**Amalgamation of Companies [AS 14]**

The term Amalgamation refers to blending of two or more existing undertaking into one undertaking. It contemplates not only blending two or more existing undertaking into one undertaking, but also blending of one by another, which is called as **Absorption**.

 The ICAI has issued Accounting Standard 14 to deal with accounting for amalgamation.

 Amalgamation involves two types of company

1. Transferee Company:

 It means a company into which transferor Company is amalgamated.

1. Transferor Company:

It means the company which is amalgamated into another company.

Amalgamation may take place in any one of the following two ways

1. A new company is formed to take over the business of two or more existing companies. It is called **Pure Amalgamation**.
2. One of the existing companies take over (absorbs) the business of another existing company. It does not involve formation of a new company. This form of amalgamation is known as **Absorption.**

**TYPES OF AMALGAMATION**

1. **Amalgamation in the nature of merger:**

Amalgamation is in the nature of merger provided following conditions are satisfied-

1. All the assets & liabilities of the transferor company become, after amalgamation the assets & liabilities of the transferee company.
2. Shareholders holding 90% of the face value of the equity shares of the transferor company (other than equity shares already held therein, immediately before amalgamation by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation.
3. The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholder of the transferee company is discharged by transferee company only by the issue of equity shares in the transferee company except that cash may be paid in respect of any fractional shares.
4. The business of the transferor company is intended to be carried on by the transferee company after amalgamation.
5. No adjustment is intended to be made to the book values of assets & liabilities of the transferor company. When they are incorporated in the financial statement of the transferee company except to ensure uniformity of accounting policies.
6. **Amalgamation in the nature of purchase**

It is a type of amalgamation, which does not satisfy any one or more of the five conditions which are applicable to amalgamation in the nature of merger

**Methods of accounting for amalgamation**

1. The pulling of interest method in the books of Transferee Company.
2. The purchase method in the books of Transferee Company.

|  |  |  |
| --- | --- | --- |
|  | **Pulling of interest method** | **Purchase method** |
| **Applicability.** | It is applicable in the case of an amalgamation in the nature of merger. | It is applicable in the case of an amalgamation in nature of purchase. |
| **Recording of Assets & Liabilities & Reserves.** | Assets & Liabilities & Reserves of the transferor company are recorded by the transferee company in the books of accounts.  | Assets & Liabilities which are taken over are recorded in the books of transferee company. The reserves except statutory reserves of the transferor company are not aggregated with those of the transferee company. |
| **Value at which recorded** | As per the book value in the books of transferor. | At the revised or agreed value. |
|  **Adjustment of difference** | The difference between the consideration paid and the share capital of the transferor company is adjusted in general reserves or other reserves of the transferee company. | The difference between the consideration paid and the net assets taken over is treated by the transferee company as goodwill or capital reserves as the case may be. |
| **Statutory Reserves** | Statutory reserves of the transferor company are incorporated in the books of transferee company like all other reserves. No Amalgamation Adjustment Reserve Account is required to be open. | Statutory reserve of the transferor company is incorporated in the books of transferee company under the Account Amalgamation Adjustment Reserve Account. |

**Purchase Consideration**

For the purpose of Accounting for Amalgamation, AS-14 defines the term consideration as “The aggregate of shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company”.

Thus, the consideration does not include payments made to or for creditors or any other person. Consideration implies the value agreed upon for the net assets taken over. The amount depends on the terms of the contract between Transferor Company and Transferee Company.

**Methods of computation of purchase consideration:**

Following are different methods of computing purchase consideration.

1. **Lump sum method.**
2. **Net Assets method.**
3. **Total payment method.**
4. **Intrinsic worth method.**

**Lump sum method**-

In Lump sum method the problem may state directly the amount of purchase consideration (PC) and there will be no need of any calculation. For e.g.- Rajesh Ltd. takes over the business of Rajan Ltd. for a sum of Rs. 275000.Here P.C is Rs. 275000.

**Net Assets Method-**

Under the net assets method, P.C is arrived at by adding agreed value of assets taken over by the purchasing company and deducting there from agreed value of liabilities taken over by the purchasing company.

**Only those Assets & Liabilities which are taken over are considered for calculation of P.C.**

It should be noted that fictitious assets such as preliminary expenses, under writing commission, discount on issue of shares or debentures, expenses on issue of shares or debentures and debit balance of Profit & Loss Account are not taken over.

**Illustration:**

Given below are balance sheets of A Ltd. & B Ltd. as on 31st December, at which date, the companies were amalgamated & the new company ‘C’ Ltd. was form.

Balance sheet

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Liability | ‘A’ Ltd. | ‘B’ Ltd. | Assets | ‘A’ Ltd. | ‘B’ Ltd. |
| Equity Share of Rs.10 each | 70000 | 60000 | Fixed Assets | 85000 | 70000 |
| Reserves | 20000 | 40000 | Current Assets | 20000 | 30000 |
| Current Liability | 15000 | 10000 | Misc. Expenditure | - | 10000 |
|  |  |  |  |  |  |
|  | 1,05,000 | 1,10,000 |  | 1,05,000 | 1,10,000 |

It was agreed that Fixed Assets of ‘A’ Ltd. would be valued at Rs. 100000 and that of ‘B’ Ltd. at Rs. 95000. ‘C’ Ltd. would issue requisite no. of equity share of Rs.10 each at 10% premium. To discharge the claim of the equity shareholders of A Ltd. and B Ltd., how many shares of C Ltd. should be issued to take over the business of two merging companies?

**Solutions: Calculate of purchase consideration:**

|  |  |  |
| --- | --- | --- |
| Net Assets | A Ltd. | B Ltd. |
| Fixed assets | 1,00,000 | 95,000 |
| Current assets | 20,000 | 30,000 |
| Total assets | 1,20,000 | 1,25,000 |
| Less: liabilities taken over | 15,000 | 10,000 |
| P.C | 1,05,000 | 1,15,000 |

Total purchase consideration= 105000+115000=220000

No. of Equity shares to be issued=220000/11=20000

 Hence C Ltd. will be formed where the paid up capital of Rs. 200000 and securities premium of Rs. 20000.

**Total Payment Method**

Under this method consideration is ascertained by adding up the cash paid, agreed value of assets given and agreed value of securities allotted by the transferee company to the transferor company in discharge of consideration.

For e.g.: Ketan Ltd. takes over business of Abdul Ltd. and agrees to pay Rs. 70,000 in cash and allot to Abdul Ltd. 50,000 equity shares of Rs.100 each fully paid at an agreed value of Rs.150 per share .

 Calculation of P.C.:

|  |  |
| --- | --- |
| Particulars | Rs |
| Cash | 70,000 |
| 50,000 equity share of Rs. 100 each at agreed value of Rs. 150 per share | 75,00,000 |
| P.C. | 75,70,000 |

**Intrinsic Worth Method**

In this method, the P.C. is to be ascertained on the basis of proportion in which the shares of the transferee company are exchange for the shares of the transferor company. The proportion or ratio of exchange is usually determined on the basis of intrinsic value of share of the both companies.

**Illustration:**

Manoj Ltd. is absorbed by Purvish Ltd. Given below are balance sheets of two companies taken after revaluation of their assets on uniform basis

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Manoj Ltd. | Purvish Ltd. |  | Manoj Ltd. | Purvish Ltd. |
| **Authorized capital** |  |  | Sundry assets | 33,70,000 | 87,15,000 |
| 9000 shares of Rs. 300 each | 27,00,000 | - | Cash at Bank | 7,000 | 55,000 |
| 40,000 shares of Rs. 180 each. | - | 72,00,000 |  |  |  |
| **Paid up capital** |  |  |  |  |  |
| 9,000 shares of Rs. 270 per share paid up. | 24,30,000 | - |  |  |  |
| 40,000 shares of Rs. 150 per share paid up | - | 60,00,000 |  |  |  |
| Creditors | 1,10,000 | 1,30,000 |  |  |  |
| General reserves | 8,07,000 | 25,70,000 |  |  |  |
| P&L A/c | 30,000 | 70,000 |  |  |  |
|  | 33,77,000 | 87,70,000 |  | 33,77,000 | 87,70,000 |

The holders of every three shares in Manoj Ltd. were to receive 5 shares in Purvish Ltd. plus as much cash as is necessary to adjust the rights of shareholders of both the companies in accordance with the intrinsic value of the shares as per respective balance sheets. Calculate purchase consideration.

**Solutions:**

|  |  |  |
| --- | --- | --- |
| Particulars | Manoj Ltd. | Purvish Ltd. |
| Total assets  | 33,77,000 | 87,70,000 |
| Less: Liabilities | 1,10,000 | 1,30,000 |
| Net assets | 32,67,000 | 86,40,000 |
| Intrinsic value= Net assets/no. of equity shares | 32,67,000/9000 | 86,40,000/40000 |
|  | 363 | 216 |
| Value of 3 shares in Manoj Ltd. (363\*3) | 1089 |  |
| Value of 5 shares in Purvish Ltd.(216\*5) | 1080 |  |
| Difference in value (1089-1080=9) | 9 |  |

|  |  |
| --- | --- |
| Particulars | Rs. |
| 1. Shares: Old : New

 3 5 9000 ? (15,000) Hence 15,000 shares \* Rs. 216 | 32,40,000 |
| 1. Cash : 9000 \* Rs. 9 per share

 3 | 27,000 |
| Purchase Consideration | 32,67,000 |

**Accounting in the books of Transferor Company:**

Necessary accounts to be open:

1. **Realisation A/c.**
2. **Equity shareholders A/c.**
3. **Preference Shareholders A/c.**
4. **Cash at bank A/c.**
5. **Transferee Company’s A/c.**
6. **Equity shares in Transferee Company’s A/c.**
7. **Preference shares in Transferee Company’s A/c.**

**Entry in books of Transferor Company**

1. **Transfer all assets to Realisation A/c at book value**

**Realisation A/c-------Dr**

 **To Assets**

1. **Provision and accumulated reserves transfer to Realisation A/c:**

**Provision/reserves A/c-------Dr**

 **To Realisation**

1. **Transfer all liabilities to Realisation A/c.**

**Liabilities A/c-------Dr**

 **To Realisation**

1. **Transferring equity share capital:**

**Equity share capital A/c---------Dr**

 **To equity share holders A/c**

1. **Transferring accumulated profits:**

**Accumulated profits A/c---------Dr**

 **To equity shareholders**

1. **Transferring accumulated losses:**

**Equity shareholders a/c---------Dr**

 **To accumulated losses.**

1. **Recording claim of pref. shareholders.**
2. **At Par:**

**Pref. share Capital A/c---------Dr**

 **To pref. shareholders A/c**

1. **If payable at premium**

**Pref. share capital A/c---------Dr (face Value)**

**Realisation A/c------------------Dr (Premium)**

 **To pref. shareholders A/c**

1. **If at discount**

**Pref. share capital A/c--------Dr (Face value)**

 **To pref. shareholders A/c (net amount)**

 **To Realisation A/c (Discount)**

1. **Record Realisation Expense:-**
2. **If paid by transferor company:-**

**Realisation A/c-----------Dr**

 **To Bank A/c**

1. **Transferor company pays for expenses to be reimburse by the transferee company.**
2. **Transferee Co. A/c--------Dr**

 **To Bank A/c**

1. **Bank A/c--------------------Dr**

 **To transferee co A/c**

1. **Record purchase consideration:-**

**Transferee Co A/c-------------Dr**

 **To Realisation A/c**

1. **Record of receipt of P.C:-**

**Cash/Bank A/c---------------------------Dr**

**Equity share in new co A/c---------Dr**

**Pref. share in new co A/c------------Dr**

 **To Transferee co A/c**

1. **Record sale on Realisation of Assets not taken over by transferee co:-**

**Bank A/c------------------Dr**

 **To Realisation A/c**

1. **Payment of settlement of liabilities not taken over by transferee co:-**

**Realisation A/c------------Dr**

 **To Bank A/c**

1. **Settle the claim of pref. shareholders:-**

**Pref. shareholders A/c----------------Dr**

 **To Cash A/c**

 **To equity share in transferee co**

 **To pref. share in transferee co**

 **To debentures in transferee co**

1. **Record profit or loss on Realisation:-**
2. **If there is profit:-**

**Realisation A/c---------------Dr**

 **To equity share holders A/c**

1. **If it is loss**

**Equity shareholders A/c------------Dr**

 **To Realisation A/c**

1. **Settle the account of equity shareholder :-**

**Equity shareholders A/c--------------Dr**

 **To Cash**

 **To Employee share in transferee co A/c**

 **To Pref. share in transferee co A/c**

 **To debenture in transferee co A/c**

**Accounting procedure in the books of transferee company:-**

**(In case of Amalgamation is in the nature of purchase & hence the purchase methods are as follows)**

1. **Record P.C.:-**

**Business Purchase A/c-------------Dr**

 **To liquidators of transferor A/c**

1. **Record Asset & Liabilities taken over**

**Assets A/c--------------------Dr**

 **To Liabilities A/c**

 **To Business Purchase A/c**

1. **If in above mention entry total of credit exceeds total of debit such excess is considered as G/W**

**Assets A/c-----------------Dr**

**G/W A/c-------------------Dr**

 **To Liabilities A/c**

 **To Business purchase A/c**

1. **On the other hand if total debit exceeds total credit such excess is credited to Capital Reserves A/c**

**Assets A/c------------------Dr**

 **To Liabilities A/c**

 **To Capital Reserves A/c**

 **To Business Purchase A/c**

1. **Record statutory reserve of the transferor company**

**Amalgamation Adjustment Reserve A/c---------------Dr**

 **To Statutory Reserve A/c**

1. **If Business purchase A/c is not to be open the following entry is passed:-**
2. **Assets taken over A/c-------------Dr**

 **To Liabilities taken over A/c**

 **To Liquidators of transferor company A/c**

1. **Discharge of P.C.:-**
2. **Issue of Securities at par :-**

**Liquidator of transferor company A/c-------------Dr**

 **To Cash/Bank A/c**

 **To Equity share capital A/c**

 **To Pref. share capital A/c**

 **To Debenture A/c**

1. **Issue of Securities at discount :-**

**Liquidator of transferor A/c-----------Dr**

 **To Cash/Bank A/c**

 **To Equity share capital A/c**

 **To Pref. share capital**

 **To Debentures**

1. **Issue of Securities at premium**

**Liquidator of Transferor Company A/c-----------Dr**

 **To Equity share capital A/c**

 **To Pref. share capital A/c**

 **To Debenture A/c**

 **To Sec. Premium A/c**

 **To Cash/Bank A/c**

1. **Record expenses of liquidation to be borne.**

**Goodwill A/c---------------Dr**

 **To Cash A/c**

1. **Payment of preliminary Expenses**

**Preliminary Expenses A/c------------------Dr**

 **To Cash/Bank A/c**

1. **Discharge of debenture of transferor company**

**Debenture in transferor company A/c--------------Dr (take over value)**

**Discount on issue of transferee company A/c---------Dr (discount if any)**

 **To Debenture in transferee company A/c (face value)**

 **To Sec. Premium A/c (premium if any)**

 **To Bank A/c (paid if any)**

**In case the Amalgamation is in the nature of merger & hence pulling of interest method is as follows:-**

1. **Record the P.C.**

**Business Purchase A/c-------------Dr**

 **To Liquidators of transferor company A/c**

1. **Records Assets & Liabilities taken over**

**Assets A/c--------------------Dr**

**Miscellaneous A/c------------Dr**

 **To Reserves A/c**

 **To Business Purchase A/c**

 **To Liabilities A/c**

1. **Discharge of P.C.**
2. **Issue of shares at par**:-

**Liquidator of transferor company A/c-------------Dr**

 **To Cash/Bank A/c**

 **To Equity share capital A/c**

 **To Pref. share capital A/c**

1. **Issue of Share at discount :-**

**Liquidator of transferor company A/c-----------Dr**

**Discount on issue A/c-------------------------Dr**

 **To Equity share capital A/c**

 **To Pref. share capital**

 **To Cash/Bank A/c**

1. **Issue of Share at premium**

**Liquidator of Transferor Company A/c-----------Dr**

 **To Equity share capital A/c**

 **To Pref. share capital A/c**

 **To Cash/Bank A/c**

 **To Sec. Premium A/c**

1. **Discharge the Liability of Transferor Company:-**
2. **Issue of Debenture at par :-**

**Debenture of transferor A/c--------Dr**

 **To Debenture A/c**

1. **Issue of Debenture at premium :-**

**Debenture of transferor A/c--------Dr**

 **To Debenture A/c**

 **To Sec. Premium A/c**

1. **Issue of Debenture at discount :-**

**Debenture of transferor A/c--------Dr**

**Discount on issue A/c----------------Dr**

 **To Debenture A/c**

1. **Record the liquidation expenses**

**If, transferee company bares liquidation expenses of transferor company.**

**The cost of business taken over, positives by the amount of expenses, hence it is adjusted in the General Reserve A/c.**

**General Reserves A/c----------Dr**

 **To Cash/Bank A/c**

1. **Record the expenses incurred by the transferee company for its own formation:-**

**Preliminary expenses A/c---------------------Dr**

 **To Bank A/c**

**Problem No -01**

Following are the balance sheets of Rahul Ltd. and Mehul Ltd. as on 31st March, 2010.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Liabilities | Rahul Ltd. | Mehul Ltd. | Assets | Rahul Ltd. | Mehul Ltd. |
| Equity shares of Rs. 10 each, fully paid  | 5,00,000 | 3,00,000 | Goodwill | - | 50,000 |
| 10% preference shares of Rs. 100 each fully paid | - | 2,00,000 | Building | 3,00,000 | 4,00,000 |
| 12% preference shares of Rs. 100 each fully paid | 3,00,000 | - | Machinery | 1,00,000 | 90,000 |
| General Reserve | 1,00,000 | 1,21,000 | Furniture | 20,000 | 10,000 |
| Profit & Loss A/c | 50,000 | 40,000 | Investments | 2,00,000 | 50,000 |
| Statutory Reserve | 20,000 | 10,000 | Debtors | 3,00,000 | 1,50,000 |
| 9% debentures of Rs. 100 each | 1,50,000 | 1,50,000 | Stocks | 1,00,000 | 1,00,000 |
| Sundry creditors | 1,00,000 | 59,000 | Other current assets | 2,30,000 | 50,000 |
| Other Liabilities | 60,000 | 40,000 | Bank | 30,000 | 20,000 |
| **Total** | **12,80,000** | **9,20,000** | **Total** | **12,80,000** | **9,20,000** |

On the above date Rahul Ltd. took over the business of Mehul Ltd. on the following terms and conditions:

1. All fixed assets (other than goodwill) are to be taken over at 20% above book values and current assets (other than cash & bank balance) are valued at 15% below book values.
2. Goodwill to be consider as worth Rs. 1,50,000.
3. Equity shares holders of Mehul Ltd. are to be issued, 8 equity shares of Rs. 10 each in Rahul Ltd. at Rs. 12 each, for every 5 equity shares in Mehul Ltd. Balance of purchase consideration to be paid in cash.
4. 10% preference shareholders of Mehul Ltd. are to be paid at 10% premium by issue of 12% preference shares of Rahul Ltd. at par.
5. Investments of Mehul Ltd. represent investments in own debentures of face value Rs. 50,000 purchased at par, which are to be cancelled before the company is taken over by Rahul Ltd.
6. Investments of Rahul Ltd. include investments in 9% debentures of Mehul Ltd. of face value Rs. 1, 00,000 purchased at Rs. 95,000.
7. Sundry debtors of Rahul Ltd. include Rs. 5,000 due from Mehul Ltd.

You are required to:

1. Compute Purchase Consideration.
2. Pass necessary Journal Entries in the books of Rahul Ltd.
3. Prepare Balance Sheet of Rahul Ltd. after amalgamation

**Problem No -02**

Josh Ltd. and Ashish Ltd. were amalgamated on & from 1st April, 2009. A new company namely Shilpa Ltd. was formed to take over the business of Josh Ltd. & Ashish Ltd.

Balance sheets as on 31st march, 2009

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Liabilities | Josh Ltd. | Ashish Ltd. | Assets | Josh Ltd. | Ashish Ltd. |
| Equity shares of Rs. 100 each, fully paid  | 4,00,000 | 3,75,000 | Land & Building | 3,00,000 | 1,50,000 |
| 12% preference shares of Rs. 100 each fully paid | 1,50,000 | 1,00,000 | Plant & machinery | 1,50,000 | 1,80,000 |
| General Reserve | 85,000 | 75,000 | Computers | 75,000 | 20,000 |
| Profit & Loss A/c | 25,000 | 15,000 | Stocks | 2,00,000 | 1,00,000 |
| Statutory Reserve | 1,00,000 | 75,000 | Debtors | 1,25,000 | 2,00,000 |
| 10% debentures of Rs. 100 each | 30,000 | 15,000 | Bills receivable | 90,000 | 20,000 |
| Sundry creditors | 1,10,000 | 70,000 | Bank | 60,000 | 80,000 |
| Bills payable | 1,00,000 | 25,000 |  |  |  |
| **Total** | **10,00,000** | **7,50,000** | **Total** | **10,00,000** | **7,50,000** |

Additional information:

1. Shilpa Ltd. issued five equity shares, for each equity share of Josh Ltd. and four equity shares, for each equity shares of Ashish Ltd. The shares are of Rs. 10 each, issued at Rs. 30.
2. Preference shareholders of both the companies are issued equivalent number of 15% preference shares of new company at Rs. 150 per share (face value Rs. 100)
3. 10% debentures holders of Josh Ltd. and Ashish Ltd. are discharged by Shilpa Ltd. issuing such number of its 15% debenture of Rs. 100 each so as to maintain the same amount of interest.
4. Shilpa Ltd. revalued following assets taken over from Josh Ltd. and Ashish Ltd.

|  |  |  |
| --- | --- | --- |
|  | Josh Ltd. | Ashish Ltd. |
| Land & Building | 4,00,000 | 2,00,000 |
| Plant & machinery | 1,20,000 | 1,50,000 |
| Computers | 70,000 | 10,000 |
| Stocks | 1,50,000 | 80,000 |
| Debtors | 1,10,000 | 1,90,000 |

You are required to:

1. Compute Purchase Consideration.
2. Pass Journal Entries in the books of Shilpa Ltd. under Purchase Method.
3. Prepare Balance Sheet of Shilpa Ltd. after amalgamation.

**Problem No -03**

Following are the balance sheets of Alpha Ltd. and Beeta Ltd. as on 31st March, 2008.

Balance sheets as on 31st march, 2008

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Liabilities | Alpha Ltd. | Beeta Ltd. | Assets | Alpha Ltd. | Beeta Ltd. |
| Share capital: |  |  | Goodwill | 60,000 | 1,00,000 |
| 7% preference shares of Rs. 100 each  | 4,50,000 | 6,00,000 | Premise | 6,50,000 | 7,00,000 |
| Equity shares of Rs. 100 each  | 8,00,000 | 12,00,000 | Plant & Machinery | 4,80,000 | 6,20,000 |
| General Reserve | 70,000 | 80,000 | Computers | 1,20,000 | 2,00,000 |
| Profit & Loss A/c | 45,000 | 62,000 | Stocks | 1,80,000 | 2,50,000 |
| Statutory Reserve | 27,000 | 48,000 | Sundry Debtors | 1,10,000 | 3,15,000 |
| 10% debentures  | 1,50,000 | 84,000 | Bills Receivable | 30,000 | 20,000 |
| Sundry creditors | 75,000 | 1,20,000 | Bank | 12,000 | 24,000 |
| Bills payable | 25,000 | 35,000 |  |  |  |
| **Total** | **16,42,000** | **22,29,000** | **Total** | **16,42,000** | **22,29,000** |

Beeta Ltd. takes over Alpha Ltd. on 1st April, 2008on the following terms:

1. Beeta Ltd. discharged purchase consideration as under:
2. Issued 10,000 equity shares of Rs. 100 each at a premium of 5% for the equity shareholders of Alpha Ltd.
3. Issued 8% preference shares of Rs. 100 each at a par to discharge the preference shareholders of Alpha Ltd. at 10% premium.
4. The debentures of Alpha Ltd. to be converted into equivalent number of debentures of Beeta Ltd.
5. Sundry debtors of Beeta Ltd. include Rs. 25,000 being amount due from Alpha Ltd.
6. Bills payable of Alpha Ltd. includes Rs. 7,000 being the amount of bills accepted in favour of Beeta Ltd. but the bills receivable of Beeta Ltd. includes Rs. 5,000 only being the amount of bills due from Alpha Ltd.
7. The stock of Beeta Ltd. includes Rs. 30,000 worth of goods purchased from Alpha Ltd. on which Alpha Ltd. made a profit of 25% on cost.

You are required to:

1. Calculate Purchase Consideration.
2. Pass Journal Entries in the books of Beeta Ltd. assuming that amalgamation is in the nature of purchase.
3. Prepare Balance Sheet of Beeta Ltd. after amalgamation.

 **Problem No -04**

Following are the balance sheets of X Ltd. and Y Ltd.

Balance sheets as on 31st march, 2006

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Liabilities | X Ltd. | Y Ltd. | Assets | X Ltd. | Y Ltd. |
| Equity shares capital of Rs. 10 each | 75,00,000 | 45,00,000 | Building  | 25,00,000 | 15,50,000 |
| Export Profit Reserves | 3,00,000 | 3,00,000 | Machinery | 32,50,000 | 17,00,000 |
| Profit & Loss A/c | 7,00,000 | 6,00,000 | Stocks | 25,50,000 | 18,00,000 |
| General Reserve | 2,00,000 | 4,50,000 | Debtors | 9,00,000 | 10,00,000 |
| 12% debentures of Rs. 100 each | 5,00,000 | 3,00,000 | Bank | 7,00,000 | 5,50,000 |
| Sundry creditors | 7,00,000 | 5,50,000 | Preliminary Expenses | - | 1,00,000 |
| **Total** | **99,00,000** | **67,00,000** | **Total** | **99,00,000** | **67,00,000** |

Z Ltd. was formed to acquire all assets and liabilities of X Ltd. & Y Ltd. on the following terms:

1. Z Ltd. to have an authorized share capital of Rs. 5 crores divided into 5,00,000 equity shares of Rs. 100 each.
2. The business of both companies were taken over for a total price of Rs. 1.20 crores to be discharged by Z Ltd. by issue of equity shares of Rs. 100 each at a premium of 20% .
3. The shareholders of X Ltd. & Y Ltd. to get shares in Z Ltd. in the ratio of net assets values of their respective shares.
4. The debentures of both the companies to be converted into equivalent number of 14% debentures of Rs. 100 each in Z Ltd. at a discount of 10%.
5. All the tangible assets of both the companies are taken over by Z Ltd. at book values except the following:

|  |  |  |
| --- | --- | --- |
| Assets |  X Ltd. Rs |  Y Ltd. Rs |
| Building  | 28,00,000 | 18,20,000 |
| Machinery | 31,50,000 | 16,00,000 |

1. Sundry creditors of X Ltd. and Y Ltd. are taken over at Rs. 650000 and

Rs. 500000 respectively.

1. Statutory reserves are to be maintained for 3 years more.

You are required to:

1. Compute Purchase Consideration of X Ltd. and Y Ltd.
2. Pass Journal Entries in the books of Z Ltd.
3. Prepare Balance Sheet after amalgamation.

Apply Purchase Method

**Problem No -05**

BK Ltd. is formed to take over Bunty Ltd. and Kuber Ltd. Their balance sheets on the date of amalgamation are as follows:

Balance sheets as on 31st march, 2006

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Liabilities | Bunty Ltd. | Kuber Ltd. | Assets | Bunty Ltd. | Kuber Ltd. |
| Share capital of Rs. 10 each: |  |  | Goodwill | - | 25,000 |
| Equity shares  | 2,40,000 | 1,60,000 | Buildings | 1,50,000 | 1,40,000 |
| 11% preference shares  | 1,50,000 | 1,00,000 | Machinery | 80,000 | 60,000 |
| General Reserve | 45,000 | 40,000 | Furniture | 10,000 | 5,000 |
| Profit & Loss A/c | 30,000 | 21,000 | Investments | 1,40,000 | 80,000 |
| 9% debentures | 1,00,000 | 1,00,000 | Debtors | 1,65,000 | 60,000 |
| Sundry creditors | 60,000 | 40,000 | Stocks | 75,000 | 90,000 |
| Other Liabilities | 40,000 | 24,000 | Cash & Bank | 13,000 | 8,000 |
|  |  |  | Other current assets | 20,000 | 10,000 |
|  |  |  | Preliminary Expenses | 12,000 | 7,000 |
|  |  |  |  |  |  |
| **Total** | **6,65,000** | **4,85,000** | **Total** | **6,65,000** | **4,85,000** |

BK Ltd. issued 10,000 equity shares of Rs. 10 each to the public at a premium of 10%. Bunty Ltd. & Kuber Ltd. were taken over by BK Ltd. on the following terms:

Re: Bunty Ltd.

1. Equity shareholders are to be issued 7 equity shares of Rs. 10 at par in BK Ltd. and are to be paid Rs. 5 in cash for surrender of each 6 shares.
2. Preference shareholders are to be paid at 10% premium by 12.5% preference shares in BK Ltd. issued at par.
3. All assets and liabilities are valued at book value except machinery which is valued at 10% below book value and debtors are worth Rs. 1, 60,000.
4. Liquidation expenses of Rs. 12,500 are to be borne by BK Ltd.
5. Discharge the debentures of Bunty Ltd. at a discount of 10% by the issue of 13% debentures of Rs. 100 each in BK Ltd.

Re: Kuber Ltd.

1. Cash Rs. 3,000 is to be retained for liquidation expenses.
2. Debtors and investments are valued at 90% of cost.
3. Machinery and stock are valued at 10% above cost and other assets and liabilities are valued at book value except fictitious assets.
4. Preference shareholders are to be paid at 10% premium by 12.5% preference shares in BK Ltd. issued at par.
5. Balance of purchase consideration is payable in equity shares at par.
6. Discharge the debentures of Kuber Ltd. at par by the issue of 13% debentures of Rs. 100 each in BK Ltd.

The face value of equity shares and preference shares in BK Ltd. is Rs. 10 each.

Show the necessary ledger accounts in the books of Bunty Ltd. and Kuber Ltd. Also calculate purchase considerations.