CHAPTER-5

AMALGAMATION, ABSORPTION AND RECONSTRUCTION

Q. 1. The following is the summarized Balance Sheet of 'A' Ltd. as on 31.3.2012

Liabilities	₹	Assets	₹
14,000 Equity shares of ₹ 100 each fully paid	14,00,000	Sundry assets	18,00,000
General reserve	10,000	Discount on issue of debentures	10,000
10% Debentures	2,00,000	P & L A/c	90,000
Trade payables	2,40,000		
Bank overdraft	50,000		
	19,00,000		**19,00,000**

'R' Ltd. agreed to take over the business of 'A' Ltd. Calculate purchase consideration under Net Assets method on the basis of the following :

The market value of 75% of the sundry assets is estimated to be 12% more than the book value and that of the remaining 25% at 8% less than the book value. The liabilities are taken over at book values. There is an unrecorded liability of ₹ 25,000.

Q. 2. The financial position of two companies Hari Ltd. and Vayu Ltd. as on 31st March, 2011 was as under :

Assets	Hari Ltd. (₹)	Vayu Ltd. (₹)
Goodwill	50,000	25,000
Building	3,00,000	1,00,000
Machinery	5,00,000	1,50,000
Stock	2,50,000	1,75,000
Debtors	2,00,000	1,00,000
Cash at Bank	50,000	20,000
Preliminary Expenses	30,000	10,000
	13,80,000	**5,80,000**
Liabilities	**Hari Ltd. (₹)**	**Vayu Ltd. (₹)**
Share Capital :		
Equity shares of ₹ 10 each	10,00,000	3,00,000
9% Preference Shares of ₹100 each	1,00,000	----
10% Preference Shares of ₹ 100 each	----	1,00,000
General Reserve	1,00,000	80,000
Retirement Gratuity Fund	50,000	20,000
Sundry Creditors	1,30,000	80,000
	13,80,000	**5,80,000**

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

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

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

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

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

Calculate the PC.

Q. 3. Exe Limited was wound up on 31.3.2011 and its Balance Sheet as on that date was given below :

Balance Sheet of Exe Limited as on 31.3.2011

Liabilities	₹	Assets			₹
Share Capital		Fixed Assets			9,64,000
1,20,000 Equity Shares		Current Assets			
of ₹ 10 each	12,00,000	Stock		7,75,000	
Reserves and Surplus		Sundry Debtors	1,60,000		
Profit Prior to Incorporation	42,000	Less Provision for			
Contingency Reserve	2,70,000	bad and doubtful debts	8,000	1,52,000	
Profit and Loss A/c	2,52,000	Bills Receivable		30,000	
Current Liabilities		Cash at Bank		3,29,000	12,86,000
Bills Payable	40,000				
Sundry Creditors	2,26,000				
Provisions :					
Provision for Income - tax	2,20,000				
	22,50,000				**22,50,000**

Wye Limited tookover the following assets at values shown as under :

Fixed assets ₹ 12,80,000, Stock ₹ 7,70,000 and Bills Receivable ₹ 30,000.

Purchase consideration was settled by Wye Limited as under :

₹ 5,10,000 of the consideration was satisfied by the allotment of fully paid 10% Preference shares of ₹ 100 each. The balance was settled by issuing equity shares of ₹ 10 each at ₹ 8 per share paid up.

You are required to :

Calculate the number of equity shares and preference shares to be allotted by Wye Limited in discharge of purchase consideration.

Q. 4. The following are the Balance Sheets of Strong Limited and Small Limited as at 31st March, 2011 :

Liabilities	Strong Ltd. ₹	Small Ltd. ₹	Assets	Strong Ltd. ₹	Small Ltd. ₹
Share Capital			**Fixed Assets, at cost less depreciation**	1,40,000	75,000
Equity Shares of face value of ₹10 each	1,50,000	1,20,000	**Current Assets**		
Reserves	95,000	10,000	Stock	42,000	47,000
Secured Loans			Trade Debtors	30,000	50,000
10% Debentures	----	20,000	Bank	80,000	10,000
Current Liabilities					
Trade Creditors	47,000	32,000			
	2,92,000	**1,82,000**		**2,92,000**	**1,82,000**

Strong Limited agreed to absorb Small Limited as on 31st March, 2011 on the following terms :

1. Strong Limited agreed to repay 10% Debentures of Small Limited.
2. Strong Limited to revalue its Fixed Assets at ₹ 1,95,000 to be incorporated in the books.
3. Shares of both the companies to be valued on net Assets basis, after considering ₹ 50,000 towards value of goodwill of Small Limited.
4. The cost of absorption of ₹ 3,000 is met by Strong Limited.

You are required to :

Calculate the ratio of exchange of shares.

Q. 5. Following are the summarised Balance Sheets as on 31st March of Arun Ltd. & Varun Ltd.

Arun Ltd.

Liabilities	₹	Assets	₹
Authorised & Issued Capital		Buildings	6,00,000
15,000 Equity shares of ` 100 each	15,00,000	Plant & Machinery	5,50,000
General Reserve	2,00,000	Furniture	10,000
Profit and Loss Account	1,20,000	Stock	3,80,000
Sundry Creditors	2,40,000	Sundry Debtors	2,30,000
		Cash and Bank Balances	2,90,000
	20,60,000		**20,60,000**

Varun Ltd.

Liabilities	₹	Assets	₹
Authorised & Issued Capital		Goodwill	1,00,000
5,000 Equity shares of ₹ 100 each	5,00,000	Plant & Machinery	4,20,000
Capital Reserve	50,000	Furniture	5,000
Revenue Reserve	25,000	Stocks	1,80,000
Profit & Loss A/c	35,000	Sundry Debtors	1,80,000
6% Debentures	3,00,000	Expense on New Project	75,000
Sundry Creditors	95,000	Cash and Bank balances	45,000
	10,05,000		**10,05,000**

Varun Ltd. was absorbed by Arun Ltd. on 1st April, 2011 on following terms :

(a) Fixed assets other than goodwill to be valued at ₹ 5,00,000 including ₹ 6,000 for furniture.

(b) Value of stock to be reduced by ₹ 20,000 in respect of obsolete items and balance of sundry debtors by 5%.

(c) Arun Ltd. to assume liabilities and to discharge 6% debenture by issue of 5% debentures of equivalent amount and a cash premium of 6%.

(d) New project is to be valued at ₹ 95,000.

(e) Shareholders of Varun Ltd. to receive cash payment of ₹ 30 per share plus for equity shares in Arun Ltd. for five shares held by them.

(f) Both the companies to declare and pay dividend at 6% prior to absorption.

(g) Expenses of liquidation of Varun Ltd. are to be reimbursed by Arun Ltd. to the extent of ₹ 5,000. The actual expenses amounted to ₹ 6,000. Show journal entries in the books of Varun Ltd. and Balance Sheet of Arun Ltd. after absorption assuming that Arun Ltd.'s, Authorised Capital has been increased to ₹ 20,00,000.

Q. 6. S. Ltd. is absorbed by P. Ltd. The draft balance sheet of S. Ltd. is as under :

Balance Sheet

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

P. Ltd. has agreed :

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

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

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

(iv) to assume the liability to trade payables.

You are required to calculate the purchase consideration.

Q. 7. Let us consider the draft Balance Sheet of X Ltd. as on 31st March, 2014:

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

Other Information:

(i) Y Ltd. takes over X Ltd. on 10th April, 2014.

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

(iii) 14% Preference Shareholders of X Ltd. are discharged at a premium of 20% by issuing necessary number of 15% Preference Shares of Y Ltd. (Face value ₹ 100 each).

(iv) Intrinsic value per share of X Ltd. is ₹ 20 and that of Y Ltd. ₹ 30. Y Ltd. will issue equity shares to satisfy the equity shareholders of X Ltd. on the basis of intrinsic value. However, the entry should be made at par value only. The nominal value of each equity share of Y Ltd. is ₹ 10

Compute the purchase consideration.

Q. 8. Neel Ltd. and Gagan Ltd. amalgamated to form a new company on 1.04.2012. Following is the Draft Balance Sheet of Neel Ltd. and Gagan Ltd. as at 31.3.2012:

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

Following are the additional information:

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

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

(iii) Neel Ltd. had purchased goods costing ₹ 10,000 from Gagan Ltd. All these goods are included in the current asset of Neel Ltd. as at 31st March, 2012.

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

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

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

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

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

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

(c) Issue 12% preference shares of ₹ 10 each fully paid up at par to provide income equivalent to 8% return on net assets in the business as on 31.3.2012 after revaluation of assets of Neel Ltd. and Gagan Ltd. respectively.

You are required to compute the :

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

(ii) Purchase consideration.

Q. 9. Following are the Balance Sheets of Batuk Ltd. and Vaman Ltd. as on 31st March, 2011.

Balance Sheet of Batuk Ltd.

Liabilities	₹	Assets	₹
5,000 Shares of 10 each	50,000	Buildings	15,000
General Reserve	19,000	Machinery	55,000
Profit and Loss A/c	1,000	Stock	8,000
Sundry Creditors	15,000	Debtors	7,000
Employee's Provident Fund	1,500	Cash	1,500
	86,500		**86,500**

Balance Sheet of Vaman Ltd.

Liabilities	₹	Assets		₹
1,500 Shares of 20 each	30,000	Machine		25,000
Sundry Creditors	4,000	Stock		4,000
		Debtors	5,000	
		Less : Provision for Bad Debts	500	4,500
		Cash		500
	34,000			**34,000**

The two companies agree to amalgamate and form a new company called Virat Ltd. which takes over the assets and liabilities of both the companies.

The assets of Batuk Ltd. are taken over at a reduced valuation of 5 per cent with the exception of Buildings and Cash which are taken at book values. The assets of Vaman Ltd. are taken over at book values with the exception that provision for bad debts is no longer to be continued.

Both companies are to receive 10 per cent of the Net valuation of their respective business as Goodwill. The entire purchase price is to be paid by Virat Ltd. in fully paid shares of 10 each. Give Journal Entries to close the books of Batuk Ltd. and show the Opening Balance Sheet of Virat Ltd.

Q. 10. X Co. Ltd. agrees to absorb Y Co. Ltd. on 31-3-2011 on which date their Balance Sheets are follows :

Liabilities	X Co. Ltd. ₹	Y Co. Ltd. ₹	Assets	X Co. Ltd. ₹	Y Co. Ltd. ₹
Share Capital			Fixed assets	2,50,000	1,00,000
Equity Shares			Stock	1,50,000	80,000
of ₹ 10 each	3,00,000	1,50,000	Debtors	80,000	60,000
Profit and Loss A/c	1,00,000	50,000	Bills Receivable	70,000	40,000
General Reserve	1,00,000	50,000	Cash and Bank	50,000	30,000
Bills Payable	40,000	20,000			
Sundry Creditors	60,000	40,000			
	6,00,000	**3,10,000**		**6,00,000**	**3,10,000**

The purchase consideration is ₹ 2,80,000 payable in Equity shares of ₹ 10 each.

Additional information :

(a) Sundry Debtors of X Co. Ltd. include ₹ 30,000 due from Y Co. Ltd.

(b) Bills payable of X Co. Ltd. include ₹12,000 due to Y Co. Ltd.

(c) The Stock of X Co. Ltd. include ₹ 20,000 worth of goods purchased from Y Co. Ltd. on which Y Co. Ltd. made a profit of 25% on cost, whereas, the stock of Y Co. Ltd. include ₹ 16,000 worth of goods purchased from X Co. Ltd. on which X Co. Ltd. made a profit of 20% on sales.

Show the entries in the books of both the companies and the opening Balance Sheet of X Co. Ltd.

Q. 11. Y Ltd. decides to absorb X Ltd. The draft Balance Sheet of X Ltd. is as follows:

	₹		₹
3,000 Equity shares of		Net assets	2,90,000
₹100 each (fully paid)	3,00,000	Profit and Loss Account	70,000
Preference shares	60,000		
	3,60,000		**3,60,000**

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

Q. 12. The following draft Balance Sheets are given as on 31st March, 2014:

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

The following further information is given —

(a) Better Limited issued bonus shares on 1st April, 2014, in the ratio of one share for every two held, out of Reserves and Surplus.

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

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

(d) Liabilities of Better Ltd., included ₹1 lakh due to Best Ltd., for purchases from it, on which Best Ltd., made profit of 25% of the cost. The goods of ₹ 50,000 out of the said purchases, remained in stock on the date of the above Balance Sheet. Make the closing ledger in the Books of Better Ltd. and the opening journal entries in the Books of Best Ltd., and prepare the Balance Sheet as at 1st April, 2014 after the takeover.

Q. 13. The following are the summarized Balance Sheets of A Ltd. and B Ltd. as on 31.3.2014:

	(₹ in thousands)	
Liabilities	**A Ltd.**	**B Ltd.**
Share capital:		
Equity shares of 100 each fully paid up	2,000	1,000
Reserves	800	—
10% Debentures	500	—
Loans from Banks	250	450
Bank overdrafts	—	50
Trade payables	300	300
Proposed dividend	200	—
Total	**4,050**	**1,800**
Assets		
Tangible assets / fixed assets	2,700	850
Investments	700	---
Trade receivables	400	150
Cash at bank	250	---
Accumulated loss	---	800
Total	**4,050**	**1,800**

B Ltd. has acquired the business of A Ltd. The following scheme of merger was approved:

(i) Banks agreed to waive off the loan of ₹ 60 thousands of B Ltd.

(ii) B Ltd. will reduce its shares to ₹10 per share and then consolidate 10 such shares into one share of ₹100 each (new share).

(iii) Shareholders of A Ltd. will be given one share (new) of B Ltd. in exchange of every share held in A Ltd.

(iv) Proposed dividend of A Ltd. will be paid after merger to shareholders of A Ltd.

(v) Trade payables of B Ltd. includes ₹100 thousands payable to A Ltd.

Pass necessary entries in the books of B Ltd. and prepare Balance Sheet after merger.

Q. 14. Given below are the summarized balance sheets of Huge Ltd and Big Ltd. as on 31.12.2013. Big Ltd. was merged with Huge Ltd. with effect from 1.1.2014.

Balance Sheets as on 31.12.2013

(₹)

Liabilities	Huge Ltd.	Big Ltd.	Assets	Huge Ltd.	Big Ltd.
Share capital :			Sundry fixed assets	9,50,000	4,00,000
Equity shares of ₹ 10	7,00,000	2,50,000	Investments (Non-trade)	2,00,000	50,000
each			Inventory	1,20,000	50,000
General reserve	3,50,000	1,20,000	Trade receivables	75,000	80,000
Profit and loss A/c	2,00,000	65,000	Advance tax	80,000	20,000
Export profit reserve	70,000	40,000	Cash and bank	2,75,000	1,30,000
12% Debentures	1,00,000	1,00,000			
Trade payables	40,000	45,000			
Provision for taxation	1,00,000	60,000			
Proposed Dividend	1,40,000	50,000			
	17,00,000	**7,30,000**		**17,00,000**	**7,30,000**

Huge Ltd. would issue 12% debentures to discharge the claims of the debenture holders of Big Ltd. at par. Non-trade investments of Huge Ltd. fetched @ 25% while those of Big Ltd. fetched @ 18%. Profit of Huge Ltd. and Big Ltd. during 2011 2012 and 2013 were as follows:

Year	Huge Ltd.	Big Ltd.
	₹	₹
2011	5,00,000	1,50,000
2012	6,50,000	2,10,000
2013	5,75,000	1,80,000

Goodwill may be calculated on the basis of capi talization method taking 20% as the normal rate of return. Purchase consideration is discharged by Huge Ltd. on the basis of intrinsic value per share. Both companies decided to cancel the proposed dividend as it has already been not approved by Board of Directors.

Pass Journal Entries and prepare the balance sheet of Huge Ltd. after the merger.