CA INTERMEDIATE

SUBJECT- ADVANCED ACCOUNTS

Test Code – 8666

(Date :)

(Marks -50)

Topic : Amalgamation, Absorption of Companies & Non-Banking Financial Companies

Note: 1) Working Notes should form part of your answer.

2) Start New Question on new page.

Question 1

The financial position of X Ltd. and Y Ltd. as on 31st March, 2018 was as under :

	X Ltd. (Rs.)	Y Ltd. (Rs.)
Equity and Liabilities		
Equity Shares of Rs. 10 each	30,00,000	9,00,000
9% Preference Shares of Rs. 100 each	3,00,000	-
10% Preference Shares of Rs. 100 each	-	3,00,000
General Reserve	2,10,000	2,10,000
Retirement Gratuity Fund (long term)	1,50,000	60,000
Trade Payables	3,90,000	2,40,000
Total	40,50,000	17,10,000
Assets		
Goodwill	1,50,000	75,000
Land & Buildings	9,00,000	3,00,000
Plant & Machinery	15,00,000	4,50,000
Inventories	7,50,000	5,25,000
Trade Receivables	6,00,000	3,00,000
Cash and Bank	1,50,000	60,000
Total	**40,50,000**	**17,10,000**

X Ltd. absorbs Y Ltd. on the following terms :

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

(ii) Goodwill of Y Ltd. on absorption is to be computed based on two times of average profits of preceding three financial years (2016 – 17 : Rs. 90,000; 2015 – 16 : Rs. 78,000 and 2014 – 15 : Rs. 72,000). The profits of 2014 – 15 included credit of an insurance claim of Rs. 25,000 (fire occurred in 2013 – 14 and loss by fire Rs. 30,000 was booked in Profit and Loss Account of that year). In the year 2015 – 16, there was an embezzlement of cash by an employee amounting to Rs. 10,000.

(iii) Land & Buildings are valued at Rs. 5,00,000 and the Plant & Machinery at Rs. 4,00,000.

(iv) Inventories are to be taken over at 10% less value and Provision for Doubtful Debts is to be created @ 2.5%.

(v) There was an unrecorded current asset in the books of Y Ltd. whose fair value amounted to Rs. 15,000 and such asset was also taken over by X Ltd.

(vi) The trader payables of Y Ltd. included Rs. 20,000 payable to X Ltd.

(vii) Equity Shareholders of Y Ltd. will be issued Equity Shares @ 5% premium.

You are required to

(i) Prepare Realization A/c. in the books of Y Ltd.

(ii) Show journal entries in the books of X Ltd.

(iii) Prepare the Balance Sheet of X Ltd. after absorption as at 31st March, 2018.

(20 Marks)

Question 2

(A) The following are the summarized Balance Sheet of VT Ltd. and MG Ltd. as on 31st March, 2018:

Particulars	VT Ltd. (Rs.)	MG Ltd. (Rs.)
Equity and Liabilities		
Equity Shares of Rs. 10 each	12,00,000	6,00,000
10% Pref. Shares of Rs. 100 each	4,00,000	2,00,000
Reserve and Surplus	6,00,000	4,00,000
12% Debentures	4,00,000	3,00,000
Trade Payables	5,00,000	3,00,000
Total	31,00,000	18,00,000
Assets		
Fixed Assets	14,00,000	5,00,000
Investment	1,60,000	1,60,000
Inventory	4,80,000	6,40,000
Trade Receivables	8,40,000	4,20,000
Cash at Bank	2,20,000	80,000
Total	31,00,000	18,00,000

Details of Trade receivables and trade payables are as under:

	VT Ltd. (Rs.)	MG Ltd. (Rs.)
Trade Receivable		
Debtors	7,20,000	3,80,000
Bills Receivable	1,20,000	40,000
	8,40,000	4,20,000
Trade Payables		
Sundry Creditors	4,40,000	2,50,000
Bills Payable	60,000	50,000
	5,00,000	3,00,000

Fixed Assets of both the companies are to be revalued at 15% above book value. Inventory in Trade and Debtors are taken over at 5% lesser than their book value.

Both the companies are to pay 10% equity dividend, Preference dividend having been already paid.

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

(i) VT Ltd. will issue 16 Equity Shares of Rs. 10 each at par against 12 Shares of MG Ltd.

(ii) 10% Preference Shareholders of MG Ltd. will be paid at 10% discount by issue of 10% Preference Shares of Rs. 100 each, at par, in VT. Ltd.

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

(iv) Rs. 60,000 is to be paid by VT Ltd. to MG Ltd. for Liquidation expenses.

(v) Sundry Debtors of MG Ltd. includes Rs. 20,000 due from VT Ltd.

You are required to prepare :

(1) Journal entries in the books of VT Ltd.

(2) Statement of consideration payable by VT Ltd.

(10 Marks)

(B) P Ltd. and Q Ltd. agreed to amalgamate and form a new company called PQ Ltd. The summarized balance sheets of both the companies on the date of amalgamation stood as below:

Liabilities	**P Ltd. Rs.**	**Q Ltd. Rs.**	**Assets**	**P Ltd. Rs.**	**Q Ltd. Rs.**
Equity Shares (Rs. 100 each)	8,20,000	3,20,000	Land & Building	4,50,000	3,40,000
9% Pref. Shares (Rs. 100 each)	3,80,000	2,80,000	Furniture & Fittings	1,00,000	50,000
8% Debentures	2,00,000	1,00,000	Plant & Machinery	6,20,000	4,50,000
General Reserve	1,50,000	50,000	Trade receivables	3,25,000	1,50,000
Profit & Loss A/c	3,52,000	2,05,000	Inventory	2,33,000	1,05,000
Unsecured Loan	-	1,75,000	Cash at bank	2,08,000	1,75,000
Trade payables	88,000	1,60,000	Cash in hand	54,000	20,000
	19,90,000	**12,90,000**		**19,90,000**	**12,90,000**

PQ Ltd. took over the assets and liabilities of both the companies at book value after creating provision @ 5% on inventory and trade receivables respectively and depreciating Furniture & Fittings by @ 10%, Plant and Machinery by @ 10%. The trade receivables of P Ltd. include Rs. 25,000 due from Q Ltd.

PQ Ltd. will issue**:**

(i) 5 Preference shares of Rs. 20 each @ Rs. 18 paid up at a premium of Rs. 4 per share for each pref. share held in both the companies.

(ii) 6 Equity shares of Rs. 20 each @ Rs. 18 paid up a premium of Rs. 4 per share for each equity share held in both the companies.

(iii) 6% Debentures to discharge the 8% debentures of both the companies.

(iv) 20,000 new equity shares of Rs. 20 each for cash @ Rs. 18 paid up at a premium of Rs. 4 per share.

PQ Ltd. will pay cash to equity shareholders of both the companies in order to adjust their rights as per the intrinsic value of the shares of both the companies.

You are required to **prepare ledger accounts in the books of P Ltd. and Q Ltd. to close their books.**

(10 Marks)

Question 3:

(A) Write short **notes on "Non-Performing Assets**" as per NBFC Prudential Norms (RBI) directions.

(5 Marks)

(B) LK Finance Ltd. is a non-banking financial company. It provides you with the following information regarding its outstanding amount, Rs. 400 lakhs of which installments are overdue on 400 accounts for last two months (amount overdue Rs. 80 lakhs), on 24 accounts for three months (amount overdue Rs. 48 Iakhs), on 10 accounts for more than 3 months (amount overdue Rs. 40 lakhs) and on 4 accounts for more than three years (amount over due Rs. 40 lakhs-already identified as sub-standard assets) and one account of Rs. 20 lakhs which has been identified as non-recoverable by the management. Out of 10 accounts overdue for more than 3 months, 6 accounts are already identified as sub-standard (amount Rs. 12 lakhs) for more than fourteen months and other are identified as sub- standard asset for a period of less than fourteen months.

Classify the assets of the company in line with Non-Banking Financial Company - Systemically Important Non-Deposit taking Company and Deposit taking Company (Reserve Bank) Directions, 2016.

(5 Marks)