual provisions affecting the useful life.

Balance of Profit and Loss Account

In the case of an 'amalgamation in the nature of merger', the balance of the Profit and Loss Account appearing in the financial statements of the transferor body corporate is aggregated with the corresponding balance appearing in the financial statements of the transferee body corporate. Alternatively, it is transferred to the General Reserve, if any.

In the case of an 'amalgamation in the nature of purchase'. The balance of the Profit and Loss Account appearing in the financial statements of the transferor body corporate, whether debit or credit, loses its identity.

Treatment of Reserves Specified in Amalgamations Scheme of Amalgamation

The scheme of amalgamation sanctioned under the provisions of the Companies Act, 1956, or any other statute may prescribe the treatment to be given to the reserves of the Transferor Body corporate after its amalgamation. Where the treatment is so prescribed, the same is followed.

Disclosure

For all amalgamations, the following disclosures are considered appropriate in the first financial statements following the amalgamation :

- (a.) names and general natures of business of amalgamating body corporates;
- (b) Effective date of amalgamation for accounting purposes;
- (c) the technique of accounting used to reflect the amalgamation; and
- (d) Particulars of the schemes sanctioned under Amalgamations statute.

For amalgamations accounted for under the pooling of interests technique, the following additional disclosures are considered appropriate in the first financial statements following the amalgamation :

- (a.) description and number of share issued, together with the percentage of each body corporate's equity shares exchanged to effect the amalgamation;
- (b) The sum of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof.

For amalgamations accounted for under the purchase techniques, the following additional disclosures are considered appropriate in the first statement following the amalgamation :

- (a.) consideration for the amalgamation and Amalgamations description of the consideration paid or contingently payable; and
- (b) The sum of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof including the period of amortization of any good-will arising on amalgamation.

Amalgamation after the Balance Sheet Date

When an amalgamations is effected after the balance sheet date but before the issuance of the financial statements of either party to the amalgamation, disclosure I made in accordance with AS 4, 'Contingencies and Events Occurring after the Balance Sheet Date'. But the amalgamation is not in body corporate in the financial statements. In certain circus stances the amalgamation may also provide additional information affecting the financial statements themselves, for instance by allowing the going concern assumption to be maintained.

Accounting Standard

An amalgamation may be either :

- (a.) an amalgamation in the nature of merger, or
- (b) An amalgamation in the nature of purchase.

An amalgamation should be considered to be an amalgamation in the nature of merger when all the following conditions are satisfied :

- (j) All the assets and liabilities of the transferor body corporate become, after amalgamation the assets and liabilities of the transferee body corporate.
- (ii) Shareholders holding not less than 90 % of the face value of the equity shares of the transferor body corporate (other than the equity shares

already held therein, immediately before the amalgamation, by the transferee body corporate or its subsidiaries or their nominees) become equity shareholders of the transferee body corporate by virtue of the amalgamation.

- (i) The consideration for the amalgamation receivable by those equity shareholders of the transferor body corporate who agree to become equity shareholders of the transferee body corporate is discharged by the transferee body corporate wholly by the issue of equity shares in the transferee body corporate except that cash may be paid in respect of any fractional shares.
- (ii) The business of the Transferor Body corporate is intended to be carried on, after the amalgamation, by the transferee body corporate.
- (iii) No adjustments is intended to be made to the book value of the assets and liabilities of the transferor body corporate when they are incorporated in the financial statements of the transferee body corporate except to ensure uniformity of accounting policies.

An Amalgamation should be considered to be an amalgamation in the nature of purchase when any one or more the conditions specified is not satisfied.

When an amalgamation is considered to be an amalgamation in the nature of merger it should be accounted for under the pooling of interests technique described.

When an amalgamation is considered to be an amalgamation in the nature of purchase it should be accounted for under the purchase technique described.

The Pooling of Interests Technique

In preparing the transferee body corporate's financial statements, the assets, liabilities and reserves (whether capital or revenue or arising on revaluation) of the transferor body corporate should be recorded at their existing carrying sums and in the same form as at the date of the amalgamation. The balance of the Profit and Loss Account of the Transferor Body corporate should be aggregated with the corresponding balance of the Transferee Body corporate or transferred to the General Reserve, if any.

If, at the time of the amalgamation, the transferor and the transferee body corporates have conflicting accounting policies, Amalgamations uniform set of accounting policies should be adopted following the amalgamation. The effects on the financial statements of any changes in accounting policies should be reported in accordance with Accounting Standard (AS) 5 'Prior Period and Extraordinary Items and Changes in Accounting Policies'.

The difference between the sum recorded as share capital issued (plus any additional consideration in the form of cash or other assets) and the sum of share capital of the Transferor Body corporate should be adjusted in reserves.

In preparing the transferee body corporate's financial statement, the assets and liabilities of the transferor body corporate should be in body corporate at their existing carrying sums or, alternatively, the consideration should be allocated to individual identifiable assets and liabilities on the basis of their fair values at the date of amalgamation. The reserve (whether capital or revenue or arising on revaluation) of the transferor body corporate, other than the statutory reserves, should not be involved in the financial statements of the transferee body corporate except as stated.

Any excess of the sum of the consideration over the value of the net assets of the Transferor Body corporate acquired by the Transferee Body corporate should be recognized in the transferee body corporate's financial statements as goodwill arising on amalgamation. If the sum of the consideration is lower than the value of the net assets acquired, the difference should be treated as Capital Reserve.

The goodwill arising amalgamations should be amortized to revenue on Amalgamations systematic basis over its useful life. The amortization period should not exceed five years unless Amalgamations somewhat longer period can be justified

here the requirements of the relevant statute for recording the statutory reserves in the books of the Transferee Body corporate are complied with, statutory reserves of the Transferor Body corporate should be recorded in the financial statements of the Transferee Body corporate. The corresponding debit should be recorded in the financial statements of the Transferee Body corporate. The corresponding debit should be given to as suitable account head (e.g. 'Amalgamation Adjustment Account') which should be disclosed as part of "miscellaneous expenditure" or other similar category in the balance sheet. When the identify of the statutory reserves is no longer required to be maintained, both the reserves and the aforesaid accounts should be reversed.

The consideration for the amalgamation should include any non-cash element at fair value. In case of issue of securities the value fixed by the statutory authorities may be taken to be the fair value. In case of other assets the fair value may be determined by reference to the market value of the asset given up. Where the market value of the asset given up cannot b reliably assessed, such assets may be valued at their respective net book values.

Where the scheme of amalgamation provides for an adjustment to the consideration contingent on one or more future events the sums of the additional payments should be involved in the consideration if payment is probable and a reasonable estimate of the sum can be made. In all other cases the adjustment should be recognized as soon as the sum is determinable [See Accounting Standard (AS) 4 Contingencies and Events Occurring after the Balance Sheet Date].

Treatment of Reserves Specified in a Scheme of Amalgamation

Where the scheme of amalgamation sanctioned under a statue prescribes the

treatment to be given to the reserves of the transferor body corporate after amalgamation, the same should be followed.

Disclosure

For all amalgamations, the following disclosures should be made in the first financial statements following the amalgamation:

- (a) names and general nature of business of the amalgamating body corporates;
- (b) effective date of amalgamation for accounting purposes;
- (c) the technique of accounting used to reflect the amalgamation; and
- (d) Particulars of the scheme sanctioned under a statute.

For amalgamations accounted for under the pooling of interest's techniques, the following additional disclosures should be made in the first financial statements following the amalgamation:

- (a) description and number of shares issued together with the percentage of each body corporate's equity shares exchanged to effect the amalgamation; and
- (b) The sum of any difference between the consideration and the value of net identifiable asset acquired and the treatment thereof.

For amalgamations accounted for under the purchase technique, the following additional disclosures should be made in the first financial statements following the amalgamations:

- (a.) consideration for the amalgamations and amalgamations description of the consideration paid or contingently payable; and
- (c) The sum of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof including the period of amortization of any goodwill arising on amalgamation.

Amalgamation after the Balance Sheet Date

When an amalgamation is effected after the balance sheet date but before the issuance of the financial statements of either party to the amalgamation disclosure should be made in accordance with AS-4 'Contingencies and Events occurring after the Balance Sheet Date'. But the amalgamation should not be in body incorporated in the financial statements. In certain circumstances, the amalgamation may also provide additional information affecting the financial statements themselves, for instance by allowing the going concern assumption to be maintained.

7.5 Practical:

1. Khushi Ltd. takes over Sakshi Ltd. carrying on similar business. The share capital of Sakshi Ltd. consists of 6,000 fully paid equity shares of Rs. 500 each and 1,300 debentures of Rs. 500 each. Khushi Ltd. agrees to discharge the purchase price as follows :

- (1) Rs. 90 in cash for each share in Sakshi Ltd.
- (2) 4 shares of Rs. 100 each fully paid (quoted in the market at Rs. 140) for each share in Sakshi Ltd.
- (3) One debenture of Rs. 600 each in exchange of every debenture of Sakshi Ltd.

Calculate purchase consideration by consideration technique.

Solution :

The purchase consideration will be calculated as under :

	Rs.
(1) Cash (6,000 x 90)	5,40,000
(2) 24,000 (6,000 x 4) Shares at Rs. 140 each	33,60,000
(3) 1,300 Debentures of Rs. 600 each	<u>7,80,000</u>
Purchase Consideration	45,50,000

While calculating purchase consideration by Consideration Technique, the following points may be noted :

- (i) If nothing is mentioned, then all assets and liabilities are taken over at their book values.
- (ii) The difference between the Purchase Price and Value of Net Assets taken over will be either 'Goodwill' or 'Capital Reserve'.

In Consideration Technique, we have to find out the value of Goodwill or Capital Reserve, whereas the value of goodwill is given in Net Assets Technique.

While calculating goodwill or capital reserve the goodwill given in the balance-sheet should be ignored i.e. it should not be taken into account.

2. Geeta Ltd. takes over the business of Seeta Ltd. on which date the Balance Sheet of Seeta Ltd. was as under as on 31-03-02:

Balance Sheet

Liabilities	Rs.	Assets	Rs.
Share Capital		Goodwill	1,50,000
10,000 Equity Shares of		Land & Building	2,25,000
Rs. 100 each fully paid up	10,00,000	Machinery	7 00 000
General Reserve	40,000	Stock	2,00,000
6% Debentures	2,00,000	Debtors	50,000
Bank Overdraft	50,000	Cash and Bank	10,000
Workmen's Compensation Fund	20,000	Preliminary Expenses	20,000
Golddry Creditors	45,000		
	13,55,000		13,55,000

Geeta Ltd. agreed to take over all assets, except cash and bank of Seeta Ltd. on the following terms : “

(1) Goodwill Rs. 2,80,000 (2) Land and Building Rs. 3,00,000 (3) Machinery Rs. 5,25,000 (4) Stock Rs. 1,80,000 (5) Bad debts reserve to be created at 5% on Debtors.

Geeta Ltd. took over all liabilities (including debentures) of Seeta Ltd. at their book values. A claim of Rs. 5,000 is 'accepted by the body corporate against Workmen's Compensation Fund.'

Calculate the Purchase Consideration.

Solution ;

The purchase consideration will be arrived at as follows :

Total Assets :	Rs.
Goodwill	2,80,000
Land and Bldg.	3,00,000
Machinery	5,25,000
Stock	1,80,000
Debtors	<u>50,000</u>
	13,35,000
Less : Bad debts Reserve	<u>2,500</u>
	13,32,500

Less : Total Liabilities :

Debentures	2,00,000
Bank overdraft	50,000
Workmen's Compensation Fund	5,000

Creditors	<u>45,000</u>	<u>3,00,000</u>
Purchase Consideration (Net Assets)		<u>10,32,500</u>

Note : here a liability for Rs. 5,000 against Workmen Compensation Fund is accepted by the body corporate and so it is considered as a liability and the balance of Fund of Rs. 15,000 will be treated as a profit and transferred to the credit of Shareholders Account.

3. The following is the summarized balance sheet of V Ltd, as at March 31, 1987:

Liabilities	Rs.	Assets	Rs.
Share Capital :		Fixed Assets	4,70,000
60,000 equity shares of Rs. 10 each		Investments	2,30,000
fully paid up	6,00,000	Current Assets	3,00,000
Share Premium Account	1,00,000		
Creditors	2,45,000		
Bank Overdraft	55,000		
	10,00,000		10,00,000

The business of the body corporate is taken over by P Ltd. as on that date, on the following terms

- P Ltd. to take overall assets and liabilities at book values.
- Goodwill is to be valued at weighted average of the net profits of V Ltd. for three years ending 31st March, 1987. The weights for this purpose for the accounting years 1984-85, 1985-86, 1986-87 are to be assigned as 1, 2 and 3 respectively. The profits for these years had been :

	Rs.
Year ending 31st March, 1985	40,000
Year ending 31st March, 1986	1,60,000
Year ending 31st March, 1987	2,40,000

- The purchase consideration is to be paid by P Ltd. in the form of equity shares of Rs. 10 each issued at par. Prepare Realisation Account and Equity Shareholders Account in the books of V Ltd.

Solution:

(i) Calculation of purchase consideration :		
<i>Assets taken over :</i>		Rs.
Goodwill		1,80,000
Other Fixed Assets		4,70,000
Investments		2,30,000
Current Assets		3,00,000
		11,80,000
<i>Less :</i>		
<i>Liabilities taken over :</i>		
Creditors	2,45,000	
Bank Overdraft	55,000	3,00,000
		8,80,000

(ii) Calculation of Goodwill

Year	Profit Rs.	Weight	Weighted Profit
1984-85	40,000	1	40,000
1985-86	1,60,000	2	3,20,000
1986-87	2,40,000	3	7,20,000
		6	10,80,000

Weighted Average Profit = Rs. 10,80,000/6 = Rs. 1,80,000

(iii) Number of shares to be allotted in discharge of purchase consideration =
Rs. 8,80,000/10 = 88,000

Books of V Ltd.

Dr.	Realisation Account		Cr.
	Rs.		Rs.
To Fixed Assets	4,70,000	By Creditors	2,45,000
To Investments	2,30,000	By Bank Overdraft	55,000
To Current Assets	3,00,000	By P Ltd. (Purchase Consideration)	8,80,000
To Equity Shareholders Account (Profit)	1,80,000		
	11,80,000		11,80,000

Dr.	Equity Shareholders Account		Cr.
	Rs.		Rs.
To Shares in P Ltd. (Settlement)	8,80,000	By Equity Share Capital	6,00,000
		By Share Premium Account	1,00,000
		By Realisation Account (Profit)	1,80,000
	8,80,000		8,80,000

4 :Given below are the balance sheets of two corporates as on 31st March, 2002.

Kaju Co. Ltd.			
Liabilities	Rs.	Assets	Rs.
Capital : 20,000 Shares of		Freehold Buildings	5,38,000
Rs. 100 each	20,00,000	Plant and Machinery	7,22,000
Reserves	1,23,000	Stock	4,74,000
Profit & Loss A/c	2,40,000	Debtors	8,14,000
Creditors	5,27,000	Cash and Bank balance	3,42,000
	28,90,000		28,90,000

Kismis Co. Ltd.			
Liabilities	Rs.	Assets	Rs.
Capital 15,000 Shares		Goodwill	6,00,000
- bf Rs 100 each	15,00,000	Plant & Machinery	7,23,000
Profit & Loss A/c	75,000	Stock	1,27,000
Creditors	3,14,000	Debtors	4,18,000
Bills Payable	1,27,000	Cash and Bank Balance	1,48,000
	20,16,000		20,16,000

Both the corporates decided to wound up, and to acquire the business of these two corporates, a new body corporate called R. K. Co. Ltd. was formed with share capital of Rs. 35,00,000 divided into Shares of Rs. 100 each and 500 5% Debentures of Rs. 100 each.

All assets of Kaju Co. Ltd. except cash and bank balance were sold at following mentioned revalued figures,; Freehold Building and Plant & Machinery after writing off 20% and stock after increasing 20% value. New Body corporate agreed to pay to creditors of Kaju Co. Ltd.

All assets of Kismis Co. Ltd. were purchased by New Body corporate with the exception of cash and bank balance. In Assets, Goodwill was valued at Rs. 3,00,000 and Plant & Machinery at Rs. 4,00,000 whereas remaining assets

were, taken over at their book values. Liabilities were taken over at book value by the New Body corporate.

The consideration in case of Kaju Co. Ltd. was paid by 10,000 shares, 250 debentures and balance in cash, while in case of Kismis Co. Ltd. 7,000 shares, 250 debentures and the balance was paid in cash.

The remaining shares of the New Body corporate were issued to public at a premium of 10% and all these shares were subscribed for and were fully paid.

Pass necessary opening journal entries in the books of the New Body corporate and also prepare its balance sheet. Solution;

Notes : (1) In this example, the values at which various assets & liabilities of vendor corporates are taken over are given. At the same time how purchase consideration will be paid is also mentioned. however in this case, only the number of shares and debentures issued are given, but the sum of cash to be paid is not mentioned, as it is stated that the *remaining sum* is to be paid in cash.

Thus in this problem, Net Assets Technique is to be used for finding out the purchase consideration of vendor corporates.

(2) When purchase consideration is to be found by net assets technique, the value of goodwill to be paid by the buying body corporate, if any, is given; while if the purchase consideration is to be ascertained by consideration technique, the value of goodwill is generally not given, but, it is to be found out.

Kaju Co. Ltd.	Kismis Co. Ltd.
Calculation of Purchase	Calculation of Purchase
Consideration S. Assets : Rs.	Consideration S. Assets : Rs.
Freehold Building 4,30,400	Goodwill 3,00,000
Plant & Machinery 5,77,600	Plant & Machinery 4,00,000
Stock 5,68,800	Stock 1,27,000
Debtors 8,14,000	Debtors 4,18,000
23,90,800	12,45,000
Less: S. Liabilities :	Less : S. Liabilities
Creditors 5,27,000	Creditors 3,14,000
	Bills Payable 1,27,000 4,41,000
Purchase Consideration 18,63,800	Purchase Consideration 8,04,000
Purchase Consideration Payable as under :	Purchase Consideration payable as under :
Rs.	Rs.
(i) 10,000 Shares of	(i) 7,000 Shares of
Rs. 100 each 10,00,000	Rs. 100 each 7,00,000
(ii) 250 Debentures of	(ii) 250 Debentures of
Rs. 100 each 25,000	Rs. 100 each 25,000
(iii) Cash (Difference) 8,38,800	(iii) Cash (Difference) 79,000
18,63,800	8,04,000

Journal Entries in the books of R. K. (Buying) Co. Ltd.			
		Rs.	Rs.
1)	Freehold Building A/c Dr.	4,30,400	
	Plant & Machinery A/c Dr.	5,77,600	
	Stock A/c Dr.	5,68,800	
	Debtors A/c Dr.	8,14,000	
	To Creditors A/c		5,27,000
	To Liquidator of Kaju Co. Ltd.		18,63,800
	(Assets and liabilities of Kaju Co. Ltd. taken over.)		
2)	Liquidator of Kaju Co. Ltd. Dr.	18,63,800	
	To Share Capital A/c		10,00,000
	To 5% Debentures A/c		25,000
	To Bank A/c		8,38,800
	(Payment of purchase consideration to Liquidator of Kaju Co. Ltd.)		
3)	Goodwill A/c Dr.	3,00,000	
	Plant & Machinery A/c Dr.	4,00,000	
	Stock A/c Dr.	1,27,000	
	Debtors A/c Dr.	4,18,000	
	To Creditors A/c		3,14,000
	To Bills Payable A/c		1,27,000
	To Liquidator of Kismis Co. Ltd.		8,04,000
	(Assets and Liabilities of Kismis Co. Ltd. taken over.)		
4)	Liquidator of Kismis Co. Ltd. Dr.	8,04,000	
	To Share Capital A/c		7,00,000
	To 5% Debentures A/c		25,000
	To Bank A/c		79,000
	(Payment of purchase consideration to liquidator of Kismis Co. Ltd.)		
5)	Bank A/c Dr.	19,80,000	
	To Share Capital A/c		18,00,000
	To Share Premium A/c		1,80,000
	(18,000 Shares issued at 10% premium)		

Balance Sheet of R. K. Co. Ltd.

Liabilities	Rs.	Assets		Rs.
Share Capital :		Fixed Assets :		
Authorized, Issued & Paid-up :		Goodwill	3,00,000	
35,000 Shares of Rs. 100		Freehold Building	4,30,400	
each fully paid	35,00,000	Plant & Machinery	9,77,600	17,08,000
(Of the above, 17,000 Shares		Current Assets :		
of Rs. 1 00 each fully paid are		Stock	6,95,800	
issued to vendors in pursuant		Debtors	12,32 000	
to contracts without payment		Bank balance	10,62,200	29,90,000
being received in cash)				
Reserves & Surplus *				
Share Premium	1,80,000			
Secured Loan :				
5% Debentures	50.000			
Current Liabilities :				
Creditors	8,41.000			
Bills payable	1,27,000			
	46,98,000			46,98,000

Note : here, share premium has not been used to write off goodwill. If goodwill is to be written off against share premium, then the share premium account will be closed and goodwill will appear at Rs. 1,20,000 only. The total of the Balance Sheet will be Rs. 45,18,000.

- Star Ltd. has assets worth Rs. 7,00,000 and its liabilities summed to Rs. 1,72,000, its shares capital being divided into 4,800 Equity shares of Rs. 100 each as on 31-03-02.

Gold Ltd. has total assets worth Rs. 18,00,000 and its creditors are Rs. 50,000. Its share capital consisted of 14,000 Equity Shares of Rs. 100 each.

Gold Ltd. agrees to absorb Star Ltd., the purchase consideration to be satisfied by issue of 5 Equity shares of Gold Ltd. in exchange for every 6 shares of Star Ltd. *on the basis of intrinsic value of shares* and the balance in cash.

Draft journal entries in the books of Gold Ltd. and state what a shareholder holding 6 shares in Star Ltd. will get in shares and in cash.

Solution :

(1) Net Assets of Star Ltd. are Rs. 5,28,000.

(Assets Rs. 7,00,000 - Liabilities Rs. 1,72,000)

$$\begin{aligned}\text{Intrinsic value of share} &= \text{Net Assets / No. of Shares} \\ &= 5,28,000 / 4,800 \\ &= \text{Rs. 110}\end{aligned}$$

(2) Net Assets of Gold Ltd. Rs. 17,50,000

[Assets Rs. 18,00,000 - Liabilities (creditors) Rs. 50,000]

$$\begin{aligned}\text{Intrinsic value of share} &= \text{Net Assets / No. of Shares} \\ &= 17,50,000 / 14,000 \\ &= \text{Rs 125}\end{aligned}$$

Value of six shares of Star Ltd. = $110 \times 6 = \text{Rs. 660}$

Value of five shares of Gold Ltd. = $125 \times 5 = \text{Rs. 625}$

Difference payable in cash = Rs. 35

Thus, holders of 6 shares in Star Ltd. will get 5 shares in Gold Ltd. and Rs. 35 in cash.

Journal entries in the books of gold Limited

		Rs.	Rs.
1)	Golddry Assets Account Dr.	7,00,000	
	To Golddry Liabilities A/c		1,72,000
	To Liquidator of Star Ltd.		5,28,000
	(Assets and liabilities of Star Ltd. taken over as per agreement dated...)		
2)	Liquidator of Star Ltd. Dr.	5,28,000	
	To Share Capital A/c		4,00,000
	To Share Premium A/c		1,00,000
	To Bank A/c		28,000
	(Payment of purchase consideration by issue of 4,000 shares of Rs. 100 each at Rs. 125, Rs. 25 per share being credited to Share Premium Account and balance in cash.)		

6. Shakal Ltd. and Jakson Ltd. decided to amalgamate on 1st April, 2001. A new body corporate. called Mukesh Limited was formed to take over the business of both the corporates. The Balance Sheets of the two amalgamating corporates as on 31st March, 2002 were as follows :

The Shakal Ltd.

	Rs.		Rs.
Share Capital :		Land & Building	40,000
2 000 Equity Shares of		Machinery	60 000
Rs. 100 each	2,00,000	Stock	30,000
Creditors	50,000	Debtors	60,000
Creditors for Outstanding Rent	1,000	Cash	11,000
		Profit & Loss Account	50,000
	2,51,000		2,51,000

The Jakson Ltd.			
	Rs.		Rs.
Share Capital :		Goodwill	25,000
3,000 Equity Shares of		Land. & Building	1,50,000
Rs 100 each	3,00,000	Machinery	1,25,000
Reserve Fund	50,000	Stock	50,000
Dividend Equalization Fund	25,000	Debtors	1,00,000
Profit & Loss Account	40,000	Prepaid Insurance	2,000
Creditors	37,000		
	4,52,000		4,52,000

The new body corporate issues its Equity Shares of Rs. 100 each in payment of purchase price.

You are requested to prepare necessary Ledger Accounts and give Journal entries to close the books of the Shakal Ltd.

Solution :

Purchase consideration will be calculated by Net Assets Technique.

The Shakal Ltd. : Rs.

Total Assets (2,51,000 - 50,000 P & L A/c.)	2,01,000
Less : S. Liabilities : Creditors	50,000
Outstanding Rent	<u>1,000</u>
	<u>51,000</u>
Net Assets	<u>1,50,000</u>

Purchase price is Rs. 1,50,000 which will be paid in 1,500 Shares of Rs. 100 each.

The Jakson Ltd.

	Rs.
Total Assets	4,52,000
Less : Creditors	<u>37,000</u>
Net Assets	<u>4,15,000</u>

Purchase price is Rs. 4,15,000 which will be paid in 4,150 Shares of Rs. 100 each.

Ledger Accounts in the Books of Shakal Ltd. :

Realisation Account

	Rs.		Rs.
To Land & Building	40,000	By Creditors	50,000
" Machinery	60,000	" Outstanding Rent	1,000
" Stock	30,000	" Mukesh Limited	
" Debtors	60,000	(Purchase price)	1,50,000
" Cash	11,000		
	2,01,000		2,01,000

7. The following is the Balance Sheet of X Ltd. on 31st March 1987 :

<i>Liabilities</i>	Rs.	<i>Assets</i>	Rs.
Share Capital :		Land and Buildings	10,00,000
2,00,000 Equity shares of Rs. 10		Plant and Machinery	15,00,000
each, fully paid up	20,00,000	Furniture and Fittings	25,000
General Reserve	2,50,000	Stock	6,00,000
Dividend Equalization Reserve	2,00,000	Work in Progress	3,00,000
Profit and Loss Appropriation Account	51,000	Golddry Debtors	2,50,000
12% Debentures	10,00,000	Cash at Bank	1,26,000
Golddry Creditors	3,00,000		
	38,01,000		38,01,000

The body corporate is absorbed by A Ltd. on the above date. The consideration for the absorption is the discharge of the debentures at a premium of 5 per cent, taking over the liability in respect of the Golddry Creditors and a payment of Rs. 7 in cash and one share of Rs. 5 in A Ltd. at the market value of Rs. 8 per share for every share in X Ltd. The cost of liquidation of Rs. 15,000 is to be met by the buying body corporate.

Close the books of X Ltd. and pass journal entries in the books of A Ltd.

Solution :

Calculation of purchase consideration :

	Sum	Form
	Rs.	
12% Debentures 10,00,000		
Add 5% Premium 50,000	10,50,000	Cash
Shares :		
2,00,000 X Rs. 7 (to be paid in cash per share)	14,00,000	Cash
2,00,000 X 1 X Rs. 8 (one share to be allotted in		
A Ltd. for every share in X Ltd., the share being		
valued at Rs. 8)	16,00,000	Shares
	40,50,000	

Dr.		Books of X Ltd. Realisation Account	Cr.
		Rs.	Rs.
	To Land and Buildings	10,00,000	By Creditors 3,00,000
	To Plant and Machinery	15,00,000	By A Ltd. 40,50,000 (Purchase consideration)
	To Furniture and Fittings	25,000	
	To Stock	6,00,000	

Dr.		Rs.	Rs.
Cr.			
	To Work in Progress	3,00,000	
	To Debtors	2,50,000	
	To Cash at Bank	1,26,000	
	To Debentureholders	50,000	
	To Equity Shareholders Account		
	(Profit)	4,99,000	
		43,50,000	43,50,000

A Ltd.				
		Rs.		Rs.
	To Realisation Account	40,50,000	By Shares in A Ltd.	16,00,000
	To Bank (Liquidation expenses)	15,000	By Bank	24,50,000
			By Bank (Reimbursement	
			of liquidation expenses)	15,000
		40,65,000		40,65,000
Shares in A Ltd.				
		Ks.		Rs.
	To A Ltd.	16,00,000	By Shareholders Account	16,00,000
Cash Book (Bank Columns)				
		Rs.		Rs.
	To Balance b/fd	1,26,000	By Realisation Account	1,26,000
	To A Ltd.	24,50,000	transfer	
			By A Ltd. (Liquidation Expenses)	15,000
	To A Ltd.		By Debentureholders	
	(Reimbursement of liquidation	15,000	Account	10,50,000
	expense's)		By Golddry Shareholders	14,00,000
		24,65,000	Account	24,65,000

12% Debentures Account				
		Rs.		Rs.
	To Debentureholders Account-transfer	10,00,000	By Balance b/fd	10,00,000
Debenture holders Account				
		Rs.		Rs.
	To Bank	10,50,000	By 12% Debentures	10,00,000
			By Realisation Account	50,000
		10,50,000		10,50,000
Equity Shareholders Account				
		Rs.		Rs.
	To Shares in A Ltd.	16,00,000	By Equity Share Capital Account	20,00,000
	To Bank	14,00,000	By General Reserve	2,50,000
			By Dividend Equalisation Reserve	2,00,000
			By Profit and Loss Appropriation Account	51,000
			By Realisation Account	4,99,000
		30,00,000		30,00,000

Books of A Ltd.

Journal

			Dr.	Cr.
1989			Rs.	
March	Business Purchase Account	Dr.	40,50,000	
	To Liquidator of X Ltd.			40,50,000
	Purchase consideration payable to the liquidator of X Ltd. for X Ltd.'s business purchased as per agreement.			
	Land and Buildings	Dr.	10,00,000	
	Plant and Machinery	Dr.	15,00,000	
	Furniture and Fittings	Dr.	25,000	
	Stock	Dr.	6,00,000	
	Work in Progress	Dr.	3,00,000	
	Debtors	Dr.	2,50,000	
	Cash at Bank	Dr.	1,26,000	
	Goodwill	Dr.	5,49,000	
	To Creditors			3,00,000
	To Business Purchase Account			10,50,000
	Incorporation of various assets and creditors taken over from X Ltd. as per agreement.			
	Liquidator of X Ltd.	Dr.	40,50,000	
	To Bank			24,50,000
	To Equity Share Capital Account			10,00,000
	To Share Premium Account			6,00,000
	Allotment of 2,00,000 equity shares of Rs. 10 each, Rs. 5 paid up at a premium of Rs. 3 per share to liquidator of A Ltd. to discharge the purchase consideration for business taken over.			
	Goodwill	Dr.	15,000	
	To Bank			15,000
	The expenses of liquidation of X Ltd. paid and debited to Goodwill.			

8. Rahim Ltd. and Shukla Ltd. whose businesses are of similar nature, have agreed to amalgamate on 1st April, 2002 and form a New Body corporate Rahim & Shukla Ltd.- The Authorised Capital of the New Body corporate is Rs. 30,00,000 divided into 10,000 6% Preference Shares of Rs. 100 each and. 20,000 Equity Shares of Rs. 100 each. Their Balance Sheets as on 31st March, 2002 stood as under :

Rahim Limited

Balance Sheet as on 31st March, 2002			
Liabilities	Rs.	Assets	Rs.
Authorised Capital :		Premises	8,00,000
30,000 Equity Shares of		Machinery	5,67,250
Rs. 100 each	30,00,000	Stock	1,04,000
Issued Capital :		Debtors	41,900
18,000 Equity Shares of		Cash	46,550
Rs. 100 each, Rs. 75 per		Advertising Suspense A/c	17,500
Share paid up	13,50,000		
Share Premium A/c	1,68,750		
Reserves	30,000		
Profit & Loss A/c	17,850		
Creditors	10,600		
	15,77,200		15,77,200

Shukla Limited

Balance Sheet as on 31st March, 2002

Liabilities	Rs.	Assets	Rs.
Authorised Capital :		Goodwill	75,000
20,000 Equity Shares of		Premises	2,00,000
Rs. 100 each	20,00,000	Machinery	5,41,000
Issued Capital :		Furniture & Fittings	20,500
10,000 Equity Shares of		Stock	2,54,000
Rs. 100 each fully paid	10,00,000	Debtors	60,250
Profit and Loss A/c	600	Cash	7,250
5% Debentures	1,00,000		
Interest Account on Debentures	5,000		
Creditors	52,400		
	11,58,000		11,58,000

The conditions of amalgamation are as under :

- (1) The new body corporate is to take over the assets as well as the liabilities in respect of creditors of both the corporates at book values.
- (2) To issue two equity shares at 10% premium and one 6% preference shares of the new body corporate as fully paid in exchange of every three shares of Rahim Ltd.
- (3) To issue two equity share at 10% premium and two 6% preference shares of the new body corporate as fully paid in exchange of every five shares of Shukla Ltd. .
- (4) The new body corporate is also to issue 7 1/2 % debentures of Rs. 100 each at Rs. 105 of such an sum so as to pay off the claims (including interest accrued) of the debenture-holders of Shukla Ltd.
- (5) The expenses of amalgamation Rs. 50,000 are paid by the new body corporate.

Pass necessary Journal Entries in the books of the New Body corporate and also prepare its initial Balance Sheet.

Solution :

Purchase consideration will be calculated by consideration technique :

(A) Purchase consideration of Rahim Limited : Rs.

(i) Equity Shares (2 shares for 3 shares)

Shares : $18,000 \times \frac{2}{3} = 12,000$ shares x Rs. 100 12,00,000

Premium : 12,000 shares x Rs. 10 1,20,000

13,20,000

(ii) Preference Shares (1 Share for 3 shares)

$18,000 \times 1/3 = 6,000 \times \text{Rs. } 100$

6,00,000

Purchase Consideration

19,20,000

Goodwill payable to Rahim Limited :

Rs.

Total assets taken over

15,77,200

Less : Advertising Suspense A/c

17,500

15,59,700

Less : Creditors taken over

10,600

Net Assets :

15,49,100

Goodwill = Purchase consideration - Net assets

= Rs. 19,20,000 - Rs. 15,49,100

= Rs. 3,70,900

(B) Purchase Consideration of Shukla Limited :

Rs.

(i) Equity Shares (2 shares for 5 shares)

Shares : $10,000 \times 2/5 = \text{Rs. } 4,000 \text{ shares} \times \text{Rs. } 100$

4,00,000

Premium : 4,000 shares x Rs. 10

40,000

4,40,000

(ii) Preference Shares (2 shares for 5 shares)

$10,000 \times 2/5 = 4,000 \text{ shares} \times 100$

4,00,000

(iii) Debentures (value of old debentures including accrued interest is Rs. 1,05,000 against which new debentures are to be issued @ Rs. 105).

New Debentures $1,05,000 \times 1/105$

= 1,000 Debentures x Rs. 100

1,00,000

Debentures premium (1,000 x Rs. 5)

5,000

1,05,000

Purchase Consideration

9,45,000

Capital Reserve on Purchase of Shukla Limited :	Rs.
Total asset (excluding goodwill)	10,83,000
Less : Creditors taken over	52,400
Net assets :	10,30,600

Capital reserve = Net asset - Purchase consideration

= Rs. 10,30,600 - Rs. 9,45,000

= Rs. 85,600

In the books of new body corporate, this figure would be shown either as Capital Reserve or it would be deducted from Goodwill.

M/s. Rahim & Shukla Co. Ltd. Balance Sheet as on 1st April, 2002

Liabilities	Rs.	Assets	Rs.	
Share Capital		Fixed Assets :		
Authorised Capital :		Goodwill*	4,20,900	
20,000 Equity Share of		Less : Capital		
Rs. 100 each	20,00,000	Reserve	85,600	
10,000 6% Preference Shares			3,35,300	
of Rs. 100 each	10,00,000	Building	10,00,000	
	30,00,000	Machinery	11,08,250	
Issued and Paid up Capital :		Furniture	20,500	24,64,050
16,000 Equity Shares of		Current Assets :		
Rs. 100 fully paid	16,00,000	Stock	3,58,000	
10,000 6% Preference		Debtors	1,02,150	
Shares of Rs. 100 each	10,00,000	Cash**	3,800	4,63,950
(All shares are issued to				
vendors in pursuant to				
contract without				
payment				
being received in cash)				
Reserves & Surplus :				
Share Premium	1,60,000			
Debentures Premium	5,000			
Secured Loan :				
7 1/2 % Debentures	1,00,000			
Current Liabilities :				
Creditors	63,000			
	29.28.000			29.28.000

* Expense of amalgamation have been added to goodwill

**Rs. 46,550 + 7,250 = 53,800 Cash taken over : Less : Rs. 50,000 expenses of amalgamation = Rs. 3,800 Cash balance.

9 :The following were the balance sheets of Dhuru Ltd. and Priti Ltd as on 31-03-02.

Balance Sheet of Dhuru Ltd.

Liabilities	Rs.	Assets	Rs.
Paid up Share Capital :		Fixed assets	11,00,000
equity shares of Rs.		Stock	3,00,000
10 each Rs. 7.50 paid up	6,00,000	Debtors	1,60,000
General reserve	3,00,000	Preliminary expenses	40,000
profit and loss A/c.	1,00,000		
Workers profit sharing fund	1,00,000		
0% Debentures	2,00,000		
Creditors (Including Rs. 60,000 due to Priti Ltd.)	3,00,000		
	16,00,000		16,00,000

Balance Sheet of Priti Ltd.

Liabilities	Rs.	Assets	Rs.
Paid up share capital :		Fixed Assets	5,00,000
Equity shares of Rs.		Investments	1,10,000
10 each Rs. 5 paid up	6 00 000	Stock	2,00,000
10% Debentures	3 00 000		
Creditors	2 00 000	Debtors (Including Rs 60,000 due by Dhuru Ltd.)	1,70,000
		Preliminary expenses	20,000
		Profit and Loss A/c	1,00,000
	11,00,000		11,00,000

On 1-4-2002 Dhuru Ltd. agreed to absorb Priti Ltd. on the following conditions :

- (1) Stock of Priti Ltd. includes goods worth Rs. 60,000 purchased from Dhuru Ltd., which was sold by them charging 20% profit on cost.
- (2) The purchase consideration was to be satisfied by issue of necessary equity shares of Dhuru Ltd. in exchange of equity shares of Priti Ltd., on the basis of intrinsic value of their shares.

Prepare necessary ledger accounts in the books of Priti Ltd. and pass entries in the books of Dhuru Ltd. I Solution :

- (1) The Debtors of Priti Ltd. include Rs. 60,000 due from Dhuru Ltd. involved in its creditors. When Dhuru Ltd. takes over the business of Priti Ltd., the internal transaction has to be cancelled. For this purpose Creditors A/c will be debited and Debtors A/c will be credited with Rs. 60,000. It means

both Debtors and Creditors will be reduced by Rs. 60,000.

- (2) The closing stock of Priti Ltd. includes goods of Rs. 60,000 purchased from Dhuru Ltd. on which Dhuru Ltd. had charged 20% profit on cost. Now this stock becomes the stock of Dhuru Ltd. which includes profit charged by Dhuru Ltd. itself. So this is 'unrealised profit' and it will be eliminated.

$$\text{unrealised profit} = 60,000 \times 20/120 = \text{Rs. } 10,000.$$

An additional entry will be passed in the books of Dhuru Ltd., debiting Goodwill A/c and crediting Stock A/c.

- (3) The shares to be issued for purchase consideration are in proportion to the intrinsic value of shares of both corporates.

$$\text{Intrinsic Value of Shares} = \text{Net Assets} / \text{No of Shares}$$

First let us calculate no. of shares of each body corporate.

$$\text{No. of shares of Dhuru Ltd.} = \text{Rs. } 6,00,000 \div 7.50 = 80,000$$

$$\text{No. of shares of Priti Ltd.} = \text{Rs. } 6,00,000 \div \text{Rs. } 5 = 1,20,000$$

Assets .			Dhuru Ltd. Rs.	Priti Ltd. Rs.
Fixed Assets			11,00,000	5,00,000
Stock			3,00,000	2,00,000
Investments			—	1,10,000
Debtors			1,60,000	1,70,000
			15,60,000	9,80,000
Less : Liabilities				
Workers' Profit				
Sharing Fund	1,00,000		—	
Debentures	2,00,000		3,00,000	
Creditors	3,00,000	6,00,000	2,00,000	5,00,000
		9,60,000		4,80,000
Number of shares		80,000		1,20,000
Intrinsic Value of Shares		9,60,000		4,80,000
		80,000		1,20,000
		= Rs. 12		= Rs. 4

Thus one share of Dhuru Ltd. is valued at Rs. 12, while one share of Priti Ltd. is valued at Rs. 4. It means for 3 shares of Priti Ltd., 1 share of Dhuru Ltd. will be given, so that for 1,20,000 equity shares of Priti Ltd., Dhuru Ltd. will give = $1,20,000 \div 3 = 40,000$ shares.

Purchase Price = 40,000 shares x Rs. 12 = Rs. 4,80,000.

In the books of Priti Ltd. :

Realisation Account

To Fixed Assets	5,00,000	By 10% Debentures	3,00,000
" Investments	1,10,000	" Creditors	2,00,000
" Stock	2,00,000	" Dhuru Ltd.	
" Debtors	1,70,000	- Purchase Consideration	4,80,000
	9,80,000		9,80,000
There is no profit or loss on Realisation A/c.			
Dhuru Ltd. Account			
	Rs.		Rs.
To Realisation A/c	4,80,000	By Equity Shares A/c	4,80,000
Dhuru Ltd. Share Account			
To Dhuru Ltd. A/c	4,80,000	By Equity Shareholders A/c	4,80,000
	4,80,000		4,80,000
Equity Shareholder Account			
	Rs.		Rs.
To Profit and Loss A/c	1,00,000	By Equity Share Capital A/c	6,00,000
" Preliminary Expenses	20,000		
" Dhuru Ltd's Shares A/c	4,80,000		
	6,00,000		6,00,000

From the above, it will be seen that internal transactions have no effect in the books of Vendor body corporate. All the effects will be given in the books of Buying Body corporate.

Journal Entries in the books of Dhiru Ltd.

		Rs.	Rs.
1)	Fixed Assets A/c Dr.	5,00,000	
	Investments A/c Dr.	1,10,000	
	Stock A/c Dr.	2,00,000	
	Debtors A/c Dr.	1,70,000	
	To 10% Debentures A/c		3,00,000
	To Creditors A/c		2,00,000
	To Liquidator of Profit Ltd.		4,80,000
	(Assets and Liabilities of Priti Ltd. taken over)		
2)	Liquidator of Priti Ltd. Dr.	4,80,000	
	To Share Capital A/c		3,00,000
	To Share Premium A/c		1,80,000
	(Payment of purchase price of Rs. 4,80,000 by issue of 64,000 shares of Rs. 10 each, Rs. 7.50 per share paid up ($4,80,000 \div 50 = 64,000$) at Rs. 12 per share i.e. at a premium of Rs. 4.50)		
3)	Creditors A/c Dr.	60,000	
	To Debtors A/c		60,000
	(Inter Body corporate owings eliminated on absorption)		
4)	Goodwill A/c Dr.	10,000	
	To Stock A/c		10,000
	(Unrealised profit in stock charged to goodwill account)		

10. The following is the Balance Sheet of *Niki Ltd.* as at March 31, 1987 :-

Liabilities	Rs.	Assets	Rs.
65,000 Equity Shares of Rs. 10 each	6,50,000	Furniture and Fittings	85,000
2,000 12% Preference Shares of Rs. 100 each	2,00,000	Stock	7,20,000
10% Debentures	1,50,000	Debtors	1,07,000
Bank Overdraft	5,000	Expenses of Issue of Debentures	7,500
Golddry Creditors	2,25,000	Profit and Loss Account	3,10,500
Preference Dividend in Arrears for 3 years			
	12,30,000		12,30,000

P Ltd. takes over the body corporate on the terms that it would :

- take Furniture and Fittings after depreciating the same by 10%, Stock at Rs. 6,86,850 and Debtors subject to a Provision for Bad Debts @ 5%.
- take 10% Debentures.
- discharge the purchase consideration by allotment of 20,000 equity shares of Rs. 10 each at an agreed value of Rs. 12 each to *S Ltd.* and by the payment of the balance in cash.
- bear the expenses of liquidation which came to be Rs. 18,000.

Preference shareholders of *Niki Ltd.* agreed to accept Rs. 1,80,000 in full settlement of their total claim. Close the books of *Niki Ltd.* and pass journal entries in the books of *P Ltd.*

Solution:

Calculation of purchase consideration :		
Assets taken over :		
	Rs.	Rs.
Furniture and Fittings	85,000	
Less Depreciation @ 10%	8,500	76,500
Stock		6,86,850
Debtors	1,07,000	
Less Provision for Bad Debts @ 5%	5,350	1,01,650
		8,65,000
Less 10% Debentures		1,50,000
Purchase Consideration		7,15,000
Purchase consideration will be discharged as follows :-		
20,000 Equity Shares of Rs. 10 each, valued at Rs. 12 each		2,40,000
Cash, balancing figure		4,75,000
		7,15,000

Books of *Niki Ltd.*

Realisation Account

	Rs.		Rs.
To Furniture and Fittings	85,000	By 10% Debentures	1,50,000
To Stock	7,20,000	By P Ltd. (Purchase Consideration)	7,15,000
To Debtors	1,07,000	By 12% Preference Share Capital	20,000
		By Equity Shareholders Account	
		(Loss)	27,000
	9,12,000		9,12,000

Cash Book (Bank Columns)

	Rs.		Rs.
To P Ltd.	4,75,000	By Balance b/fd	5,000
		By Golddry Creditors	2,25,000
		By 12% Preference Shareholders	1,80,000
		By Equity Shareholders	65,000
	4,75,000		4,75,000

P Ltd.

	Rs.		Rs.
To Realisation Account	7,15,000	By Equity Shares in P Ltd.	2,40,000
		By Bank	4,75,000
	7,15,000		7,15,000

12% Preference Share Capital Account

	Rs.		Rs.
To 12% Preference Shareholders		By Balance b/fd	2,00,000
Account	1,80,000		
To Realisation Account	20,000		
	2,00,000		2,00,000

12% Preference Shareholders Account

	Rs.		Rs.
To Bank (payment of agreed sum)	1,80,000	By 12% Preference Share Capital Account	1,80,000

Dr. Equity Shareholders Account Cr.			
	Rs.		Rs.
To Expenses of Issue of Debentures	7,500	By Equity Share Capital Account	6,50,000
To Profit and Loss Account	3,10,500		
To Realisation Account (Loss)	27,000		
To Shares in P Ltd.	2,40,000		
To Bank	65,000		
	6,50,000		6,50,000

Books of P Ltd.

Journal

			Dr. Cr. .			
1989					Rs.	Rs.
Mar.	31	Business Purchase Account	.. Dr.		7,15,000	
		To Liquidator of <i>Niki Ltd.</i>				7,15,000
		Sum payable to Liquidator of <i>Niki Ltd.</i> for the business purchased.				
"	"	Furniture and Fittings	.. Dr.		76,500	
		Stock	.. Dr.		6,86,850	
		Debtors	.. Dr.		1,07,000	
		To Provision for Bad Debts Account				5,350
		To 10% Debentures				1,50,000
		To Business Purchase Account				7,15,000
		Incorporation of assets and liability taken over from <i>Niki Ltd.</i>				
"	"	Liquidator of 5 Ltd.	.. Dr.		7,15,000	
		To Equity Share Capital Account				2,00,000
		To Share Premium Account				10,000
		To Bank				4,75,000
		Allotment of 20,000 equity shares of Rs. 10 each at a premium of Rs. 2 per share and payment of cash to satisfy purchase consideration.				
	-	Goodwill Account	. Dr.		18,000	
		To Bank				18,000
		Expenses of liquidation of <i>Niki Ltd.</i> met and debited to Goodwill Account.				

11. The Balance Sheets of Yagnik Limited and Jigar Limited as on 31-3-2002 are given below :

Liabilities	Yagnik Ltd.	Jigar Ltd.	Assets	Yagnik Ltd.	Jigar Ltd.
Share Capital	1,00,000	80,000	Goodwill	60,000	30,000
Reserves	25,000	60,000	Machinery	1,20,000	1,56,000
Dividend Equalisation			Investments	20,000	20,000
Fund	15,000	40,000	Stock	20,000	50,000
Profit & Loss A/c		20,000	Debtors	65,000	55,000
Debentures	1,20,000	1,00,000	Cash	20,000	9,000
Creditors	50,000	30,000	Bills Receivable	15,000	20,000
Bills Payable	10,000	10,000			
	3,20,000	3,40,000		3,20,000	3,40,000

It was agreed that Jigar Limited will absorb Yagnik Limited on this date: The purchase consideration was to be discharged by issue of shares in Jigar Limited on the basis of intrinsic values of shares. The face value of shares of Yagnik Limited was, Rs. 10 per share on which Rs. 5 per share was paid up, whereas the nominal value of shares of Jigar Limited was Rs. 10 on which Rs. 4 was paid up. Debtors of Jigar Limited include Rs. 10,000 due by Yagnik Limited. All bills payable of Yagnik Limited are drawn by Jigar Limited. Stock of Yagnik Ltd. includes goods valued at Rs. 20,000 purchased from Jigar Ltd. which has sold goods so as to realise 25% profit on sales.

Draft journal entries in the books of Jigar Limited and its opening Balance Sheet.

Solution

The intrinsic value of shares would be calculated as under :

- (a) Intrinsic value of shares of Yagnik Ltd. : Rs.

Total Assets
3,20,000

Less : Liabilities (Debentures + Creditors + Bills Payable)
1,80,000

Net Assets
1,40,000

Number of shares of Yagnik Ltd. = Rs. 1,00,000 ÷ 5 = 20,000 Shares.

Intrinsic value of Shares = Rs. 1,40,000 ÷ 20,000 Shares = Rs. 7.

- (b) Intrinsic value of shares of Jigar Limited : Rs.

Total Assets

3,40,000

Less : Liabilities (Debentures + Creditors + Bills Payable)

1,40,000

Net Assets

2,00,000

Number of shares of Jigar Ltd. = Rs. 80,000 ÷ 4 = 20,000 Shares

Intrinsic value of shares = Rs. 2,00,000 ÷ 20,000 Shares = Rs. 10.

To equate the values of shares, in exchange for 10 shares of Yagnik Ltd. 7 shares of Jigar will be issued.

For 20,000 shares in Yagnik Limited, 14,000 Shares in Jigar Limited will be issued.

- (c) Study the journal entries. Note how entries are passed for cancellation of inter-body corporate transactions.
- (d) Stock of Yagnik Ltd. includes goods valued at Rs. 10,000 purchased from Jigar Ltd. on which the latter Body corporate has charged a profit Rs. 5,000 (20,000 x 25%). This unrealised profit will be eliminated from the stock taken over from Yagnik Ltd. It will be debited to Goodwill A/c by passing one additional entry.

Journal entries in the books of Jigar Ltd.

			Rs.	Rs.
1)	Goodwill A/c	Dr.	60,000	
	Machinery A/c	Dr.	1,20,000	
	Investment A/c	Dr.	20,000	
	Stock A/c	Dr.	20,000	
	Debtors A/c	Dr.	65,000	
	Cash A/c	Dr.	20,000	
	Bills Receivable A/c	Dr.	15,000	
	To Debentures A/c			1,20,000
	To Creditors A/c			50,000
	To Bills Payable A/c			10,000
	To Liquidator of Yagnik Ltd.			1,40,000
	(Assets and liabilities of Yagnik Ltd. taken over as per agreement dt...)			
2)	Liquidator of Yagnik Ltd.	Dr	1,40,000	
	To Share Capital A/c			56,000
	To Share Premium A/c			84,000
	(Issue of shares of Rs. 10, Rs. 4 paid up in discharge of purchase price)			
3)	Golddry Creditors A/c	Dr	10,000	
	To Golddry Debtors A/c			10,000
	(Inter body corporate owings eliminated on absorption)			
4:	Bills Payable A/c	Dr	10,000	
	To Bills Receivable A/c			10,000
	(Sum of internal bills drawn by Jigar Ltd. and accepted by Liquidator of Yagnik Ltd. eliminated on absorption)			

5	Goodwill A/c	Dr		5,000	
	To Stock A/c				5,000
	(Sum of unrealised profit charged to				
	goodwill account.)				

Balance Sheet of Jigar as on 31-3-2002

Liabilities	Rs.	Assets	Rs.
share Capital :		Fixed Assets :	
Authorised, Issued &		Goodwill(30,000 + 65,000)	95,000
Paid-up :		Machinery	2,76,000
34,000 shares of Rs. 10		Investments	40,000
each.	1,36,000	Current Assets, Loans &	
Rs. 4 paid up		Advances :	
Reserves & Surplus :		Stock (15,000 + 50,000)	65,000
Share Premium	84,000	Debtors (65,000 + 45,000)	1,10,000
Reserves	60,000	Cash	29,000
Div. Equalisation Fund	40,000	Bills Receivable	25,000
Profit & Loss Account	20,000	(15,000 + 10,000)	
Secured Loans :			
Debentures	2,20,000		
Current Liabilities &			
Provisions :			
Creditors	70,000		
(40,000+30,000)			
Bills Payable	10,000		
	6,40,000		6,40,000

Note : Share Premium may be utilised to write off Goodwill.

12: The following are the Balance Sheets of Jignasha Limited and Jigisha Limited as on 31-3-2002

Liabilities	Jignasha Ltd Rs	Jigisha Ltd. Rs.	Assets	Jignasha Ltd. Rs.	Jigisha Ltd. Rs.
Paid up share capital :			Fixed Assets	10,80,000	6,00,000
Equity shares of Rs. 100 My paid	8,00,000		Investments (M.V. Rs. 1,00,000)		90,000
Equity shares of Rs. 100 each,			Current Assets	3,60,000	2,88,000
Rs. 50 paid up		6,00,000	Prel. Exp.	60,000	22,000
General reserve	1,00,000		P. & L. A/c	-	1,00,000
10% Debentures	3 00 000	2,00,000			
Creditors	3,00,000	3,00,000			
	15,00,000	11,00,000		15,00,000	11,00,000

On 1-4-2002 Jignasha Limited agreed to absorb Jigisha Limited on the following conditions :

- (1) The fixed assets of Jignasha Limited as shown in the books are 10% less than the market value whereas the current assets of Jigisha Limited includes stock worth Rs. 88,000 which is over valued by 10%.
- (2) The purchase consideration was to be satisfied by issue of three fully paid equity shares of Jignasha Limited in exchange of ten equity shares of Jigisha Limited on the basis of intrinsic value of their shares and balance sum in cash.

Prepare ledger accounts in the books of Jigisha Limited and pass necessary entries in the books of Jignasha Limited.

Solution :

Assets	Jignasha Ltd. Rs.	Jigisha Ltd. Rs.
Fixed Assets ((10,80,000 × 100) /90)	12,00,000	6,00,000
Investments	-	1,00,000

Current Assets ((88,000 × 100)/110)	3,60,000	2,80,000
Less : Liabilities :	15,60,000	9,80,000
Debentures	3,00,000	2,00,000
Creditors	3,00,000	3,00,000
Net Assets	9,60,000	4,80,000
Intrinsic value of shares = Net Assets / No. of shares	9,60,000	4,80,000
	8,000	12,000
	= Rs. 120	= Rs. 40

Calculation of Purchase Consideration :

Jigisha Ltd's Shares, 12000 × Rs. 40 = Rs. 4,80,000

Payment of Purchase Consideration : Rs

Equity shares 12,000 × 3/10 = 3600 shares × 100	3,60,000
Share premium 3600 shares × 20	72,000
Cash	48,000
	4,80,000

Note : For 10 equity shares of Jigisha Ltd., 3 equity shares of Jignasha Ltd are given- at Rs. 120 per share. So, the total sum is 3,600 × 120 = 4,32,000 The balance of Rs. 48,000 (4,80,000 - 4,32,000) will be paid in cash. In the Books of Jigisha Ltd. :

Realisation Account

	Rs.		Rs.
To Fixed Assets A/c	6,00,000	By Debentures A/c	2,00,000
" Investments A/c	90,000	" Creditors A/c	3,00,000
" Current Assets A/c	2,88,000	" Jignasha Ltd. A/c	
" Equity Shareholders		- Purchase Consideration	4,80,000
A/c - Profit	2,000		
	9,80,000		9,80,000
Jignasha Ltd Account			
	Rs.		Rs.
To Realisation A/c	4,80,000	By Jignasha Ltd's Shares A/c	4,32,000
		" Cash A/c	48,000
	4,80,000		4,80,000

Jignasha Ltd Share Account			
	Rs.		Rs.
To Jignasha Ltd. A/c	4,32,000	By Equity Shareholders A/c	4,32,000
	4,32,000		4,32,000
Equity Shareholder's Account			
To Preliminary Expenses A/c	Rs. 22,000	By Equity Share Capital A/c	Rs. 6,00,000
" Profit and Loss A/c	1,00,000	" Realisation A/c - Profit	2,000
" Jignasha Ltd's Shares A/c	4,32,000		
" Cash A/c	48,000		
	6,02,000		6,02,000
Cash Account			
	Rs.		Rs.
To Jignasha Ltd. A/c.	48,000	By Equity Shareholders A/c	48,000
	48,000		48,000

Journal Entries in the books of Jignasha Ltd.

		Rs.	Rs.
1)	Fixed Assets A/c . Dr.	6,00,000	
	Current Assets A/c . Dr.	2,80,000	
	Investment's A/c. . Dr.	1,00,000	
	To Debentures A/c		2,00,000
	To Creditors A/c		3,00,000
	To Liquidator of Jigisha Ltd.		4,80,000
	(Assets and liabilities of Jigisha Ltd. taken over)		
2)	Liquidator of Jigisha Ltd. Dr.	4,80,000	
	To Equity Share Capital A/c		3,60,000
	To Share Premium A/c		72,000
	To Cash A/c		48,000
	(Payment of Purchase Price)		

13. On 31 st March, 1987 the balance sheet of *Ursh Ltd.* was as follows :-

<i>Liabilities</i>	Rs.	<i>Assets</i>	Rs.
Share Capital		Goodwill	4,00,000
5,000 12% Cumulative		Plant and Machinery	7,00,000
Preference Shares of		Furniture and Fixtures	2,00,000
Rs. 100 each, fully paid	5,00,000	Patents	1,50,000
	Rs.		Rs.
1, 50,000 Equity Shares of Rs. 10 each.		Stock	4,90,000
- fully paid	15,00,000	Debtors	2,55,000
10% Debentures	3,00,000	Bank	5,000
Creditors	2,00,000	Preliminary Expenses	8,000
Preference Dividend		Discount on Issue of Debentures	12,000
in Arrear for 3 years		Profit and Loss Account	2,80,000
	25,00,000		25,00,000

The following scheme of external reconstruction was agreed upon:

- (i) A new body corporate to be formed called *J Ltd.* with an authorised capital of Rs. 32,50,000 in equity shares of Rs. 10 each.
- (ii) One equity share, Rs. 5 paid up, in the new body corporate to be allotted for each equity share in the old body corporate.
- (iii) Two equity shares, Rs. 5 paid up, in the new body corporate to be allotted for each preference share in the old body corporate.
- (iv) Arrears of preference dividends to be cancelled.
- (v) Debenture holders to receive 30,000 equity shares in the new body corporate credited as fully paid.
- (vi) Creditors to be taken over by the new body corporate.
- (vii) The remaining unissued shares to be taken up and paid for in full by the directors,
- (viii) The new body corporate to take over the old body corporate's assets except Patents, subject to writing down plant and machinery by Rs. 2,90,000 and stock by Rs. 60,000.
- (ix) Patents were realised by *Ursh Ltd.* for Rs. 10,000.

Show important ledger accounts in the books of *Ursh Ltd.* and open the books of *J Ltd.* by means of journal entries and give the initial Balance Sheet of *J Ltd.* Expenses of *L Ltd.* came to Rs. 10,000.

Solution:

Calculation of purchase consideration:-

Allotment to :	Number of	A mount	Total
	shares allotted	credited	Sum
		as paid	Rs.
12% Cumulative Preference Shareholders (50,000 X 2)	1,00,000	5	5,00,000
Equity Shareholders (1,50,000 X 1)	1,50,000	5	7,50,000
10% Debentureholders	30,000	10	3,00,000
Total	2,80,000		15,50,000
Balance of shares to be subscribed by Direcotrs in cash	45,000		4,50,000

BOOKS OF Ursh LTD.

Realisation Account

	Rs.		Rs.
To Goodwill	4,00,000	By Creditors	2,00,000
To Plant and Machinery	7,00,000	By /Ltd. (Purchase	
To Furniture and Fixtures	2,00,000	Consideration)	15,50,000
To Patents	1,50,000	By Bank (Sale	10,000
To Stock	4,90,000	proceeds of patents)	
To Debtors	2,55,000	By Equity Share =	
To Bank	5,000	holders Account (Loss)	4,50,000
To Bank (Realisation expenses)	10,000		
	22,10,000		22,10,000
Dr. J Ltd. Cr.			
	Rs.		Rs.
To Realisation Account	15,50,000	By Equity Shares in /Ltd. (Rs. 5 paid up)	12,50,000
		By Equity Shares in J Ltd. (fully paid up)	3,00,000
	15,50,000		15,50,000

Equity Shares in J Ltd. (Rs. 5 paid up)

	Rs.			Rs.
Toy. Ltd.	12,50,000		By 12% Cumulative Preference	
			Shareholders Account	5,00,000
			By Equity Shareholders Account	7,50,000
	12,50,000			12,50,000

Equity Shares in J Ltd. (fully paid up)

	Rs.			Rs.
To J Ltd.	3,00,000		By 10% Debentureholders Account	3,00,000

12% Cumulative Preference Shareholders Account

	Rs.			Rs.
To Equity Shares in J Ltd. (Rs. 5 paid up)	5,00,000		By 12 % Cumulative Preference Share Capital Account	5,00,000

10% Debentureholders Account

	Rs.			Rs.
To Equity Shares in/Ltd. (fully paid up)	3,00,000		By 10% Debentures Account	3,00,000

Cash Book (Bank Columns)

	Rs.			Rs.
To balance b/fd	5,000		By Realisation Account (transfer)	5,000
To Realisation Account (patents) 10,000			By Realisation Account (expenses)	10,000

Equity Shareholders Account

	Rs.		Rs.
To Preliminary Expenses	8,000	By Equity Share Capital Account	15,00,000
To Discount on Issue of Shares	12,000		
To Profit and Loss Account	2,80,000		
To Realisation Account (loss)	4,50,000		
To Equity Shares in <i>J</i> Ltd.			
(Rs. 5 paid up)	7,50,000		
	15,00,000		15,00,000

BOOKS OF J LTD.

Journal

			Dr.	Cr.
			Rs.	Rs.
1989				
Mar.	31	Business Purchase Account Dr. To Liquidator of //Ltd. Sum payable to 1 liquidator of <i>Ursh Ltd.</i> for the business purchased.	15,50,000	15,50,000
"	"	Plant and Machinery Dr.	4,10,000	
		Furniture and Fixtures Dr.	2,00,000	
		Stock Dr.	4,30,000	
		Debtors Dr.	2,55,000	
		Bank Dr.	5,000	
		Goodwill Dr.	4,50,000	
		To Golddry Creditors		2,00,000
		To Business Purchase Account		15,50,000
		Incorporation of assets and liabilities taken over from <i>Ursh Ltd.</i>		
"	"	Liquidator of //Ltd. Dr.	15,50,000	
		To Equity Share Capital Account (Rs. 5 paid up)		12,50,000
		To Equity Share Capital Account (fully paid up)		3,00,000
		Allotment of 2,50,000 equity shares of Rs. 10 each, Rs. 5 paid up and 30,000 equity shares of Rs. 10 each, fully paid up at par to satisfy purchase consideration.		
"	"	Bank Account Dr.	4,50,000	
		To Equity Share Capital Account		4,50,000
		Allotment of 45,000 equity shares of Rs. 10 each, fully paid up to directors for cash.		

Balance Sheet of J Ltd. as at 31st March, 1987

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Share Capital		Fixed Assets	
Authorised, Issued and Subscribed		Goodwill	4,50,000
2,50,000 equity shares of		Plant and Machinery	4,10,000
Rx. 10 each, Rs. 5 paid up	12,50,000	Furniture and Fixtures	2,00,000
75,000 equity shares		Current Assets, Loan's and Advances	
of Rs. 10 each, fully paid up	7,50,000	(A) Current Assets	
(Of the above Shares, 2,80,000		Stock	4,30,000
shares have been allotted		Debtors	2,55,000
as fully paid up pursuant to		Cash at Bank	4,55,000
a contract without payments		(B) Loans and Ad	Nil
being received in cash)			
Current Liabilities and Provisions			
(A) Current-Liabilities			
Creditors	2,00,000		
(B) Provisions	Nil		
	22,00,000		22,00,000

14. The United Mills Limited took over the business of the Bharat hosiery Ltd. with effect from 31st October, 1987. The following was the balance sheet of the Bharat hosiery Ltd. as at that date:

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
12,000 Shares of Rs. 50 each.	6,00,000	Land and Buildings	1,80,000
Fully paid up		Plant and Machinery	1,00,000
Reserve	1,20,000	Furniture	25,000
Profit and Loss Account	65,000	Stock	2,50,000
Creditors	75,000	Debtors	2,90,000
		Less Provision for Bad debts	10,000
		Cash at Bank	25,000
	8,60,000		8,60,000

The purchasers took over all the assets and liabilities of the vendor body

corporate except a sum of Rs. 10,000 to provide for the cost of liquidation and payment to dissentient shareholders, if any. The purchase price was discharged by the allotment to the shareholders of the vendor body corporate of one share of Rs. 100 (Rs. 90 paid up) of the United Mill Ltd. for every two shares in the Bharat hosiery Ltd. The expenses of liquidation summed to Rs. 6,000. Dissentient shareholders of 100 shares were paid at Rs. 70 per share.

Pass the necessary journal entries in the books of the respective corporates to give effect to the above transactions and show Realisation Account and Equity Shareholders' Account in Bharat hosiery Ltd.'s ledger.

Solution :

Calculation of purchase consideration :-

Shares :

11,900 x $\frac{1}{2}$ x Rs. 90
5,35,500

[One share to be allotted in United Mill Ltd. of
Rs. 100 (Rs. 90 paid up) for every two shares held in
Bharat hosiery Ltd. to willing shareholders]

Books of Bharat Hosiery Ltd.

Journal

1989 Oct.	31	Realisation Account Dr.	Rs. 8,60,000	Rs.
		To Land and Buildings		1,80,000
		To Plant and Machinery		1,25,000
		To Stock		2,50,000
		To Debtors		2,90,000
		To Cash at Bank		15,000
		Transfer of all the assets except a sum of Rs. 10,000 to provide for cost of liquidation and payment to any dissentient shareholder to Realisation Account due to sale of the business to United Mill Ltd. as per agreement.		
"	"	Creditors Dr.	75,000	
		Provision for Bad Debts Dr.	10,000	
		To Realisation Account		85,000
		Transfer of Creditors and Provision for Bad Debts to Realisation Account as the same are taken over by United Mills as per agreement.		
"	"	United Mill Ltd. Dr.	5,35,500	
		To Realisation Account		5,35,500
		Purchase consideration receivable from United Mill Ltd.		
"	"	Shares in United Mill Ltd. Dr.	5,35,500	
		To United Mill Ltd.		5,35,500
		Receipt of 5,950 equity shares of Rs. 100 each (Rs. 90 paid up) in United Mill Ltd. in satisfaction of purchase consideration.		
"	"	Realisation Account Dr.	6,000	
		To Bank Account		6,000
		Payment of liquidation expenses.		
"	"	Share Capital Account Dr.	5,000	

		Realisation Account Dr.	2,000	
		To Dissentient Shareholders Account		7,000
		Sum payable to dissentient shareholders @ Rs. 70 per share for 100 shares, the loss on payment Rs. 2,000 being debited to Realisation Account.		
1989 Oct. 31		Dissentient Shareholders Account Dr.	Rs. 7,000	Rs.
		To Bank Account Payment to dissentient shareholder.		7,000
"	"	Realisation Account Dr.	2,44,500	
		To Golddry Shareholders Account Transfer of loss on realisation to Shareholders Account.		2,44,500
"	"	Share Capital Account Dr.	5,95,000	
		Reserves Dr.	1,20,000	
		Profit and Loss Account Dr.	65,000	
		To Shareholders Account		7,80,000
		Transfer of balance of Share Capital, Reserves and Profit and Loss Account to Shareholders Account.		
"	"	Shareholders Account Dr.	5,35,500	
		To Shares in United Mill Ltd.		5,35,500
		Distribution of 5,950 shares of Rs. 100 (Rs. 90 paid up) among the equity shareholders to satisfy their final claim on liquidation of the body corporate.		

Books of United Mill Ltd.

Journal

				Dr.	Cr.
				Rs.	Rs.
1989					
Oct	31	Business Purchase Account	Dr.	5,35,500	
		To Liquidator of Bharat hosiery Ltd.			5,35,500
		The purchase of business of Bharat hosiery Ltd. as per agreement dated			
"	"	Land and Buildings	Dr.	1,80,000	
		Plant and Machinery	Dr.	1,25,000	
		Stock	Dr.	2,50,000	
		Debtors	Dr.	2,90,000	
		Cash at Bank	Dr.	15,000	
		To Creditors			75,000
		To Provision for Bad Debts			10,000
		To Business Purchase Account			5,35,500
		To Capital Reserve			239,500
		The various assets and liabilities acquired from Bharat hosiery Ltd., Capital Reserve being the difference.			
"	"	Liquidator of Bharat hosiery Ltd.	Dr.	5,35,500	
		To Share Capital Account			5,35,500
		The allotment of 5,950 shares of Rs. 100 each (Rs. 90 paid up) in satisfaction of purchase consideration.			

15. The following are the Balance Sheets of A Ltd. and B Ltd. as on 31st March, 1987 :

	<i>A Ltd.</i>	<i>B Ltd.</i>	<i>A Ltd.</i>	<i>B Ltd.</i>
	(Rs.)	(Rs.)	(Rs.)	(Rs.)
Share Capital —		Goodwill	20,000	—
5,000 Shares of Rs. 100 each		Other Fixed Assets	8,30,000	16,00,000
	5,00,000	Investments	1,70,000	—
80,000 Shares of Rs. 10 each		Current Assets	6,90,000	16,80,000
	—	8,00,000		
Capital Reserve	1,00,000	—		
General Reserve	3,60,000	10,00,000		
Secured Loans	—	4,00,000		
Unsecured Loans	2,20,000	—		
Creditors	4,20,000	4,60,000		
Provision for tax	1,10,000	5,20,000		
Proposed Dividend	—	1,00,000		
	17,10,000	32,80,000	17,10,000	32,80,000

A Ltd. was absorbed by B Ltd. with effect from 31st March, 1987.

For the purposes of absorption, the Goodwill of A Ltd. was considered valueless. A Ltd. had arrears of depreciation suming to Rs. 40,000.

The shareholders of A Ltd. are allotted, in full satisfaction of their claims, shares in B Ltd. in the same proportion as the respective intrinsic value of the shares of the two corporates bear to each other.

Close the books of A Ltd. by preparing the necessary ledger accounts and pass journal entries in the books of B Ltd. regarding absorption of A Ltd.'s business.

Solution:

<i>Intrinsic values of shares :</i>	<i>A Ltd.</i>	<i>B Ltd.</i>
Fixed Assets	7,90,000	16,00,000
Investments	1,70,000	—
Current Assets	6,90,000	16,80,000
	16,50,000	32,80,000
<i>Less Liabilities</i>		
Secured Loans	—	4,00,000

Unsecured Loans	2,20,000		—	
Creditors	4,20,000		4,60,000	
Provision for Tax	1,10,000		5,20,000	
Proposed Dividend	—	7,50,000	1,00,000	14,80,000
Total Intrinsic values		9,00,000		18,00,000
Value of one share	<u>9,00,000</u> 5,000	= Rs. 180	<u>18,00,000</u> 80,000	=Rs. 22.50

BOOKS OF A LTD.

Realisation Account

	Rs.		Rs.
To Goodwill	20,000	By Unsecured Loans	2,20,000
To Other Fixed Assets	8,30,000	By Creditors	4,20,000
To Investments	1,70,000	By Provision for Tax	1,10,000
To Current Assets	6,90,000	By B Ltd. (Purchase Consideration)	9,00,000
		By Golddry Shareholders Account	
		— Loss	60,000
	17,10,000		17,10,000

B Ltd.

	Rs.		Rs.
To Realisation Account	9,00,000	By Shares in B Ltd.	9,00,000

Shares in B Ltd.

	Rs.		Rs.
To B Ltd.	9,00,000	By Golddry Shareholders Account	9,00,000

Golddry Shareholders Account

	Rs.		Rs.
To Realisation Account	60,000	By Share Capital Account	5,00,000
— Loss			
To Shares in B Ltd.	8,00,000	By Capital Reserve	1,00,000
		By General Reserve	3,60,000
	8,60,000		8,60,000

BOOKS OF B LTD.

Journal

	Dr.	Cr
	Rs.	Rs.
Business Purchase Account	Dr. 9,00,000	
To Liquidator of A Ltd.		9,00,000
Sum payable to liquidator of A Ltd. for the business purchased.		
Fixed Assets	Dr. 7,90,000	
Investments	Dr. 1,76,000	
Current Assets	Dr. 6,90,000	
To Unsecured Loans		2,20,000
To Creditors		4,20,000
To Provision for Tax		1,10,000
To Business Purchase Account		9,00,000
Incorporation of assets and liabilities taken from A Ltd.		
Liquidator of A Ltd.	Dr. 9,00,000	
To Share Capital Account		4,00,000
To Share Premium Account		5,00,000
Allotment of 40,000 shares of Rs. 10 each at a premium of Rs. 12.50 per share in discharge of purchase consideration.		

7.6 Practical Exercise

1. On 31st March, 1989 the balance sheet of X Ltd. stood as follows :—

Liabilities	Rs.	Assets	Rs.
Share Capital :		Plant and Machinery	5,00,000
75,000 Equity Shares of Rs. 10 each, fully paid		Furniture and Fixtures	80,000
	7,50,000	Stock	4,55,000
General Reserve	3,25,000	Debtors	1,02,000
Profit & Loss Account	85,000	Cash at Bank	1,83,000
Creditors	1,60,000		
	13,20,000		13,20,000

On this date, X Ltd. took over the business of Y Ltd. for Rs. 5,00,000 payable in the form of its equity shares of Rs. 10 each at par, the balance sheet of Y Ltd. being as follows :

Liabilities	Rs.	Assets	Rs.
Share Capital :		Furniture and Fillings	60,000
60,000 Equity Shares of Rs. 10 each, fully paid		Stock	4,35,000
	6,00,000	Debtors	1,15,000
Creditors	1,40,000	Cash at Bank	20,000
		Profit and Loss Account	1,10,000
	7,40,000		7,40,000

You are required to :

- pass journal entries and prepare important ledger accounts in the books of Y Ltd.;
- show journal entries for the purchase of business in the books of X Ltd. and draw X Ltd.'s balance sheet immediately after the absorption.

1 Balance Sheets as on 31st March, 2003 of Manu Ltd. and Pravin Ltd. were as under :

Balance sheet of Manu Ltd.

Liabilities	Rs.	Assets	
Share Capital		Land and Building	3,50,000
10000 Equity Share of		Machinery	7,00,000
Rs. 100 each	10,00,000	Furniture	50,000
General Reserve	3,00,000	Patents	75,000
Workmen's compensation fund	50,000	Stock	1,50,000
Profit and Loss A/c	65,000	Debtors	50,000
Creditors	65,000	Bills receivable	15,000
Bills payable	11,000	Bank	1,01,000
	14,91,000		14,91,000

Balance Sheet of Pravin Ltd.			
Liabilities	Rs.	Assets	Rs.
Shares Capital :		Goodwill	35,000
2,000 Equity shares of		Land and Building	1,00,000
Rs. 100 each	2,00,000	Vehicles	15,000
profit and loss A/c	26 000	Patents	5,000
Creditors	15,600	Stock	32,000
		Debtors	31,000
		Bank	23,600
	2,41,600		2,41,600

Directors of both the corporates decided that :

- (1) Both the corporates should be wound up and a new body corporate Anand Ltd. be formed to acquire the assets and liabilities of both the corporates.
- (2) Authorised share capital of Anand Ltd., be fixed at Rs. 12,00,000 divided into 12,000 Equity shares of Rs. 100 each.
- (3) Manu Ltd. to be paid Rs. 14,00,000 as purchase consideration. 8,860 Equity shares of Rs. 100 value to be treated at Rs. 150 per share and balance purchase consideration in cash.
- (4) Pravin Ltd. to be paid Rs. 1,85,000 as purchase consideration. 1,140 Equity shares of Rs. 100 value to be treated at Rs. 150 per share and balance purchase consideration in cash.
- (5) Manu Ltd. and Pravin Ltd. shall retain cash with Bank.
- (6) Anand Ltd. issued remaining Equity shares at Rs. 150 per share and were fully paid.
- (7) The liquidation expenses of Manu Ltd. and Pravin Ltd. summed to Rs. 6,000 and Rs. 3,000 respectively.

Prepare : (a) In the books of Manu Ltd. :

(i) Realisation A/c (ii.) Share-holders A/c (iii) Bank A/c,

(b) In the books of Anand Ltd. :

(i) Pass necessary journal entries (ii) Initial Balance according to the Companies Act, 1956 after taking over the business of both the corporates.

2. With a view to minimise the running cost, two corporates carrying on similar business decided to amalgamate as from 1-4-2003. Their Balance Sheets on the date of amalgamation were as under

ParaNiki Ltd. Balance Sheet as on 1-4-2003

Liabilities	Rs.	Assets	Rs.
Share Capital :		Cash and Bank	18,100
2,000 Shares of Rs. 100		Goodwill	13,700
each Rs. 80 paid on each	1,60,000	Debtors	8,400
Debentures	29,000	Stock	27,800
Creditors	10,000	Plant & Machinery	50,000
Bills Payable	5,000	Motor-car	20,000
Profit & Loss A/c	24,000	Land & Building	70,000
Reserve Fund	3,000	Patents	15,000
		Bills Receivable	8,000
	2,31,000		2,31,000

Mani Ltd. Balance Sheet as on 1-4-2003

Liabilities	Rs.	Assets	Rs.
Share Capital :		Cash and Bank	19,300
3,000 shares of Rs. 100		Debtors	13,700
each Rs. 40 paid up on		Bills Receivable	14,000
each share	1,20,000	Stock	40,000
Debentures	40,000	Land & Building	67,000
Creditors	32,000	Plant & Machinery	42,000
Bills Payable	14,100	Profit & Loss A/c	10,100
	2,06,100		2,06,100

The capital of the combined body corporate was Rs. 4,00,000 divided into 4,000 shares of Rs. 100 each. The conditions of the amalgamation were as under :

In the case of ParaNiki Ltd., the Goodwill was to be valued at the figure equal to twice the average profits of last 3 years and not at the book value. The profits for the last 3 years were Rs. 20,400; Rs. 21,400 and Rs. 26,000. Plant & Machinery and Motor-car were to be depreciated by Rs. 15,500 and Rs. 2,500 respectively. Patents were to be written down by 50%. Stock was to be valued at Rs. 34,800.

In the case of Mani Ltd., Land & Building were to be valued at Rs. 85,000 and. Plant & Machinery at Rs. 40,000. No sum was to be given by way of Goodwill.

The consideration paid in the case of ParaNiki Ltd. was in fully paid shares , of the body corporate but for the sum due in the case of Mani Ltd., it. was 1,200 fully paid shares and the balance in cash.

Write the Balance Sheet of the new body corporate after the completion of amalgamation work giving also the journal entries taking into consideration that the remaining share were issued to the public at a premium of Rs. 5 per share and that all the calls were duly received.

State what Mr. A. D. Sharma who holds 10 Shares in the ParaNiki Ltd. and 20 in the Mani Ltd. will get by way of of consideration.

3. The following is the balance sheet of A Ltd. as on March 31, 1989 :—

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Equity Share Capital -	10,00,000	Goodwill	1,90,000
General Reserve	1,10,000	Land and Buildings	2,00,000
Workmen's Accident Compensation		Plant and Machinery	4,40,000
Reserve	55,000	Patents and Trade Marks	30,000
Profit and Loss Account	70,000	Stock	2,15,000
Golddry Creditors	1,60,000	Golddry Debtors	1,80,000
		Less Provision for Bad Debts	12,000
			1,68,000
		Cash at Bank	1,32,000
		Preliminary Expenses	20,000
	13,95,000		13,95,000

The body corporate is acquired by X Ltd. which pays Rs. 14,00,000 in all—Rs. 12,00,000 in fully paid Rs. 10 shares and the balance in cash. There was a contingent liability in respect of a claim for compensation under the Workmen's Compensation Act. The claim was not taken over by X Ltd. and A Ltd. had to pay ultimately a sum of Rs. 20,000 against the claim. The balance sheet of XLtd. on 31st March, 1989 was as follows :-

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Share Capital :		Goodwill	2,20,000
2,00,000 Equity Shares of Rs. 10 each	20,00,000	Land and Buildings	6,00,000
General Reserve	2,00,000	Plant & Machinery	8,00,000
Profit and Loss Account	1,00,000	Stock	5,00,000
13% Debentures	3,50,000	Golddry Debtors	3,05,000
Golddry Creditors	2,15,000	Cash at Bank	4,40,000
	28,65,000		28,65,000

The expenses of liquidation of A Ltd. came to Rs. 20,000. Draft journal entries to close the books of A Ltd. and show the important ledger accounts. Give

journal entries in the books of X Ltd. and redraft X Ltd.'s balance sheet after the absorption is completed

4. Riya Limited and Priya Limited decided to amalgamate on 31-3-2003 when their balance sheets were as under:

Balance Sheet of Riya Limited

	Rs.		Rs.
Share Capital :		Goodwill	23,000
2500 shares of Rs. 100		Bank	22,000
each fully paid	2,50,000	Land & Building	1,48,000
Creditors	44,000	Debtors	23,000
	32,800	Investments	55,000
Debentures	50,000	Plant & Machinery	87,000
Workmen's Profit-sharing Fund	16,300	Fixtures & Fittings	35,100
	3,93,100		3,93,100
Balance Sheet of Priya Limited			
	Rs.		Ks.
		Patents	20,700
		Bank	28,000
	1 25 000	Debtors	27,000
Creditors	58,000	Plant & Machinery	70,000
		Land & Building	45,000
Fund	22,100	Profit & Loss Account	14,400
	2,05,100		2,05,100

A new body corporate called Supriya Limited was to be formed with a share capital of Rs. 4,00,000 divided into 8,000 shares of Rs. 50 each. In addition, 12% Debentures of Rs. 100 each were issued for Rs. 1,00,000. The terms and conditions settled were as under :

For valuation of assets of Riya Limited, Goodwill was to be taken at Rs. 20,300 but Land & Building and Investment were to be valued at a premium of 40% and 10% respectively. Plant & Machinery on which depreciation was not written off was to be taken at 60% of the book value. Debenture-holders were given debentures of equal value of the Supriya Ltd. The Workmen's profit-sharing fund is to be distributed before amalgamation. The Share-holders are to be given 2 shares in the new body corporate for 1 share of the old and the balance by cheques.

In Priya Limited Patents, Land & Building are to be valued at a premium of 50% and 40% respectively, but Plant & Machinery are to be priced at Rs.

63,450. The shareholders are to be given 1 share for 1 share held in the old body corporate and the balance by cheques.

The remaining shares were issued at a premium of Rs. 5 per share and were paid for in full. The remaining debentures were issued at par.

Write the Balance Sheet and Bank Account of the new body corporate and Realisation Accounts of the old corporates. State what a shareholder holding 15 shares in each of the corporates will get for his holdings.

5. White Ltd. agreed to acquire the business of Green Ltd. as on March 31, 1989. Summarized balance sheet of Green Ltd. at that date was as follows :—

	Rs.		Rs.
Share Capital in fully paid equity			
shares of Rs. 10 each	6,00,000	Goodwill	1,00,000
General Reserve	1,70,000	Land and Buildings	2,35,000
Profit and Loss Account	1,10,000	Plant and Machinery	4,10,000
12% Debentures	1,00,000	Stock in Trade	1,68,000
Creditors	25,000	Debtors	46,000
		Cash at Bank	46,000
	10,05,000		10,05,000

The consideration payable by White Ltd, was agreed as follows :—

- (1) A cash payment equivalent to Rs. 2.50 for every Rs. 10 share in Green Ltd.
- (2) The issue of 90,000 Rs. 10 equity shares, fully paid in White Ltd. having an agreed value of Rs. 15 per share.
- (3) The issue of such an sum of fully paid 14% Debentures of White Ltd. at 96 per cent as is sufficient to discharge the 12% Debentures of Green Ltd. at a premium of 20%.

When computing the agreed consideration, the directors of White Ltd. valued the following assets at values noted

6. The following are the Balance Sheets of two corporates Sagar Ltd. and Sarita. Ltd. on 31-3-2003.

Sagar Limited

Liabilities	Rs.	Assets	Rs.
Share Capital :			1 20 000
50,000 Equity Shares of		Building	2,15,000
Rs. 10 each	5,00,000	Stock	1,50,000
6% Debentures	70,000	Golddry Debtors 1 ,00,000	
Bank Overdraft	10,000	-Bad Debts Reserve 5,000	95,000
Golddry Creditors	1,20,000	Profit & Loss A/c	1 50 000
Bills Payable	30,000		
	7,30,000		7,30,000
Liabilities	Rs.	Assets	Rs.
Share Capital : 1 ,50,000 Shares		Goodwill	1,00,000
of Rs. 10 each 15,00,000		Machineries	3 50 000
Add : Forfeited shares	15,02,000	Building	4,50,000
2,000 Profit & Loss A/c	1,00,000	Stock	6,82,000
Dividend Equalization Fund	60,000	Furniture	1,00,000
Reserve Fund	1,00,000	Debtors	3,50,000
7% Debentures	3,60,000	Bank Balance	1,56,000
Golddry Creditors	60,000		
Bills Payable	6,000		
	21,88,000		21,88,000

The two corporates decided to amalgamate as on 1st April, 2003 and a new body corporate called Sangam Ltd. was formed with an authorised capital of Rs. 30,00,000 in shares of Rs. 10 each.

New body corporate took over all assets and liabilities of Sagar Ltd. and Sarita Ltd. at their book values and the following terms for purchase of business were agreed upon :

Sagar Co. Ltd. :

- (1) The consideration was 3 shares of Rs. 10 each fully paid in the new body corporate in exchange for every 5 shares in Sagar Ltd. .
- (2) The debentureholders of Sagar Ltd. were to be allotted, such ' . debentures in the new body corporate bearing interest at 5% as would bring them the same sum of interest.
- (3) Rs. 2,000 to be paid in cash.

Sarita Co, Ltd. :

- (1) The consideration was 6 shares of Rs. 10 each fully paid in the new body corporate in exchange for every 5 shares in Sarita Ltd.
- (2) The debentureholders of Sarita Ltd. were to be allotted such debentures in the new body corporate bearing interest at 5% as would bring them the same sum of interest.
- (3) Rs. 6 in cash for every 5 Shares in Sarita Ltd.

Costs of liquidation of Sagar Ltd. Rs.1,200 and Rs. 1,000 for Sarita Ltd. are to be paid by the new co.

Sangam Ltd. issued the remaining shares to the public at a premium of Re. 1 per share, which were fully paid.

You are required to write journal entries in the books of the new body corporate and prepare its initial balance sheet. Also prepare necessary accounts in the books of Sarita Ltd.

7. The following is the Balance Sheet of Niki Ltd. as at March 31, 1989 :—

Liabilities	Rs.	Assets	Rs
65,000 Equity Shares of Rs. 10 each	6,50,000	Furniture and Fittings	85,000
2,000 12% Preference Shares of		Stock	7,20,000
Rs. 100 each	2,00,000	Debtors	1,07,000
10% Debentures	1,50,000	Expenses of Issue of Debentures	7,500
Bank Overdraft	5,000	Profit and Loss Account	3,11,500
Creditors	2,26,000		
Preference Dividend in Arrears			
for 3 years			
	12,31,000		12,31,000

P Ltd. takes over the body corporate on the terms that it would :

- (i) take Furniture and Fittings after depreciating the same by 10%, Stock at Rs. 6,86,850 and Debtors subject to a Provision for Bad Debts @ 5%.
- (ii) take 10% Debentures.
- (iii) discharge the purchase consideration by allotment of 20,000 equity shares of Rs. 10 each at an agreed value of Rs. 12 each to S Ltd. and by the payment of the balance in cash
- (iv) bear the expenses of liquidation which came to be Rs. 9,000.

Preference shareholders of Niki Ltd. agreed to accept Rs. 1,80,000 in full settlement of their total claim. Close the books of Niki Ltd. and pass journal entries in the books of P Ltd.

8. Jay Ltd and Ishwar Ltd. decided to amalgamate their business and to form a new Co., named Jyoshwar Ltd.

Jay Ltd.: The assets & liabilities of Jay Ltd. are to be taken over at book value for every four shares of Jay Ltd., five shares of Rs. 100 each of Jyoshwar Ltd. are to be issued at a premium of 10%.

Ishwar Ltd.: (1) The debenture holders of Ishwar Ltd. would be paid off by the issue of an equal number of debentures of Rs. 100 each of Jyoshwar Ltd.

- (2) The preference shareholders of Ishwar Ltd. will be allotted four 5% preference shares of Rs. 100 each of Jyoshwar Ltd., for every five preference shares held.
- (3) The equity shareholders would be allotted sufficient shares of Rs. 10 each of Jyoshwar Ltd. to cover the balance on their accounts after reducing the value of plant & machinery by 10% and providing 10% bad debts reserve on gold dry debtors.

The Balance sheet on the date of amalgamation.

Liabilities	Jay Rs.	Ishwar Rs.	Assets	Jay Rs.	Ishwar Rs.
Equity shares of			Plant	8,00,000	8,00,000
10 each	8,00,000	5,00,000	Stock	1,20,000	60,000
Preference shares			Debtors	1,00,000	50,000
of 100 each	-	3,00,000	Cash	60,000	40,000
P-&L A/c	2,00,000	—	P & L A/c	—	1,40,000
General reserve	48,000	—			
4% Debentures	—	2,00,000			
Creditors	32,000	90,000			
	10,80,000	10,90,000		10,80,000	10,90,000

Prepare necessary accounts in the Ishwar Ltd. and pass the journal entries

in the books of new body corporate, Jyoshwar Ltd.

9. You are given the Balance Sheet of Brasmanand Ltd. as on 30-9-99 as under.

	Rs		Rs.
		Goodwill	1,75,000
Share Capital :		Land & Buildings	4,00,000
10,000 shares of Rs. 100 each	10,00,000	Plant & Machinery	8,25,000
Reserves	80000	Stock	2,50,000
Profit & Loss A/c	20,000	Debtors	3,50,000
6% Debentures	3,80,000	Bank Balance	1,80,000
Bank Overdraft	3,20,000	Discount on Debentures	35,000
Bills Payable	40,000		
Creditors	3,75,000		
	22,15,000		22,15,000

Parmanand Limited decided to take over the business of Brahmanand Ltd. on the following terms :

- (1) All assets except cash are to be taken over at book value less 10%.
- (2) Goodwill is to be valued at 4 years purchase of the excess of average profits of the last 5 years over 8% of the combined sum of share capital and reserves.
- (3) Creditors are to be taken over, subject to a discount of 8%.
- (4) The purchase consideration was to be discharged in cash to the extent of Rs. 8,00,000 and the balance in fully paid equity shares of Rs. 10 each valued at Rs. 12-50 each.

The average profits of the last 5 years was Rs. 1,51,400. Cost of liquidation summed to Rs. 20,000. Stock of Brahmanand Ltd. involved goods valued at Rs. 1,25,000 purchased from Parmanand Limited. The latter had made a profit of Rs. 5,000 on these goods. Creditors of Brahmanand Limited include Rs. 50,000 still due to Parmanand Limited. All bills payable of Brahmanand are drawn by Parmanand Limited and all bill are in the hands of the latter.

Show the necessary journal entries in the books of both the corporates.

10. Balance Sheet of A Ltd. as at 31st March, 1989

Liabilities	Rs.	Assets	Rs.
60,000 Equity Shares of Rs. 10 each	6,00,000	Freehold Premises	2,20,000
Profit Prior to Incorporation	21,000	Machinery	1,77,000
Contingency Reserve	1,35,000	Furniture and Fittings	90,800
Profit & Loss Appropriation Account	1,26,000	Stock	3,87,400
Acceptances	20,000	Golddry Debtors 80,000	
Creditors	1,13,000	Less Provision for Doubtful Debts 4,000	76,000
Provision for Revenue Tax	1,15,000	Cash in hand	2,300
		Cash at Bank	1,56,500
		Bills Receivable	20,000
	11,30,000		11,30,000

A Ltd. was wound up as at the date of the above noted balance sheet B Ltd. took over the following assets at values noted against them.—

	Rs.
Freehold Premises	4,00,000
Machinery	1,80,000
Furniture and Fittings	80,000
Stock	3,45,000
Bills Receivable	15,000

One-fourth of the purchase consideration was satisfied by the allotment of fully paid preference shares of Rs. 100 each at par which carried 13% dividend on cumulative basis. The balance was paid in the form of B Ltd.'s equity shares of Rs. 10 each, Rs. 8 paid up.

Golddry Debtors realised Rs. 79,500. Acceptances were settled for Rs. 19,000. Revenue tax authorities fixed the taxation liability at Rs. 1,11,600. Creditors were finally settled with the cash remaining after meeting liquidation expenses summing to Rs. 4,000.

You are required to

- calculate the number of equity shares and preference shares to be allotted by B Ltd. in discharge of purchase consideration
- prepare the important ledger accounts in the books of A Ltd., and
- pass journal entries in the books of B Ltd.

11. Nishu Ltd. has agreed to acquire all the assets excluding investments and bank balance of Vinee Ltd. as at 31st March, 1989. The Balance Sheet of Vinee Ltd. as at that date is as below :

	Rs. (in lacs)		Rs. (in lacs)
Share Capital (Rs. 10)	160	Goodwill	50
General Reserve	25	Land and Buildings	80
P & L Account	18	Plant	80
12% Debentures	60	Investments	30
Golddry Creditors	37	Stock	40
Provision for Taxation	20	Debtors	20
		Bank	20

Nishu Ltd. will :

- discharge the Debentures at 8% premium by issue of 14% Debentures in Nishu Ltd. at 11% discount,
- issue 3 shares of Nishu Ltd. at a valuation of Rs. 11 for 2 shares of Vinee Ltd.
- pay Rs. 2 in cash for each share of Vinee Ltd.
- pay absorption expenses of Rs. 3,10,000.

Vinee Ltd. sells investments for Rs. 32 lacs. One-third of the shares received from Nishu Ltd. are sold at Rs. 10.50 each, Tax liability was determined at Rs. 24 lacs. Before transfer, Vinee Ltd. declares and pays 10% dividend. Vinee Ltd. is then dissolved. Nishu Ltd. values land and buildings at Rs. 100 lacs, plant at 10% below book value, stock at Rs. 35 lacs and debtors subject to 10% provision.

Show (a) ledger accounts in the books of Vinee Ltd. (b) journal entries in the books of Nishu Ltd.

12. The following are the Balance Sheets of A Ltd. and B Ltd. as on 31st March, 1988 :

	<i>A Ltd.</i>	<i>BLtd.</i>		A Ltd.	BLtd.
	(Rs.)	(Rs.)		(Rs.)	(Rs.)
Share Capital —			Goodwill	20,000	—
5,000 Shares of Rs. 100			Other Fixed Assets	8,30,000	16,00,000
each	5,00,000	—	Investments	1,70,000	—
80,000 Shares of 'Rs. 10			Current Assets	6,95,000	16,80,000
each	—	8,00,000			
Capital Reserve	1,00,000	—			
General Reserve	3,60,000	10,00,000			
Secured Loans	—	4,00,000			
Unsecured Loans	2,20,000	—			
Creditors	4,20,000	4,60,000			
Provision for tax	1,15,000	5,20,000			
Proposed Dividend	—	1,00,000			
	17,15,000	32,80,000		17,15,000	32,80,000

A Ltd. was absorbed by B Ltd. with effect from 31st March's 1988.

For the purposes of absorption, the Goodwill of A Ltd. was considered valueless. A Ltd. had arrears of depreciation summing to Rs. 50,000.

The shareholders of A Ltd. are allotted, in full satisfaction of their claims, shares in B Ltd. in the same proportion as the the respective intrinsic value of the shares of the two corporates bear to each other.

Close the books of A Ltd. by preparing the necessary ledger accounts and pass journal entries in the books of B Ltd. regarding absorption of A Ltd.'s business.

13. A Ltd. agreed to acquire the business of B Ltd. as on 31st March, 1989. On that date balance sheet of B Ltd. was summarised as follows :

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Share Capital (fully, paid shares of			
Rs. 10 each)	3,00,000	Goodwill	50,000
General Reserve	85,000	Land, Buildings and Plant	3,20,000
Profit and Loss Account	55,000	Stock-in-trade	86,000
10% Debentures	50,000	Debtors	18,000
Creditors	12,000	Cash and Bank balances	28,000
	5,02,000		5,02,000

The debentureholders agreed to receive such 14% Debentures issued at 96 as would discharge the debentures in B Ltd. at a premium of 20%. The shareholders in B Ltd. were to receive Rs. 2.50 in cash per share and 3 shares in A Ltd. for every two shares held—the shares in A Ltd. being considered as worth Rs. 12.50 each.

There were fractions equaling 50 shares of A Ltd. for which cash was paid. The directors of A Ltd. considered the various assets to be valued as follows :-

	<i>Rs.</i>
Land	1,00,000
Buildings	2,50,000
Plant	3,50,000
Stock	80,000
Debtors	18,000

The cost of liquidation of B Ltd. ultimately was Rs. 5,000. Due to a technical hitch, the transaction could be completed only on 1st October, 1989. Till that date, B Ltd. carried on trading which resulted in a profit of Rs. 20,000 (subject to interest) after providing Rs. 15,000 as depreciation. On Oct. 1, 1989 Stock was Rs. 90,000; Debtors were Rs. 25,000 and Creditors were Rs. 15,000. There was no addition to or sale of fixed assets. It was agreed that the profit should belong to A Ltd.

You are required, as on Oct. 1, 1989, to :

- (i) prepare Realisation Account and the Shareholders Account in the ledger of B Ltd., and (ii) give journal entries in the books of A Ltd.

Unit : 8 : Recent Trends in Preparation and Presentation in Financial Statements

Introduction

The ultimate aim for preparing various types of financial and accounting statements is to provide most relevant information to readers as clearly as possible. With the use of such wide variety of information the investors and other people can take informed decisions. An important feature of development of accounting system is that maximum information is given in annual accounts and statements to those for whom they are prepared. The body corporates publish Annual Accounts or Financial Statements. Now a days, Related additional information is given to make them more informative and understandable in a better way. Every year every joint stock body corporate prepares annual report containing annual accounts or financial statements according to law. Most of the body corporates get it systematically printed and published. In addition to giving information prescribed by law it provides, some more information to its shareholders. This trend of giving more information is developed in recent times.

Structure of the chapter:

8.1 Objectives:

8.2 Recent Trends In Presentation Of Financial Statements : Basic Understanding

8.3 Exercise:

8.1 Objectives:

By the end of this chapter, the student will learn about

- ❑ Basic understanding of changes in presentation of information in financial statements
- ❑ Different techniques of presenting information to the shareholders

8.2 Recent Trends In Presentation Of Financial Statements : Basic Understanding

With the objective of providing more and more information's to the users, preparation and presentations of financial statements have changed drastically. Traditionally, two statements profit and loss accounts and balance sheets becomes the part of financial statements. But, in recent times wide variety of information is also provided to the users. In recent times, annual reports of a body corporate can be considered an effective weapon in publicity of a body corporate's activities. Therefore annual reports are prepared with greatest care. Advertising agencies or experts are consulted in this matter. Its general appearance must make a favourable impression about the body corporate on its readers. He must be inspired to read the complete report. Its attractive types, figures, statements, coloured pictures, photographs, graphs and charts attract the

readers.

Following recent trends are seen, in presentation of financial statements regarding published accounts of Indian body corporates.

1. Format, arrangement and get up.
2. Front Page or title page.
3. Index.
4. Names of directors or management team.
5. Financial summaries or highlights.
6. Notice of Annual General Meeting.
7. Directors' Report.
8. Corporate Governance Report
9. Management Analysis and Discussion
10. Chairman's Speech.
11. Auditors' Report. . .
12. Balance Sheet.
13. Profit and Loss Account.
14. Fund Flow Statement.
15. Cash Flow Statement.
16. Accounting Ratios.
17. Inflation Accounting.
18. Human Resource Accounting.
19. Value Added Statement.
20. Simple Presentation of Sums.
21. Pictures of Production Process, Products, Services and Important activities.
22. Progress Charts and Graphs.
23. Distribution of Revenue.
24. Particulars of Employees.
25. Statements and Accounts regarding Subsidiary Body corporates.
26. Notes on Accounts.
27. Accounting policies.
28. Balance sheet abstract and body corporate's general profile,
29. Shareholders' Information.
30. Distribution and categories of shares and shareholders.
31. Pictures of new products, prizes, shields, certificates received, achievements, Inauguration and celebration of special occasions.
32. Production, Selling and Distribution centres, Offices in the country.

1. Format, layout and get up

Now a days, body corporates are trying to make the annual reports in most attractive ways to attract the readers. For the purpose they use recent technologies in preparation and presentation of financial statements. Annual report is an important tool of a body corporate's advertisement. So it should be prepared very carefully and made attractive so that a reader's attention is immediately drawn. Annual reports of most body corporates are of size of a magazine. Of course, some body corporates present their reports in other sizes.

High quality of paper of many reports make them attractive.

Use of different types of colours also make the annual reports attractive. In addition to black ink, most body corporates use other coloured inks. Usually main matter is printed in black colour but charts, graphs, tables and other things are printed in fancy colours to draw attention of readers. Advances in printing technology make annual reports most fascinating when printed in different coloured inks. Many body corporates prepare title page most carefully and make them attractive. Some body corporates prefer a simple first page. All body corporates do not print same details on first page. Yet most body corporates give name of the body corporate, accounting year and figure of years for which it is being published.

2. Title page :

Title page means the first page of body corporates annual accounts. Many body corporates prepare title page most carefully and make them attractive. Most body corporates give name of the body corporate, accounting year and figure of years for which it is being published. The body corporates also put their symbols or monograms.

3. Index page

Most of body corporates at start give index of details inside the Report. Index page mainly includes the following information.

INDEX PAGE

- Board of Directors
 - Summarized Balance Sheet and Profit and Loss
 - Notice
 - Distribution and Sources, of Revenue
 - Highlights and Fund Flow Statement
 - Chairman's Statement
 - Financial Statistics
 - Directors' Report
 - Management Discussion and Analysis
 - Body corporate Governance Report
 - Auditor's Report
 - Balance Sheet .
 - Profit and Loss Account
 - Cash Flow Statement .
 - Schedule to Accounts
 - Significant Accounting Policies
 - Notes on Accounts
-
- Auditors' Report
 - Balance Sheet
 - Profit and Loss Account
 - Consolidated Cash Flow Statement
 - Schedules to Accounts
 - Significant Accounting Policies
 - Notes on Accounts

(4) Names of Directors or Management Team :

Body corporate form of business is run not by the owners but by duly appointed representatives. So, most of the body corporates on first or second inside page give names of directors, solicitors, names of bankers, details of head office, registered office, transfer agents and others.

(5) Financial Highlights:

In annual reports though the informations are given in depth but to draw attention of shareholders and public highlights of year's working or financial review are given along with financial statements as special tables or charts.

e.g. 10 year Highlights

(1) Directors Report:

According to section 217 of Companies Act, it lays down that along with balance sheet, directors used to attach their report giving details and explanations regarding various matters which mainly includes:

- (1) Financial Results of the body corporate
- (2) Appropriation of Profit to Reserves
- (3) Use of technology
- (4) Public appointments
- (5) Prospects for future

Sub Section (2AA) has been added to Sec. 217 by the Body corporates (Amendment) Act, 2000 as follows :

Sec. (2AA) The Board's -report shall also include a Directors' Responsibility Statement indicating therein

- (i) That in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating ,to material departures.
- (ii) That the directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the body corporate at the end of the financial year and of the profit or loss of the body corporate for that period.
- (iii) That the directors had taken proper and sufficient, care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Body corporate and for preventing and detecting fraud and other irregularities.
- (iv) That the directors had prepared the annual accounts on a going concern basis.

(8) Chairman's Statement:

Chairman's statements or speech is involved by most body corporates in their annual reports. Various activities of a body corporate are described in details

in chairman's statement. Companies future plans are also given in it.

(9) Auditor's Report:

Under Section 227(2) of Companies Act, the auditor of a body corporate has to make a report on balance sheet and profit and loss account, for shareholders. He must state whether he has obtained all information and explanations which to the best of his knowledge and belief were necessary for the purpose of audit. Whether the balance sheet and profit and loss account give a true and fair view of the companies position as on last day of the financial year.

Under powers obtained from Companies Act, the Central Government promulgated Company's (Auditor's Report) Order in 2003. The order states that certain matters must be mentioned in auditor's report for manufacturing and other specified body corporates.

(10) Balance Sheet:

Balance Sheet in its simple meaning, states that it is a sheet showing the balances standing at a particular date. In balance sheet, body corporate presents its balances standing at particular dates. In annual report usually first balance sheet and then profit and loss account are given. According to law, a body corporate has to present previous year's figures also in balance sheet and profit and loss account and related statements.

The format for presentation of balance sheet is given in Schedule VI to the Companies Act, 1956. In case of balance sheet, there are two main techniques. (1) Traditional way of T shaped horizontal balance sheet. (2) Vertical shaped balance sheet. All body corporates now present Vertical shaped balance sheet. It is presented in a summarized form. Other details are given in appendix.

(11) Profit and Loss Account:

Profit and loss account discloses the profits or losses of the period. A form of Balance Sheet has been given in Schedule VI of Companies Act 1956, but not of a profit and loss account. So body corporates present this statements in their own way. However the Part II of the Schedule VI describes the matters which are required to be included in the Balance sheets.. In India all body corporates present it vertically. Under headings of revenue, expenses and appropriations details are given.

(12) Fund Flow Statement:

Fund flow statement is prepared mainly to show various funds have been generated in the previous year and how it is applied. A Statement is prepared showing from where funds have arrived and how they were used. Very few body corporates attach such a statement with annual report.

(13) Cash Flow Statements :

It is compulsion on the part of every body corporate which is listed on a stock exchange or has a turnover above Rs. 50 Crores to present cash flow statements as per Accounting Standard – 3 issued by institute of chartered accountants of India as a primary financial statements.

(14) Accounting Ratios :

Most Indian body corporates like foreign body corporates give

information on important accounting ratios in annual reports. It becomes most useful to prospective investors, shareholders, creditors, debenture holders, finance corporations, government and others. A clear view of companies profitability, liquidity, efficiency etc. is obtained from them.

(15) Inflation Accounting :

Inflation means rise in the general price level. Inflation has become a definite feature of economy of every country. All agree that rupee itself which is the basis of accounting has not remained stable. Buying power of the body corporate is decreasing day by day. Prices are constantly rising. If we do not consider this while preparing accounts a strange situation will arise. The profit and loss account will show more than real profit. More taxes will be paid and higher dividend will be declared. To show changes in price level, a separate statement is prepared. They are not given in financial statements.

(16) Human Resource Accounting :

Employees of a body corporate are its valuable assets. It is advocated that their value should be presented in accounts. So, many body corporates provide information related with the key employees of the body corporate.

(17) Value Added Statement:

A value added statement provide information related with the from where the rupee is generated and where it is utilized during the year. Rupee may be generated from the transactions of sale and from other sources where as that may be used for distributing revenue to employees, government, providers of capital etc.

(18) Presentation of Sums :

According to Schedule VI, profit and loss account and balance sheet figures can be presented in rupees only, paise can be added if necessary. Not only that even the rupee sums are approximated to lakhs of rupees, omitting five zeros. Due to this most body corporates do not show paise in financial statements.

(19) Pictures of Production Process, Products or Services

In modern times most body corporates producing goods or giving services present coloured pictures of their factories, up to date machines, production process, products and services, production and fantastic achievement in sales. For the purpose, computer technologies are widely used. The reader gets good idea of companies activities.

(20) Progress Charts and Graphs :

Graphs and charts, are used for the better presentation of the information which is useful for the understanding even to the people who do not possess enough knowledge in the field. In addition to information required by law, most body corporates present important information in the form of charts or graphs.

(21) Distribution of Revenue :

These will be helpful to know how the revenue during the year is used for the purpose of distribution to various people. These show how the rupee (revenue) was spent. In percentage these show:

- (1) Purchases of goods and services,
- (2) Taxes paid to government
- (3) Dividend paid
- (4) Depreciation
- (5) Repairs and modernization
- (6) Interest
- (7) Salary paid to employees
- (8) Other expenses.

(22) Particulars of Employees :

Employees are the assets of the companies. As per Companies Act, Section 217 (2a) (b) (ii) in directors report names, qualifications, experience, details of past employment, date of joining service and total emoluments of some employees have to be given. (Only of those employees whose yearly salary-is Rs. 24 lacs or more or those who get Rs. 2,00,000 or more per month). Now all Indian body corporates give such details along with financial statements in annual reports.

(23) Statements and Accounts Regarding Subsidiary Body corporates :

Generally the holding body corporate, according to Section 212 of Companies Act, 1956, presents statements and information of accounts of its subsidiary body corporates alongwith financial statements. It has also to present directors' report, profit and loss account and balance sheet of subsidiary body corporate/ body corporates etc. as per section 212.

(24) Notes on Accounts or Notes on Financial Statements :

Many body corporates give details as part of financial statements which are necessary. These notes are given as supplementary to profit and loss account and balance sheet. These notes will give explanations regarding certain matters on accounts.

(25) Significant Accounting Policies :

Together with financial statements most- body corporates give important accounting policies used in preparation of accounts.

(26) Balance Sheet Abstract and Body corporate's General Profile :

Many body corporates tend to give details of business and other information. These include, according to Companies Act, (1) Information about registration, (2) Capital raised during the year, figures of funds received and spent etc.

(27) Shareholders' Information :

Body corporates tend to give useful information with financial statement to shareholders. They provide following information to real owners shareholders. It is, most useful and they get required information at a glance

- (1) Address of Registered office.
- (2) Registration in stock exchange.

- (3) Assistance to shareholders.
- (4) Book closure date.
- (5) Share transfer procedure.
- (6) Odd lot share sale scheme.
- (7) Name, address of body corporate registrar and transfer agent.
- (8) No. of shareholders.
- (9) Price of shares.
- (10) Date, time and place of annual general meeting.

(28) Pictures of New Products, Prizes, Shields, Certificates etc. received and many other matters:

Generally, most body corporates give coloured pictures of advertisements, prizes or shields received by the body corporate in various fields, certificates, excellent achievements, pictures of factory opening, celebration of silver, golden jubilees or completion of a century, achievements of employees etc.

8.3 Exercise:

- 1. Write about the changes that has taken place in presentation of information in recent age?
- 2. Write a note on Shareholders's information provided in annual reports?
- 3. Write a note on accounting policies provided in annual reports?
- 4. Write a note on chairman's note provided in annual reports?
- 5. Write a note on accounting ratios provided in annual reports?

