4

Accounting for Corporate Restructuring

BASIC CONCEPTS

Corporate restructuring (CR) is a broad term to denote significant reorientation or realignment of the investment (assets) and/or financing (liabilities) structure of a company through conscious management action with a view to drastically alter the quality and quantum of its future cash flow streams. This broad definition includes such corporate actions as mergers, acquisitions/ amalgamations/ absorption, divestitures, demergers (spin-offs) and debt-equity changes.

The different methods of restructuring and their implications are discussed below:

(1) External Restructuring

  (a) Asset-based (portfolio) restructuring

  (b) Financial or capital restructuring

(2) Internal Restructuring

  (a) Portfolio restructuring (Cost reduction through closure of units, redundancy programmes etc.)

  (b) Organisational restructuring (Management or organisational restructuring involving decentralisation, delayering, product-market based divisionalisation, matrix structure etc.)

(3) Amalgamation, absorption or external reconstruction.

Asset-based Restructuring

(i) **Mergers and Acquisitions (M & A)**

In the Indian context the term merger is used to denote consolidation of separate legal entities, not necessarily of similar sizes, into one through a statutory process of amalgamation. The motives of merger or acquisition are the same and both involve transfer of ownership and control of assets and the right to manage corporate cash flows.

For Example-Reliance Natural and Reliance Power Merger

(ii) **Divestitures and Asset Swaps**

Divestiture refers to disposal (in favour of third party) of business units, subsidiary companies or significant holdings in associates, often for cash. Asset swap, on other hand, entails simultaneous divesting and acquisition of each other's business by two companies, settling the difference in valuation, if any in cash.

(iii) **Demergers or Spin-offs**

Demerger involves spinning off (profitable or robust) parts of a diversified company into a new company and undertaking free distribution of the shares of the new (spun-off) company to the shareholders of the original company. For Example-RIL gets split among several companies between two brothers-Mukesh and Anil Ambani.

Unlike in a divestiture, the "parent" company or group does not receive any proceeds from a demerger as the demerged company's shares are directly distributed to the "parent" company's shareholders.

Capital and Financial Restructuring

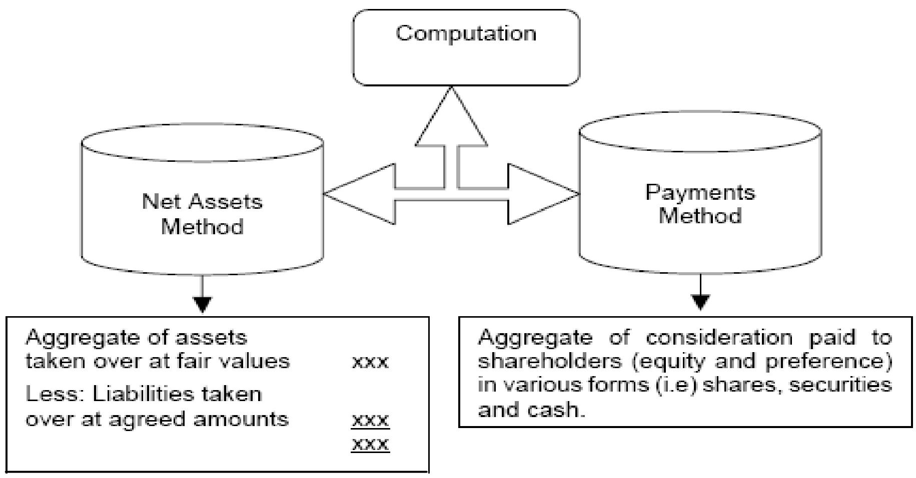
This type of restructuring includes buy back of shares, debt to equity conversions etc.

Purchase Consideration (PC)

In the problem information for PC will be available in two ways. Firstly, list of the various consideration paid is given, one should take care to add only those items paid to the members of the company and not to any outsider.

Secondly, assets and liabilities taken over are given in the problem. Purchase consideration in this case will be the net assets taken over by the amalgamated company.

Computation of Purchase consideration



Discharge of Purchase Consideration

The purchase consideration in the case of amalgamation is payable to the shareholders, both preference and equity, of the transferor company. This may be discharged by issuing preference and/or equity shares of the transferee company and partly by cash. Often the transferee company discharges claims of the preference shareholders of the transferor company at a premium or at a discount by issuing preference shares. Similarly, claims of the equity shareholders of the transferor company may also be discharged by issuing equity shares of the transferee company either at par or at premium or at discount. Debentures paid to shareholders of the transferor company will be considered as part of purchase consideration but debentures paid to the debenture holders or to the trade payables of the transferor company will not form part of purchase consideration.

Methods of Accounting for Amalgamation

There are two main methods of accounting for amalgamations:

(a) The Pooling of Interest Method (for amalgamation in the nature of merger), and

(b) The Purchase Method (for amalgamation in the nature of purchase).

The first method is applied incase of amalgamation in the nature of merger and the second method in case of amalgamation in the nature of purchase.

- **The Pooling of Interest Method:** Under this method the assets, liabilities and all reserves of the transferor company are recorded by transferee company at their existing carrying amounts unless the carrying amounts are to be adjusted to follow a uniform set of accounting policies. The balance of the profit and loss account of the transferor company should be aggregated with the corresponding balance of the transferee company or transferred to general reserve, if any.

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

  Therefore, no 'goodwill' arises in case of amalgamations in the nature of merger.

- **The Purchase Method :** Here the assets andliabilities of the transferor company should be incorporated in the transferee company's financial statements in either of the following two ways:

  (i) at their existing carrying amounts; or

  (ii) the purchase consideration should be allocated to individual identifiable assets and liabilities on the basis of their fair values at the date of amalgamation.

The important differences between the two methods of accounting are summarised below:

Particulars	Pooling of Interest	Purchase
Discharge of purchase consideration	Mainly shares; cash for settling dues of fractional shares	Shares, or other securities, or cash
Assets and Liabilities	Recorded at book values	Recorded at Fair values
Reserves	Are brought into and recorded in the books	Only statutory reserves are recorded by debit to Amalgamation adjustment account (reversed when statutory conditions are met)
Difference between consideration and net value of assets	Not recorded – difference is adjusted against reserves	Recorded as goodwill or capital reserve

Treatment of Difference of Purchase Consideration and Asset and Liabilities Taken over

<u>If it is in the nature of purchase</u>

Consideration > Net Asset value = GOODWILL

(It is considered appropriate to amortize goodwill over a period not exceeding five years unless a somewhat longer period can be justified.)

Consideration < Net Asset value = CAPITAL RESERVE

<u>If it is in the nature of merger</u>

Consideration > Net Asset value = CAPITAL RESERVE

Consideration < Net Asset value = CAPITAL RESERVE

Treatment of Statutory Reserves-In case of Purchase

The reserves of the transferor company, other than statutory reserves, should not be included in the financial statements of the transferee company. In case of statutory reserves (i.e., Development Allowance Reserve, Investment Allowance Reserve etc.) where the maintenance of such reserves for a specific period is required by statute, thes e should be recorded inthe financial statements of the transferee company with the help of the following entry:

Amalgamation Adjustment A/c Dr.

To Statutory Reserves A/c

Demerger

Question 1

The summarized Balance Sheet of Z Ltd. as at 31st March, 2014 is given below. In it, the respective shares of the company's two divisions namely S Division and W Division in the various assets and liabilities have also been shown.

(₹ in crores)

	S Division	W Division	Total
Fixed Assets:			
Cost	875	249	
Less: Depreciation	(360)	(81)	
Written-down value	515	168	683
Investments			97
Net Current assets:			
Current Assets	445	585	
Less: Current Liabilities	(270)	(93)	
	175	492	667
			1,447
Financed by:			
Loan funds		15	417
Own funds:			
Equity share capital: shares of ₹ 10 each			345
Reserves and surplus			685
			1,447

Loan funds included, inter alia, Bank Loans of ₹ 15 crores specifically taken for W Division and Debentures of the paid up value of ₹ 125 crores redeemable at any time between 1st October, 2013 and 30th September, 2014.

On 1st April, 2014 the company sold all of its investments for ₹ 102 crores and redeemed all the debentures at par, the cash transactions being recorded in the Bank Account pertaining to S Division.

Then a new company named Y Ltd. was incorporated with an authorized capital of ₹ 900 crores divided into shares of ₹ 10 each. All the assets and liabilities pertaining to W Division were transferred to the newly formed company; Y Ltd. allotting to Z Ltd.'s shareholders its two fully paid equity shares of ₹ 10 each at par for every fully paid equity share of ₹ 10 each held in Z Ltd. as discharge of consideration for the division taken over.

Y Ltd. recorded in its books the fixed assets at ₹ 218 crores and all other assets and liabilities at the same values at which they appeared in the books of Z Ltd.

You are required to:

(i) Show the journal entries in the books of Z Ltd.

(ii) Prepare Z Ltd.'s Balance Sheet immediately after the demerger and the initial Balance Sheet of Y Ltd.

(iii) Calculate the intrinsic value of one share of Z Ltd. immediately before the demerger and immediately after the demerger; and

(iv) Calculate the gain, if any, per share to the shareholders of Z Ltd. arising out of the demerger.

Answer

(i) Journal Entries in Z Ltd.'s books *(₹ in crores)*

		Dr. Amount	*Cr. Amount*
Bank Account (Current Assets)	Dr.	102	
To Investments			97
To Profit and Loss Account (Reserves and Surplus)			5
(Sale of investments at a profit of ₹ 5 crores)			
Debentures (Loan Funds)	Dr.	125	
To Bank Account (Current Assets)			125
(Redemption of debentures at par)			
Current Liabilities	Dr.	93	
Bank Loan (Loan Funds)	Dr.	15	
Provision for Depreciation	Dr.	81	
Reserves and Surplus (Loss on Demerger)	Dr.	645	
To Fixed Assets			249
To Current Assets			585
(Assets and liabilities pertaining to W Division taken out of the books on transfer of the division to Y Ltd.)			

(ii) (a) Z Ltd.'s Balance Sheet after demerger

Particulars	*Note No.*	*(₹ in crores)*
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
(a) Share Capital		345
(b) Reserve and Surplus	1	45

	(2) **Non-Current Liabilities**		
	Long-term borrowings	2	277
	(3) **Current Liabilities**		270
	Total		937
II.	Assets		
	(1) **Non-current assets**		
	Fixed assets		
	Tangible assets		515
	(2) **Current assets**	3	422
	Total		937

Notes to Accounts:

			(₹ in crores)
1.	Reserves and Surplus		
	Balance as on 31st March, 2014		685
	Add: Profit on sale of investments		5
			690
	Less: Loss on demerger		(645)
	Balance shown in balance sheet after demerger (gain)		45
2.	Loan Funds		
	Balance as on 31st March, 2014		417
	Less: Bank Loan transferred to Y Ltd.	15	
	Debentures redeemed	125	(140)
	Balance shown in balance sheet after demerger		277
3.	Current Assets		
	Balance as on 31st March, 2014		445
	Add: Cash received from sale of investments		102
			547
	Less: Cash paid to redeem debentures		(125)
	Balance in balance sheet after demerger		422

(b) **Initial Balance Sheet of Y Ltd.**

Particulars	*Note No.*	*(₹ in crores)*
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
(a) Share Capital	1	690
(b) Reserves and Surplus	2	5
(2) **Non-Current Liabilities**		
Long-term borrowings	3	15
(3) **Current Liabilities**		93
Total		803
II. **Assets**		
(1) **Non-current assets**		
Fixed assets (Revalued)		218
(2) **Current assets**		585
Total		803

Notes to Accounts:

1. Share Capital

	(₹ in crores)
Authorised capital	
90 crores Equity shares of ₹ 10 each	900
Issued and subscribed capital	
69 crores Equity shares of ₹ 10 each	690
(issued for consideration other than cash)	

2. Reserves and Surplus

		(₹ in crores)
Capital Reserve		
Purchase consideration		690
Less: Assets transferred*	710	
Loan funds transferred	(15)	(695)
Capital reserve		5

* The fixed assets have been recorded at 218 crores instead of 168 crores as in the books of Z Ltd before demerger. Therefore, Y Ltd. makes a capital profit of 5 crores whereas Z Ltd is having a capital gain of 45 crores.

3. Long-term borrowing

Loan Funds	15

(iii) Calculation of intrinsic value of one share of Z Ltd.

Particulars	*Before demerger (Division S and W)*	*After demerger (Division S)*
Fixed Assets	683	515
Net Current Assets	(667-125+102) 644	(175-125+102) 152
Total Assets	1,327	667
Less: Loan Funds	(292)	(277)
	(417-125)	(417-125-15)
Net Asset Value	1,035	390
No. of share	34.5	34.5
Intrinsic Value per share	₹ 30/Share	₹ 11.30/Share

Intrinsic Value of one share = ₹ $\frac{390\text{ crores}}{34.5\text{ crores}}$ = ₹ 11.30 per share

(iv) Gain per share to Shareholders:

After demerger, for every share in Z Ltd. the shareholder holds 2 shares in Y Ltd.

	₹
Value of one share in Z Ltd.	11.30
Value of two shares in Y Ltd.	
Value per share = (Net Assets / No. of shares i.e.695/69 = ₹ 10.07× 2)	20.14
	31.44
Less: Value of one share before demerger	(30.00)
Gain per share	1.44

The gain per share amounting ₹ 1.44 is due to appreciation in the value of fixed assets by Y Ltd.

Question 2

Ksha Ltd. and Yaa Ltd. are two companies. On 31st March, 2014 their summarised Balance Sheets were as under:

(₹ in crores)

	Ksha Ltd.		Yaa Ltd.	
	₹	₹	₹	₹
Sources of funds:				
Share Capital:				
Authorised:		500		500
Issued: Equity shares of ₹ 10 each fully paid up		300		200
Reserves and surplus:				
Capital reserves	40		20	
Revenue reserves	700		425	
Surplus	10	750	5	450
Owners' funds		1,050		650
Loan funds		250		350
		1,300		1,000
Fund employed in:				
Fixed assets:				
Cost	1,000		700	
Less: Depreciation	(400)	600	(300)	400
Net current assets:				
Current assets	2,000		1,500	
Less: Current liabilities	(1,300)	700	(900)	600
		1,300		1,000

Ksha Ltd. has 2 divisions, very profitable division A and loss making division B. Yaa Ltd. similarly has 2 divisions, very profitable division C and loss making division D.

The two companies decided to reorganize. Necessary approvals from trade payables and members and sanction by High Court have been obtained to the following scheme:

1. *Division B of Ksha Ltd. which has fixed assets costing ₹ 400 crores (written down value ₹ 160 crores), Current assets ₹ 900 crores, Current liabilities ₹ 750 crores and loan funds of ₹ 200 crores is to be transferred at ₹ 125 crores to Yaa Ltd.*
2. *Division D of Yaa Ltd. which has fixed assets costing ₹ 500 crores (depreciation ₹ 200 crores), Current assets ₹ 800 crores, Current liabilities ₹ 700 crores, and loan funds ₹ 250 crores is to be transferred at ₹ 140 crores to Ksha Ltd.*
3. *The difference in the two considerations is to be treated as loan carrying interest at 15% per annum.*

4. *The directors of each of the companies revalued the fixed assets taken over as* follows:
   (i) *Division of D of Yaa Ltd. taken over: ₹ 325 crores.*
   (ii) *Division B of Ksha Ltd. taken over: ₹ 200 crores.*

All the other assets and liabilities are recorded at the balance sheet values.

(a) *The directors of both the companies ask you to prepare the balance sheets after reconstruction (showing the corresponding figures before reconstruction).*

(b) *Master Richie Rich, who owns 50,000 equity shares of Ksha Ltd. and 30,000 equity shares of Yaa Ltd. wants to know whether he has gained or lost in terms of net asset value of equity shares on the above reorganizations.*

Answer

(a) **Ksha Ltd.**

Balance Sheet as at 31st March, 2014

Particulars	*Note No.*	*After reconstruction*	*Before reconstruction*
		(₹ in crores)	*(₹ in crores)*
I. **Equity and Liabilities**			
(1) **Shareholder's Funds**			
(a) Share Capital	1	300	300
(b) Reserve and Surplus	2	800	750
(2) **Non-Current Liabilities**			
Long-term borrowings	3	315	250
(3) **Current Liabilities**		1,250	1,300
Total		2,665	2,600
II. **Assets**			
(1) **Non-current assets**			
(a) Fixed assets			
Tangible assets	4	765	600
(2) **Current assets**		1,900	2,000
Total		2,665	2,600

Notes to Accounts

	Particulars	After reconstruction (₹ in Crores)		Before reconstruction (₹ in Crores)	
1.	**Share Capital**				
	Authorised:				
	50 crores equity shares of ₹10 each Issued and subscribed:		500		500
	30 crores equity shares of ₹10 each fully paid up		300		300
2.	**Reserves and surplus**				
	Capital reserves	40		40	
	Add: Capital profit on reconstruction [WN 1(ii & iii)]	50		-	
	Revenue reserves	700		700	
	Surplus	10	800	10	750
3.	**Long term Borrowings**				
	Yaa Ltd. (Interest @ 15% p.a.) [WN 1(i)]	15			
	Others	300	315		250
4.	**Fixed assets**				
	Gross block	925		1,000	
	Less: Depreciation	(160)		(400)	
	Net block		765		600

Yaa Ltd.
Balance Sheet as at 31st March, 2014

Particulars	Note No.	After reconstruction (₹ in Crores)	Before reconstruction (₹ in Crores)
I. **Equity and Liabilities**			
(1) **Shareholder's Funds**			
(a) Share Capital	1	200	200
(b) Reserves and Surplus	2	465	450

(2) **Non-Current Liabilities**			
Long-term borrowings		300	350
(3) **Current Liabilities**		950	900
Total		1,915	1,900
II. **Assets**			
(1) **Non-current assets**			
Fixed assets			
Tangible assets	3	300	400
Long term loans and advances	4	15	-
(2) **Current assets**			
Other current assets		1,600	1,500
Total		1,915	1,900

Notes to Accounts

	Particulars	*After reconstruction*		*Before reconstruction*	
		(₹ in crores)		*(₹ in crores)*	
1.	**Share Capital**				
	Authorized:				
	50 crores equity shares of ₹ 10 each		500		500
	Issued and subscribed:				
	20 crores equity shares of ₹ 10 each fully paid up		200		200
2.	**Reserves and surplus**				
	Capital reserves	20		20	
	Add: Capital profit on reconstruction [WN 1(ii)]	15	35	-	20
	Revenue reserves		425		425
	Surplus		5		5
			465		450
3.	**Tangible assets:**				
	Gross block	400		700	
	Less: Depreciation	(100)		(300)	
	Net block		300		400

4.	**Long-term loans and advances**				
	Loan to Ksha Ltd.[WN 2(i)]		15		----

(b) Net asset value of Master Riche Rich's holdings

	Pre-reorganisation (₹)	*Post-reorganisation (₹)*	*Change (Gain) (₹)*
Net asset value of one equity share:			
(Refer to working notes)			
Ksha Ltd.	35.00	36.67	1.67
Yaa Ltd.	32.50	33.25	0.75
Net asset value of equity shares owned by Master Riche Rich			
Ksha Ltd. (50,000 shares)	17,50,000	18,33,500	83,500
Yaa Ltd. (30,000 shares)	9,75,000	9,97,500	22,500
	27,25,000	28,31,000	1,06,000

Master Riche Rich has gained in terms of net asset value of his holdings as indicated in the last column.

Working Notes:

(1) Ksha Ltd. (₹ in crores)

		Pre-re-organisation figures (a)	*Sale of division B (b)*	*Purchase of division D of Yaa Ltd. (c)*	*Post-re-organisation figures (d) = (a) – (b) + (c)*
(i)	Fixed assets:				
	Cost	1,000	400	325	925
	Depreciation	(400)	(240)	-	(160)
	Written down value (I)	600	160	325	765
	Current assets	2,000	900	800	1,900
	Current liabilities	(1,300)	(750)	(700)	(1,250)

	Net current assets (II)	700	150	100	650
	Funds employed [(I) + (II)]	1,300	310	425	1,415
	Loan funds:				
	Others (III)	(250)	(200)	(250)	(300)
	Yaa Ltd. (balance payable on transfers of divisions i.e. ₹ 140 – ₹ 125) (IV)				(15)
	Net worth (I + II – III – IV)	1,050	110	175	1,100

Calculation of Profit/(Loss) on Division sale and purchase

(ii)	Sale of division B		*(₹ in crores)*
	Transfer price		125
	Cost of the division (₹ 160 + ₹ 150 – ₹ 200)		(110)
	Capital Profit		15
(iii)	Purchase of division D of Yaa Ltd.		
	Agreed value of assets less liabilities taken over ₹ (325 + 800-700 – 250)		175
	Less: Transfer price		(140)
	Capital Profit		35
(iv)	Pre-reorganisation net worth		1,050
	Add: Capital profit on		
	Sale	15	
	Acquisition	35	50
	Post-reorganisation net worth		1,100

No. of equity shares	30 crores
Net asset value of equity share:	₹
Pre-reorganisation	1,050/30 = 35.00
Post-reorganisation	1,100/30 = 36.67 (rounded off)

(2) Yaa Ltd.

(i) (₹ in crores)

	Pre-re-organisation figures (a)	*Sale of division D* (b)	*Purchase of division B of Ksha Ltd.* (c)	*Post-re-organisation figures* (d) = (a) – (b) + (c)
Fixed assets:				
Cost	700	500	200	400
Depreciation	(300)	(200)	–	(100)
Written down value (I)	400	300	200	300
Current assets	1,500	800	900	1,600
Current liabilities	(900)	(700)	(750)	(950)
Net current assets (II)	600	100	150	650
Funds employed [(I) + (II)]	1,000	400	350	950
Loan funds–others (III)	(350)	(250)	(200)	(300)
	650	150	150	650
Ksha Ltd. (balance on account of transfers of divisions) (IV)	-	-	-	15
Net worth (I + II – III + IV)	650	150	150	665

(ii) *(₹ in crores)*

	Purchase of division B of Ksha Ltd.		*Sale of division D*
Value of assets less liabilities			
(Value to Yaa Ltd.) (200 + 900 – 750 – 200)	150	(300 + 800 – 700 – 250)	150
Less: Transfer Price	(125)		(140)
Capital Profit/(Capital Loss)	25		(10)

(iii) (₹ in crores)

Pre-reorganisation net worth		650
Add: Capital profit - on acquisition	25	
- Sale	(10)	15
Post-reorganisation net worth		665

No. of equity shares	20 crores
Net asset value of equity share:	₹
Pre-reorganisation	650/20 = 32.50
Post-reorganisation	665/20 = 33.25

Buy Back of Shares

Question 3

The summarized Balance Sheet of Gunshot Ltd. (a unlisted company) as on 31.3.2014 is given:

(₹ in '000)

Liabilities	*Amount*	*Assets*	*Amount*
Share Capital :		*Fixed Assets*	*2,700*
Equity shares of ₹ 10 each	*800*	*Non-trade Investments*	*300*
Securities Premium	*100*	*Inventory*	*600*
General Reserve	*780*	*Trade receivables*	*360*
Profit and Loss Account	*120*	*Cash and Bank*	*160*
10% Debenture	*2,000*		
Trade payables	*320*		
	4,120		*4,120*

Gunshot Ltd. buy back 16,000 shares of ₹ 20 per share. For this purpose, the Company sold its all non-trade investments for ₹ 3,20,000. Give Journal Entries with full narrations affecting the buy back.

Answer

In the books of Gunshot Ltd.

Journal Entries for Buy-back of shares

			₹	₹
(i)	Bank A/c	Dr.	3,20,000	
	To Non-trade Investments			3,00,000
	To Profit & Loss A/c			20,000
	(Being the entry for sale of Non-trade Investments)			
(ii)	Shares Buy back A/c (16,000 x ₹ 20)	Dr.	3,20,000	
	To Bank A/c			3,20,000
	(Being purchase of 16,000 shares @ ₹ 20 per share)			

(iii)	Equity Share Capital A/c (16,000 x ₹ 10)	Dr.	1,60,000	
	Buy-back Premium (16,000 x ₹ 10)	Dr.	1,60,000	
	To Shares Buy-back A/c			3,20,000
	(Being cancellation of shares bought back)			
(iv)	Securities Premium A/c	Dr.	1,00,000	
	General Reserve	Dr.	60,000	
	To Buy-back Premium			1,60,000
	(Being adjustment of buy-back premium)			
(v)	General Reserve	Dr.	1,60,000	
	To Capital Redemption Reserve			1,60,000
	(Being the entry for transfer of General Reserve to Capital Redemption Reserve to the extent of face value of equity shares bought back)			

Question 4

Kharid Ltd. has the following capital structure as on 31-03-2014:

Particulars		*(₹ in crores)*
Equity share capital (shares of ₹ 10 each, fully paid)		*660*
Reserve and Surplus:		
General Reserve	*480*	
Securities Premium Account	*180*	
Profit and Loss Account	*180*	
Infrastructure Development Reserve	*360*	*1200*
Loan Funds		*3,600*

The shareholders of Kharid Ltd. have on the recommendation of their Board of Directors approved on 12-09-14, a proposal to buy-back maximum permissible number of equity shares, considering the large surplus funds available at the disposal of the company.

The prevailing market value of the company's shares is ₹ 25 per share and in order to induce the existing shareholders to offer their shares for buy-back, it was decided to offer a price 20% over market value.

You are also informed that the Infrastructure Development Reserve is created to satisfy income tax requirements.

You are required to compute the maximum number of shares that can be bought back in the light of the above information and also under, a situation where the loan funds of the company were either ₹ 2,400 crores or ₹ 3,000 crores.

Assuming that the entire buy-back is completed by 09-12-2014, show-the accounting entries with full narrations in the company's books in each situation.

Answer

(a) Statement determining the maximum number of shares to be bought back

Number of shares

Particulars	*When loan fund is*		
	₹ 3,600 crores	*₹ 2,400 crores*	*₹ 3,000 crores*
Shares Outstanding Test (W.N.1)*	16.5	16.5	16.5
Resources Test (W.N.2)	12.5	12.5	12.5
Debt Equity Ratio Test (W.N.3)	Nil	7.5	Nil
Maximum number of shares that can be bought back [least of the above]	Nil	7.5	Nil

(b) Journal Entries for the Buy Back (applicable only when loan fund is ₹ 2,400 crores)

			₹ in crores	
			Debit	*Credit*
(a)	Equity share buy back account	Dr.	225	
	To Bank account			225
	(Being buy back of 7.5 crores equity shares of ₹ 10 each @ ₹ 30 per share)			
(b)	Equity share capital account	Dr.	75	
	Securities premium account	Dr.	150	
	To Equity share buy back account			225
	(Being cancellation of shares bought back)			
(c)	General reserve account	Dr.	75	
	To Capital redemption reserve account			75
	(Being transfer of free reserves to capital redemption reserve to the extent of nominal value of share capital bought back out of redeemed through free reserves)			

*The entry has been made according to the information given in the question. It may be noted that according to Securities and Exchange Board of India (Buy-back of Securities Amendment) Regulations, 2013, no offer of buy-back for fifteen per cent or more of the paid up capital and free reserves of the company shall be made from the open market.

Working Notes:

1. Shares Outstanding Test

Particulars	*(Shares in crores)*
Number of shares outstanding	66
25% of the shares outstanding	16.5

2. Resources Test

Particulars		
Paid up capital (₹ in crores)		660
Free reserves (₹ in crores)		
General Reserve	480	
Securities Premium A/c	180	
Profit and Loss A/c	180	840
Shareholders' funds (₹ in crores)		1,500
25% of Shareholders fund (₹ in crores)		375
Buy-back price per share (₹) (₹ 25 x 120%)		₹ 30
Number of shares that can be bought back (shares in crores)		12.5 crores shares

3. Debt Equity Ratio Test

	Particulars	*When loan fund is*		
		₹ 3,600 crores	*₹ 2,400 crores*	*₹ 3,000 crores*
(a)	Loan funds (₹ in crores)	3,600	2,400	3,000
(b)	Minimum equity to be maintained after buy back in the ratio of 2:1(₹ in crores)	1,800	1,200	1,500
(c)	Present equity (₹ in crores) (W.N.2)	1,500	1,500	1,500
(d)	Future equity (₹ in crores) (See Note 2)	N.A.	1,425 (1,500-75)	N.A.
(e)	Maximum permitted buy back of Equity (₹ in crores) [(d) – (b)] (See Note 2)	Nil	225 (by simultaneous equation)	Nil
(f)	Maximum number of shares that can be bought back @ ₹ 30 per share (shares in crores) (See Note 2)	Nil	7.5 (by simultaneous equation)	Nil

Note:

1. Under Situations 1 & 3 the company does not qualify for buy-back of shares as per the provisions of Section 68 of the Companies Act, 2013[*].

2. As per Section 68 of the Companies Act 2013, the ratio of debt owed by the company should not be more than twice the capital and its free reserve **after** such buy-back. Also as per the section, on buy-back of shares, out of free reserves a sum equal to the nominal value of the share bought back shall be transferred to Capital Redemption Reserve (CRR). As per section 55 of the Companies Act, 2013[**], utilization of CRR is restricted to issuance of fully paid-up bonus shares only. It means CRR is not available for distribution as dividend. Hence, CRR is not a free reserve. Therefore, for calculation of future equity i.e. share capital and free reserves, amount transferred to CRR on buy-back has to be deducted from present equity.

   Amount transferred to CRR and maximum equity to be bought back will be calculated by simultaneous equation method.

   Suppose amount transferred to CRR account is 'x' and maximum permitted buy-back of equity is 'y'.

   Then, $(1{,}500 - x) - 1200 = y$ (1)

   $\frac{y}{30} \times 10 = x$ Or, $3x = y$ (2)

   by solving the above equation, we get

   x = ₹ 75 crores

   y = ₹ 225 crores

Amalgamation / Absorption

Question 5

A Ltd. and B Ltd. were amalgamated on and from 1st April, 2014. A new company C Ltd. was formed to take over the business of the existing companies. The summarized Balance Sheets of A Ltd. and B Ltd. as on 31st March, 2014 are given below:

	(₹ in lakhs)			*(₹ in lakhs)*	
Liabilities	*A Ltd.*	*B Ltd.*	*Assets*	*A Ltd.*	*B Ltd.*
Share Capital			*Fixed Assets*		

[*] Erstwhile Section 77A of the Companies Act, 1956.

[**] Erstwhile Section 80 of the Companies Act, 1956.

Equity Shares of ₹ 100 each	*800*	*750*	*Land and Building*	*550*	*400*
12% Preference shares of ₹ 100 each	*300*	*200*	*Plant and Machinery*	*350*	*250*
Reserves and Surplus			*Investments*	*150*	*50*
Revaluation Reserve	*150*	*100*	*Current Assets, Loans and Advances*		
General Reserve	*170*	*150*			
Investment Allowance Reserve	*50*	*50*	*Inventory*	*350*	*250*
Profit and Loss Account	*50*	*30*	*Trade receivables*	*300*	*350*
Secured Loans			*Cash and Bank*	*300*	*200*
10% Debentures (₹ 100 each)	*60*	*30*			
Current Liabilities and Provisions					
Trade payables	*420*	*190*			
	2,000	*1,500*		*2,000*	*1,500*

Additional Information:

(1) 10% Debentureholders of A Ltd. and B Ltd. are discharged by C Ltd. issuing such number of its 15% Debentures of ₹ 100 each so as to maintain the same amount of interest.

(2) Preference shareholders of the two companies are issued equivalent number of 15% preference shares of C Ltd. at a price of ₹ 150 per share (face value of ₹ 100).

(3) C Ltd. will issue 5 equity shares for each equity share of A Ltd. and 4 equity shares for each equity share of B Ltd. The shares are to be issued @ ₹ 30 each, having a face value of ₹ 10 per share.

(4) Investment allowance reserve is to be maintained for 4 more years.

Prepare the Balance Sheet of C Ltd. as on 1st April, 2014 after the amalgamation has been carried out on the basis of Amalgamation in the nature of purchase.

Answer

Balance Sheet of C Ltd.
as at 1st April, 2014

Particulars	*Note No.*	*(₹ in lakhs)*
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
(a) Share Capital	1	1,200
(b) Reserves and Surplus	2	1,750

	(2)	**Non-Current Liabilities**		
		Long-term borrowings	3	60
	(3)	**Current Liabilities**		
		Trade payables	9	610
		Total		3,620
II.	**Assets**			
	(1)	**Non-current assets**		
		(a) Fixed assets		
		i. Tangible assets	4	1,550
		ii. Intangible assets	5	20
		(b) Non-current investments	6	200
		(c) Other non-current assets	7	100
	(2)	**Current assets**		
		(a) Inventories		600
		(b) Trade receivables	8	650
		(c) Cash and cash equivalents		500
		Total		3,620

Notes to Accounts

		(₹ in lakhs)	(₹ in lakhs)
1.	Share Capital		
	Equity share capital (W.N.2)		
	70,00,000 Equity shares of ₹ 10 each	700	
	5,00,000 Preference shares of ₹ 100 each	500	
	(all the above shares are allotted as fully paid-up pursuant		
	to contracts without payment being received in cash)		1,200
2.	Reserves and surplus		
	Securities Premium Account	1,650	
	Investment Allowance Reserve	100	1,750
3.	Long-term borrowings		
	15% Debentures		60

4.	Tangible assets		
	Land and Building	950	
	Plant and Machinery	600	1,550
5.	Intangible assets		
	Goodwill [W.N. 2]		20
6.	Non-current Investments		
	Investments		200
7.	Other non-current assets		
	Amalgamation Adjustment Account		100
8.	Trade receivables		
	A Ltd.	300	
	B Ltd.	350	650
9.	Trade payables		
	A Ltd.	420	
	B Ltd.	190	610

Working Notes:

			(₹ in lakhs)	
			A Ltd.	*B Ltd.*
(1)	Computation of Purchase consideration			
	(a)	Preference shareholders:		
		$\left(\frac{3,00,00,000}{100}\right)$ i.e. 3,00,000 shares × ₹ 150 each	450	
		$\left(\frac{2,00,00,000}{100}\right)$ i.e. 2,00,000 shares × ₹ 150 each		300
	(b)	Equity shareholders:		
		$\left(\frac{8,00,00,000 \times 5}{100}\right)$ i.e. 40,00,000 shares × ₹ 30 each	1,200	
		$\left(\frac{7,50,00,000 \times 4}{100}\right)$ i.e. 30,00,000 shares × ₹ 30 each		900
	Amount of Purchase Consideration		1,650	1,200

(2)	Net Assets Taken Over					
	Assets taken over:					
	Land and Building		550		400
	Plant and Machinery		350		250
	Investments		150		50
	Inventory		350		250
	Trade receivables		300		350
	Cash and bank		300		200
			2,000		1,500
	Less: Liabilities taken over:				
	Debentures	40		20	
	Trade payables	420		190	
			(460)		(210)
	Net assets taken over		1,540		1,290
	Purchase consideration		1,650		1,200
	Goodwill		110		-
	Capital reserve				90

Question 6

The Abridged Balance Sheet (Draft) of V Ltd. as on 31st March, 2014 is as under:

Liabilities	*₹*	*Assets*	*₹*
24,000, Equity shares of ₹ 10 each	*2,40,000*	*Goodwill*	*5,000*
5000, 8% cumulative preference shares of ₹ 10 each	*50,000*	*Fixed Assets* *Inventory*	*2,57,000* *50,000*
8% Debentures	*1,00,000*	*Trade receivables*	*60,000*
Interest accrued on debentures	*8,000*	*Bank*	*1,000*
Trade payables	*1,00,000*	*Profit & Loss Accounts*	*1,25,000*
	4,98,000		*4,98,000*

The following scheme is passed and sanctioned by the court:

(i) A new company P Ltd. is formed with ₹ 3,00,000, divided into 30,000 Equity shares of ₹ 10 each.

(ii) The new company will acquire the assets and liabilities of V Ltd. on the following terms:

(a) Old company's debentures are paid by similar debentures in new company and for

outstanding accrued interest shares of equal amount are issued at par.

(b) *The trade payables are paid for every ₹ 100, ₹ 16 in cash and 10 shares issued at par.*

(c) *Preference shareholders are to get equal number of equity shares at par. For arrears of dividend amounting to ₹ 12,000, 5 shares are issued at par for each ₹ 100 in full satisfaction.*

(d) *Equity shareholders are issued one share at par for every three shares held.*

(e) *Expenses of ₹ 8,000 are to be borne by the new company.*

(iii) *Current Assets are to be taken at book value (except stock, which is to be reduced by ₹ 3,000). Goodwill is to be eliminated, balance of purchase consideration being attributed to fixed assets.*

(iv) *Remaining shares of the new company are issued to public at par and are fully paid.*

You are required to show:

(a) *In the old company's books:*

(i) *Realisation and Reconstruction (combined) Account*

(ii) *Equity Shareholder's Account*

(b) *In the new company's books:*

(i) *Bank Account*

(ii) *Summarised Balance Sheet as per the requirements of Schedule III*.*

Answer

(a) (i) In the books of V Ltd. (Old company)

Realisation and Reconstruction Account

	₹		₹
To Goodwill	5,000	By 8% Debentures	1,00,000
To Fixed assets	2,57,000	By Interest accrued on debentures	8,000
To Inventory	50,000	By Trade payables	1,00,000
To Trade receivables	60,000	By P Ltd. (Purchase consideration)	1,36,000
To Bank	1,000	By Equity shareholders A/c (Bal.fig.)	35,000
To Preference share holders A/c (W.N.3)	6,000		
	3,79,000		3,79,000

* *Erstwhile Schedule VI to the Companies Act, 1956.*

(ii) **Equity shareholders' Account**

	₹		₹
To Profit & loss A/c	1,25,000	By Equity Share capital	2,40,000
To Equity shares in P Ltd.	80,000		
To Realisation and Reconstruction A/c	35,000		
	2,40,000		2,40,000

(b) (i) **In the books of P Ltd. (New company)**

Bank Account

	₹		₹
To Business Purchase	1,000	By Goodwill A/c* (for expenses on absorption)	8,000
To Equity shares application & allotment A/c (W.N. 4)	56,000	By Trade payables $\left(\frac{1,00,000}{100} \times 16\right)$	16,000
		By Balance c/d (Bal. fig.)	33,000
	57,000		57,000

(ii) **Balance Sheet as on 31st March, 2014**

Particulars	*Note No.*	₹
I. Equity and Liabilities		
(1) Shareholder's Funds		
Share Capital	1	3,00,000
(2) Non-Current Liabilities		
Long-term borrowings	2	1,00,000
Total		4,00,000
II. Assets		
(1) Non-current assets		
Fixed assets		
(a) Tangible assets** (W.N.2)		2,52,000

* However, as per para 56 of AS 26, if no asset is acquired from the expenditure incurred, then the same is recognized as an expense when it is incurred.

** It is assumed that fixed assets given in the balance sheet of V Ltd. comprises of tangible fixed assets only.

(b) Intangible assets	3	8,000
(2) Current assets		
(a) Inventories		47,000
(b) Trade receivables		60,000
(c) Cash and cash equivalents		33,000
Total		4,00,000

Notes to Accounts

		₹
1.	Share Capital	
	Authorised share capital	
	30,000 equity shares of ₹ 10 each	3,00,000
	Issued and Subscribed	
	30,000 shares of ₹ 10 each fully paid up	3,00,000
	(out of the above, 24,400 (W.N.4) shares have been issued for consideration other than cash)	
2.	Long Term Borrowings	
	Secured	
	8% Debentures	1,00,000
3.	Intangible assets	
	Goodwill	8,000

Working Notes:

1. Calculation of Purchase consideration

	₹
Payment to preference shareholders	
5,000 equity shares @ ₹ 10	50,000
For arrears of dividend: (₹ 12,000 x 5 shares / ₹ 100) @ ₹ 10	6,000
Payment to equity shareholders	
(24,000 shares x 1/3) @ ₹ 10	80,000
Total purchase consideration	1,36,000

2. Calculation of fair value at which fixed assets have been acquired by P Ltd.

Since, the question states that "balance of purchase consideration is being attributed to fixed assets", it is implied that the amount of purchase consideration is equal to the fair value at which the net assets have been acquired.

Therefore, the difference of fair value of net assets (excluding fixed assets) and the purchase consideration is the fair value at which the fixed assets have been acquired.

		₹
Purchase consideration / Net assets		1,36,000
Add: Liabilities:		
8% Debentures		1,08,000
Trade payables $\left(\frac{1,00,000}{100}\times 16\right)+\left(\frac{1,00,000}{100}\times 10\times 10\right)$		1,16,000
		3,60,000
Less: Inventory ₹ (50,000- 3,000)	47,000	
Trade receivables	60,000	
Bank	1,000	(1,08,000)
Fair value at which fixed assets has been acquired		2,52,000

3. Preference shareholders' Account

		₹			₹
To	Equity Shares in P Ltd.	56,000	By	Preference Share capital	50,000
			By	Realisation and Reconstruction A/c (Bal. fig.)	6,000
		56,000			56,000

4. Calculation of number of Equity shares issued to public

	Number of shares	
Authorised equity shares		30,000
Less: Equity shares issued for		
Interest accrued on debentures	800	
Trade payables of V Ltd. $\left(\frac{1,00,000}{100}\times 10 \text{ shares}\right)$	10,000	
Preference shareholders of V Ltd.	5,000	

Arrears of preference dividend $\left(\frac{12,000}{100}\times 5\right)$	600	
Equity shareholders of V Ltd. $\left(\frac{24,000}{3}\right)$	8,000	(24,400)
Number of equity shares issued to public at par for cash		5,600

Intrinsic Value

Question 7

The following are the summarized Balance Sheets of Big Ltd. and Small Ltd. for the year ending on 31st March, 2014: *(₹ in crores)*

	Big Ltd.	*Small Ltd.*
Equity share capital – in equity shares of ₹ 10 each	*50*	*40*
Preference share capital – in 10% preference shares of ₹ 100 each	*–*	*60*
Reserves and Surplus	*200*	*150*
	250	*250*
Loans – Secured	*100*	*100*
Total funds	*350*	*350*
Applied for: Fixed assets at cost less depreciation	*150*	*150*
Current assets	*200*	*200*
	350	*350*

The present worth of fixed assets of Big Ltd. is ₹ 200 crores and that of Small Ltd. is ₹ 429 crores. Goodwill of Big Ltd. is ₹ 40 crores and of Small Ltd. is ₹ 75 crores.

Small Ltd. absorbs Big Ltd. by issuing equity shares at par in such a way that intrinsic net worth is maintained.

Goodwill account is not to appear in the books. Fixed assets are to appear at old figures.

(a) Show the Balance Sheet after absorption.

(b) Draft a statement of valuation of shares on intrinsic value basis and prove the accuracy of your workings.

Answer

(a)

Small Ltd.
Balance Sheet as at 1st April, 2014

Particulars	*Note No.*	*(₹ in crores)*
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
(a) Share Capital	1	125
(b) Reserves and Surplus	2	375
(2) **Non-Current Liabilities**		
Long-term borrowings	3	200
Total		700
II. **Assets**		
(1) **Non-current assets**		
(a) Fixed assets		
Tangible assets	4	300
(2) **Current assets**	5	400
Total		700

Notes to Accounts

		(₹ in Crores)	*(₹ in Crores)*
1.	Share Capital		
	6.5 crores equity shares of ₹ 10 each (of the above shares, 2.5 crores equity shares are allotted as fully paid-up forconsideration other than cash)	65	
	60 lakhs 10% Preference shares of ₹ 100 each	60	125
2.	Reserves and surplus		
	As per last Balance Sheet	150	
	Capital Reserve (W.N.)	225	375
3.	Long Term Borrowings		
	Secured Loans:		
	As per last Balance Sheet	100	
	Taken over on absorption of Big Ltd.	100	200

4.	Tangible Assets		
	As per last Balance Sheet	150	
	Taken over on absorption of Big Ltd.	150	300
5.	Current assets		
	As per last Balance Sheet	200	
	Taken over on absorption of Big Ltd.	200	400

(b) Valuation of shares on intrinsic value basis

(i)	*Big Ltd.*	*Small Ltd.*
	(₹ in crores)	
Equity share capital	50	40
Reserves and Surplus	200	150
	250	190
Goodwill agreed upon	40	75
Increase in the value of fixed assets		
(Present worth less book value)	(200-150) 50	(429-150) 279
Revalued Net Worth	340	544

(ii)		*Big Ltd.*	*Small Ltd.*
	Number of Equity shares	5 crores	4 crores
	Intrinsic value per equity share	₹ 68	₹ 136
(iii)	Ratio of intrinsic value of shares in the two companies	1 : 2	

Since the shares are to be issued at par, the number of equity shares of ₹ 10 each to be issued to maintain the intrinsic net worth = 5 crores /2 = 2.5 crores

(iv) Statement to prove the accuracy of workings

	Small Ltd.	*(₹ in crores)*
(1)	Equity share capital (after absorption) [40 + (2.5 x 10)]	65
	Reserves and Surplus (after absorption) [WN]	375
		440
	Add: Unrecorded value of goodwill ₹ (40 + 75) [Since athis considered while calculating the intrinsic value]	115
	Add: Unrecorded incremental value of fixed assets ₹ (50+279) [Since at his considered while calculating	

	the intrinsic value]	329
		884
(2)	Number of equity shares	6.5 crores
(3)	Intrinsic value of an equity share (884/6.5)	₹ 136

Working Note:

Calculation of Capital Reserve on Absorption

	(₹ in crores)
Fixed Assets taken over	150
Net current assets taken over	200
	350
Less: Secured loans taken over	(100)
Net Assets taken over	250
Less: Purchase consideration	(25)
Capital Reserve	225
Add : Current Reserves & Surplus	150
Reserves & Surplus after absorption	375

Question 8

Given below is the summarized Balance Sheet of H Ltd. as on 31.3.2014: (₹ in lakhs)

Equity share capital	*4.00*	*Block assets less depreciation to date*	*6.00*
(in equity shares of ₹ 10 each)		*Inventory and trade receivables*	*5.30*
10% preference share capital	*3.00*	*Cash and bank*	*0.70*
General reserve	*1.00*		
Profit and loss account	*1.00*		
Trade payables	*3.00*		
	12.00		*12.00*

M Ltd. another existing company holds 25% of equity share capital of H Ltd. purchased at ₹ 10 per share.

It was agreed that M Ltd. should take over the entire undertaking of H Ltd. on 30.9.2014 on which date the position of current assets (except cash and bank balances) and trade payables was as follows:

Inventory and trade receivables	*₹ 4 lakhs*
Trade payables	*₹ 2 lakhs*

Profits earned for half year ended 30.09.2014 by H Ltd. was ₹ 70,500 after charging depreciation of ₹ 32,500 on block assets. H Ltd. declared 10% dividend for 2013-14 on 30.08.2014 and the same was paid within a week.

Goodwill of H Ltd. was valued at ₹ 80,000 and block assets were valued at 10% over their book value as on 31.3.2014 for purposes of take over. Preference shareholders of H Ltd. will be allotted 10% preference shares of ₹ 10 each by M Ltd. Equity shareholders of H Ltd. will receive requisite number of equity shares of ₹ 10 each from M Ltd. valued at ₹ 10 per share.

(a) Compute the purchase consideration.

(b) Explain, how the capital reserve or goodwill, if any, will appear in the Balance Sheet of M Ltd. after absorption.

Assume that Block assets have been taken over at 10% appreciated value after considering depreciation.

Answer

(a) Calculation of Purchase Consideration (for net assets of H Ltd. taken over)

Assets taken over:	₹
Goodwill as agreed	80,000
Block Assets at 10% over their book value as on 31.3.2014	6,60,000*
(agreed value for purposes of take over 6,00,000 X 110%)	
Inventory and trade receivables as on 30.09.2014	4,00,000
Cash and Bank (See Working Note)	1,33,000
	12,73,000
Less: Liabilities taken over:	
Trade payables as on 30.09.2014	(2,00,000)
Purchase Consideration	10,73,000
Calculation of Shares Allotted:	₹
Net Assets taken over	10,73,000
Less: Allotment of 10% preference shares to preference shareholders of H Ltd.	(3,00,000)
	7,73,000
Less: Belonging to M Ltd. (1/4 ×₹ 7,73,000)	(1,93,250)
Payable to other equity shareholders	5,79,750

* It is assumed that block assets have been taken over at 10% appreciated value after considering depreciation.

Number of equity shares of ₹ 10 each to be issued (valued at ₹ 10 each) = 57,975

Calculation of Capital Reserve:	₹	₹
Net Assets taken over		10,73,000
Less: Preference shares to be allotted	(3,00,000)	
Equity shares to be allotted	(5,79,750)	
Cost of investments	(1,00,000)	(9,79,750)
Capital Reserve		93,250
Alternatively, Capital Reserve may be computed as follows:		
Value of investments in H Ltd.		1,93,250
Less: Cost of investments		(1,00,000)
		93,250

(b) Balance Sheet of M Ltd. as at 30th September, 2014 (Extract)

Particulars	*Note No.*	₹
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
Reserves and Surplus	1	13,250

Notes to accounts

1. *Reserves and Surplus*		₹
Capital Reserve	93,250	
Less: Goodwill	(80,000)	13,250

Working Note:

Ascertainment of Cash and Bank Balances as on 30th September, 2014

Balance Sheet as at 30th September, 2014

Particulars	*Note No.*	₹
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
(a) Share Capital	1	7,00,000
(b) Reserves and Surplus	2	2,00,500

(2) **Current Liabilities**			
Trade Payables		3	2,00,000
	Total		11,00,500
II. **Assets**			
(1) **Non-current assets**			
(a) Fixed assets			
Tangible assets		4	5,67,500
(2) **Current assets**			
(a) Inventories &Trade receivables		5	4,00,000
(b) Cash and cash equivalents *(Bal. fig.)*			1,33,000
	Total		11,00,500

Notes to Accounts

				₹	₹
1.	Share Capital				
	Equity Share Capital			4,00,000	
	10% Preference Share Capital			3,00,000	7,00,000
2.	Reserves and surplus				
	General Reserve				1,00,000
	Profit and Loss Account:				
	Balance brought forward		1,00,000		
	Add: Profit for the first half		70,500	1,70,500	
	Less: Dividend on preference share capital paid		30,000		
	Dividend on equity share capital paid		40,000	(70,000)	1,00,500
					2,00,500
3.	Trade Payables				2,00,000
4.	Tangible Assets				
	Block Assets			6,00,000	
	Less: Depreciation			(32,500)	5,67,500
5.	Inventories & Trade Receivables				4,00,000

Question 9

The summarised Balance Sheets of R Ltd. and P Ltd. for the year ending on 31.3.2014 are as under:

	R Ltd. ₹	P Ltd. ₹		R Ltd. ₹	P Ltd. ₹
Equity share Capital (in shares of ₹ 10 each)	24,00,000	12,00,000	*Fixed Assets*	55,00,000	27,00,000
			Current Assets	25,00,000	23,00,000
8% Preference Share Capital (in shares of ₹ 10 each)	8,00,000	–			
10% Preference Share Capital (in shares of ₹ 10 each)	–	4,00,000			
Reserves	30,00,000	24,00,000			
Current Liabilities	18,00,000	10,00,000			
	80,00,000	50,00,000		80,00,000	50,00,000

The following information is provided:

		R Ltd. ₹	P Ltd. ₹
(1) (a)	*Profit before tax*	10,64,000	4,80,000
(b)	*Taxation*	4,00,000	2,00,000
(c)	*Preference dividend*	64,000	40,000
(d)	*Equity dividend*	2,88,000	1,92,000

(2) The equity shares of both the companies are quoted in the market. Both the companies are carrying on similar manufacturing operations.

(3) R Ltd. proposes to absorb P Ltd. as on 31.3.2014. The terms of absorption are as under:

(a) Preference shareholders of P Ltd. will receive 8% preference shares of R Ltd. sufficient to increase the income of preference shareholders of P Ltd. by 10%.

(b) The equity shareholders of P Ltd. will receive equity shares of R Ltd. on the following basis:

(i) The equity shares of P Ltd. will be valued by applying to the earnings per share of P Ltd. 75% of price earnings ratio of R Ltd. based on the results of 2013-2014 of both the companies.

(ii) The market price of equity shares of R Ltd. is ₹ 40 per share.

(iii) The number of shares to be issued to the equity shareholders of P Ltd. will be based on the above market value.

(iv) In addition to equity shares, 8% preference shares of R Ltd. will be issued to

the equity shareholders of P Ltd. to make up for the loss in income arising from the above exchange of shares based on the dividends for the year 2013-2014.

(4) The assets and liabilities of P Ltd. as on 31.3.2014 are revalued by professional valuer as under:

	Increased by ₹	*Decreased by* ₹
Fixed Assets	*1,00,000*	*–*
Current Assets	*–*	*2,00,000*
Current Liabilities	*–*	*40,000*

(5) For the next two years, no increase in the rate of equity dividend is expected.

You are required to:

(i) Set out in detail the purchase consideration.

(ii) Give the Balance Sheet as on 31.3.2014 after absorption.

Note: Journal entries are not required.

Answer

(i) Computation of Purchase Consideration

		₹
(a)	*Preference Shareholders*	
	Current income of preference shareholders of P Ltd.	40,000
	Add: 10% increase thereof	4,000
		44,000
	Preference shares to be issued	
	$= 44,000 \times \frac{100}{8}$	5,50,000
(b)	*Equity Shareholders*	
	(1) Issue of Equity Shares	
	Profit before tax of R Ltd.	10,64,000
	Less: Tax	(4,00,000)
		6,64,000
	Less: Preference dividend	(64,000)
	Profit available for equity shareholders of R Ltd.	6,00,000

Basic EPS = Earningavailable for Shareholders / Average no. of shares

Earnings per share (EPS) = $\frac{6,00,000}{2,40,000}$ = ₹ 2.50

PE Ratio = Market Price / EPS

Price earnings ratio (P/E) = $\frac{40}{2.50}$ = 16

EPS of P Ltd.

	₹
Profit before tax	4,80,000
Less: Tax	(2,00,000)
Profit after tax	2,80,000
Less: Preference dividend	(40,000)
Profit available for equity shareholders	2,40,000

EPS = $\frac{2,40,000}{1,20,000}$ = ₹ 2

Valuation of equity shares of P Ltd.

= 1,20,000 shares × (₹ 2 × 16 × 0.75 i.e. ₹ 24) = ₹ 28,80,000

Number of equity shares to be issued = $\frac{28,80,000}{40}$ = 72,000

		₹
(1) *Equity Share Capital*		7,20,000
Securities Premium		21,60,000
		28,80,000
(2) *Issue of Preference Shares to make up loss to equity shareholders*		₹
Current equity dividend		1,92,000
Less: Expected equity dividend from R Ltd. i.e. in proportion of the existing dividend policy (₹ 7,20,000 × 2,88,000/24,00,000)		(86,400)
Loss in income		1,05,600
8% Preference Shares to be issued = $\frac{1,05,600}{0.08}$ = ₹ 13,20,000		
Total Purchase Consideration:		₹
Preference shares to be issued	5,50,000	
	13,20,000	18,70,000
Equity shares to be issued (at premium)		28,80,000
		47,50,000

(ii)

R Ltd.
Balance Sheet as at 31st March, 2014
(after absorption)

Particulars	*Note No.*	*Amount (₹)*
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
(a) Share Capital	1	57,90,000
(b) Reserves and Surplus	2	51,60,000
(2) **Current Liabilities**	3	27,60,000
Total		1,37,10,000
II. **Assets**		
(1) **Non-current assets**		
(a) Fixed assets		
i. Tangible assets	4	83,00,000
ii. Intangible assets	5	8,10,000
(2) **Current assets**	6	46,00,000
Total		1,37,10,000

Notes to Accounts

		(₹)	*(₹)*
1.	Share Capital		
	3,12,000 Equity Shares of ₹ 10 each (of the above shares, 72,000 Equity shares are allotted as fully paid up for consideration other than cash)	31,20,000	
	2,67,000 8% Preference Shares of ₹ 10 each (of the above, 1,87,000 are allotted as fully paid up for consideration other than cash)	26,70,000	57,90,000
2.	Reserves and surplus		
	Reserves (As per last Balance Sheet)	30,00,000	
	Securities Premium	21,60,000	51,60,000
3.	Current Liabilities		
	As per last balance sheet	18,00,000	
	Taken over on absorption of P Ltd. ₹ (10,00,000-40,000)	9,60,000	27,60,000

4.	Tangible Assets		
	As per last Balance Sheet	55,00,000	
	Taken over on absorption of P Ltd.	28,00,000	83,00,000
5.	Intangible assets		
	Goodwill (See Working Note)		8,10,000
6.	Current Assets		
	As per last Balance Sheet	25,00,000	
	Taken over on absorption of P Ltd. ₹ (23,00,000-2,00,000)	21,00,000	46,00,000

Working Note:

Calculation of Goodwill on Absorption

		₹
Purchase consideration		47,50,000
Fixed assets taken over [27,00,000 + 1,00,000]	28,00,000	
Current assets taken over [23,00,000 – 2,00,000]	21,00,000	
	49,00,000	
Less: Current liabilities [10,00,000 – 40,000]	(9,60,000)	
Net assets taken over		(39,40,000)
Goodwill		8,10,000

Question 10

A Ltd. agreed to take over B Ltd. as on 1st October, 2014. No Balance Sheet of B was prepared on that date:

Summarised Balance Sheets of A and B as at 31st March, 2014 were as follows:

	A ₹	B ₹		A ₹	B ₹
Share Capital:			*Fixed Assets*	*12,50,000*	*8,75,000*
Equity shares of ₹ 10 each fully paid up	*15,00,000*	*10,00,000*	*Current Assets:*		
			Inventory	*2,37,500*	*1,87,500*
Reserves and Surplus:			*Trade receivables*	*3,90,000*	*2,56,000*
Reserve	*4,15,000*	*2,56,000*	*Bank*	*2,93,750*	*1,50,000*
Profit and Loss	*1,62,500*	*1,37,500*			
Trade payables	*93,750*	*75,000*			
	21,71,250	*14,68,500*		*21,71,250*	*14,68,500*

Additional information available:

(i) For the six months period from 1st April, 2014, A made a profit of ₹ 4,20,000 after writing off depreciation at 10% per annum on its fixed assets.

(ii) For the same period, B made a net profit of ₹ 2,04,000 after writing off depreciation at 10% p.a. on its fixed assets.

(iii) Both the companies paid on 1st August, 2014, equity dividends of 15%. Tax at 10% on such payments was also paid by each of them.

(iv) Goodwill of B was valued at ₹ 1,20,000 on the date of take-over; inventory of B, subject to an abnormal item of ₹ 7,500 to be fully written off, would be appreciated by 25% for purpose of take-over:

(v) A to issue to B's shareholders fully paid equity shares of ₹ 10 each, on the basis of the comparative intrinsic values of the shares on the take-over date.

Draft the Balance Sheet of A after absorption of B. All workings are to form part of your answer.

Answer

Balance Sheet of A Ltd. (after absorption of B Ltd.)

Particulars	*Note No.*	₹
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
(a) Share Capital	1	25,60,000
(b) Reserves and Surplus	2	12,80,000
(2) **Current Liabilities**		
Trade payables		1,68,750
Total		40,08,750
II. **Assets**		
(1) **Non-current assets**		
(a) Fixed assets		
i. Tangible assets	3	20,18,750
ii. Intangible assets	4	1,20,000
(2) **Current assets**		
(a) Inventories (₹ 2,37,500 + ₹ 2,25,000)		4,62,500
(b) Trade receivables (₹ 3,90,000 + ₹ 2,56,000)		6,46,000
(c) Cash and cash equivalents (₹ 5,28,750 + ₹ 2,32,750)		7,61,500
Total		40,08,750

Notes to Accounts

		₹	₹
1.	Share Capital		
	2,56,000 Equity Shares of ₹ 10 each fully paid		25,60,000
	(1,06,000 shares allotted as fully paid without payment being received in cash)		
2.	Reserves and surplus		
	Securities Premium	5,30,000	
	Reserves	4,15,000	
	Profit and Loss Account	3,35,000	12,80,000
3.	Tangible Assets		
	Other Fixed Assets (₹ 12,50,000 + ₹ 8,75,000)	21,25,000	
	Less: Depreciation	(1,06,250)	20,18,750
4.	Intangible assets		
	Goodwill		1,20,000

Working Notes:

(1) Bank Balance on 1.10.2014

	A Ltd. ₹	*B Ltd.* ₹
Bank Balance as on 31.3.2014	2,93,750	1,50,000
Add: Net Profit	4,20,000	2,04,000
Depreciation	62,500	43,750
	[12,50,000 × 10 % ×6/12]	[8,75,000 × 10 % × 6/12]
	7,76,250	3,97,750
Less: Dividend	(2,25,000)	(1,50,000)
	[15,00,000 × 15 %]	[10,00,000 × 15 %]
	5,51,250	2,47,750
Less: Dividend Tax @ 10 % on dividend	(22,500)	(15,000)
Bank Balance as on 1.10.2014	5,28,750	2,32,750

(2) Profit and Loss Account as on 1.10.2014

	A Ltd. ₹	*B Ltd.* ₹
Balance as on 31.3.2014	1,62,500	1,37,500

Add: 6 months' profit	4,20,000	2,04,000
	5,82,500	3,41,500
Less: Dividend	(2,25,000)	(1,50,000)
Dividend tax	(22,500)	(15,000)
Balance	3,35,000	1,76,500

(3) **Balance Sheets of A Ltd. and B Ltd. as on 1st October, 2014 (before absorption)**

Particulars	*Note no.*	*A Ltd. (₹)*	*B Ltd. (₹)*
I. **Equity and Liabilities**			
(1) **Shareholder's Funds**			
(a) Share Capital		15,00,000	10,00,000
(b) Reserves and Surplus	1	7,50,000	4,32,500
(2) **Current Liabilities**			
Trade payables		93,750	75,000
Total		23,43,750	15,07,500
II. **Assets**			
(1) **Non-current assets**			
(a) Fixed assets			
Tangible assets	2	11,87,500	8,31,250
(2) **Current assets**			
(a) Inventories*		2,37,500	1,87,500
(b) Trade receivables*		3,90,000	2,56,000
(c) Cash and cash equivalents [WN 1]		5,28,750	2,32,750
Total		23,43,750	15,07,500

*It is assumed that these amounts as on 1st October, 2014 are same in the absence of any other information.

Notes to Accounts

		A Ltd.		*B Ltd.*	
		(₹)	*(₹)*	*(₹)*	*(₹)*
1.	Reserves and surplus				
	Reserves	4,15,000		2,56,000	
	Profit and Loss A/c	3,35,000	7,50,000	1,76,500	4,32,500

2.	Tangible Assets				
	Fixed Assets	12,50,000		8,75,000	
	Less: Depreciation	(62,500)		(43,750)	
	Net Fixed Assets		11,87,500		8,31,250

(4) **Purchase consideration**

	A Ltd. ₹	*B Ltd.* ₹
Goodwill	–	1,20,000
Fixed Assets	11,87,500	8,31,250
Inventory	2,37,500	2,25,000
		[1,87,500 – 7,500] x 125 %
Trade receivables	3,90,000	2,56,000
Bank Balance	5,28,750	2,32,750
	23,43,750	16,65,000
*Less: Trade payable*s	(93,750)	(75,000)
Net Assets	22,50,000	15,90,000
Number of Shares	1,50,000	1,00,000
Intrinsic value	15.00	15.90

Purchase consideration ₹ 15,90,000 in the form of Share capital ₹ 10,60,000 and securities premium ₹ 5,30,000. i.e. 1,06,000 shares of A Ltd.

Question 11

The following are the summarized Balance Sheets of A Ltd. and B Ltd. as on 31st December, 2014:

Liabilities	*A Ltd.* ₹	*B Ltd.* ₹	*Assets*	*A Ltd.* ₹	*B Ltd.* ₹
Share Capital			*Fixed Assets*	*7,00,000*	*2,50,000*
Equity Shares of ₹ 10 each	*6,00,000*	*3,00,000*	*Investment:*		
10% Pref. Shares of ₹ 100 each	*2,00,000*	*1,00,000*	*6,000 Shares of B Ltd.*	*80,000*	*–*
			5,000 Shares of A Ltd.	*–*	*80,000*
Reserves and Surplus	*3,00,000*	*2,00,000*			

Secured Loans:			*Current Assets:*		
12% Debentures	*2,00,000*	*1,50,000*	*Inventory*	*2,40,000*	*3,20,000*
Current Liabilities:			*Trade receivables*	*4,20,000*	*2,10,000*
Trade payables	*2,50,000*	*1,50,000*	*Cash at Bank*	*1,10,000*	*40,000*
	15,50,000	*9,00,000*		*15,50,000*	*9,00,000*

Fixed Assets of both the companies are to be revalued at 15% above book value. Inventory in Trade and Trade receivables 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, A Ltd. will absorb B Ltd. on the following terms:

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

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

(iii) 12% Debentureholders of B Ltd. are to be paid at 8% premium by 12% Debentures in A Ltd. issued at a discount of 10%.

(iv) ₹ 30,000 is to be paid by A Ltd. to B Ltd. for Liquidation expenses. Trade payables of B Ltd. include ₹ 10,000 due to A Ltd.

Prepare:

(a) Absorption entries in the books of A Ltd.

(b) Statement of consideration payable by A Ltd.

Answer

(a) Absorption Entries in the Books of A Ltd.

		Dr. ₹	*Cr.* ₹
Fixed Assets	Dr.	1,05,000	
To Revaluation Reserve			1,05,000
(Revaluation of fixed assets at 15% above book value)			
Bank Account	Dr.	6,000	
To Reserves and Surplus			6,000
(Dividend received from B Ltd. on 6,000 shares)			
Reserve and Surplus	Dr.	60,000	
To Equity Dividend			60,000
(Declaration of equity dividend @ 10%)			

Equity Dividend	Dr.	60,000	
To Bank Account			60,000
(Payment of equity dividend)			
Business Purchase Account	Dr.	3,90,000	
To Liquidator of B Ltd.			3,90,000
(Consideration payable for the business taken over from B Ltd. inclusive of liquidation expenses of ₹ 30,000)			
Fixed Assets (115% of ₹ 2,50,000)	Dr.	2,87,500	
Inventory (95% of ₹ 3,20,000)	Dr.	3,04,000	
Trade receivables	Dr.	2,10,000	
Cash at Bank(₹ 40,000 – ₹ 30,000 dividend paid + ₹ 5,000 dividend received)	Dr.	15,000	
To Provision for Bad Debts (5% of ₹ 2,10,000)			10,500
To Trade payables			1,50,000
To 12% Debentures in B Ltd.			1,62,000
To Business Purchase Account			3,90,000
To Investments in B Ltd.			80,000
To Capital Reserve (Balancing figure)			24,000
(Incorporation of various assets and liabilities taken over from B Ltd. at agreed values and cancellation of investment in B Ltd. account, profit being credited to capital reserve)			
Liquidator of B Ltd.	Dr.	3,90,000	
To Equity Share Capital			2,70,000
To 10% Preference Share Capital			90,000
To Bank A/c			30,000
(Discharge of consideration for B Ltd.'s business and liquidation expenses of ₹ 30,000)			
12% Debentures in B Ltd. (₹ 1,50,000 × 108%)	Dr.	1,62,000	
Discount on Issue of Debentures	Dr.	18,000	
To 12% Debentures			1,80,000
(Allotment of 12% Debentures to debenture holders at a discount of 10% to discharge the liability on B Ltd. debentures)			

Trade payables	Dr.	10,000	
To Trade receivables (Cancellation of mutual owing)			10,000
Reserves and Surplus		18,000	
To Discount on issue of Debentures A/c (Being discount on issue of debentures being adjusted against Reserves and surplus)			18,000

(b) Statement of Consideration payable by A Ltd.

For equity shares held by outsiders

Shares held by them 30,000 – 6,000 = 24,000

Shares to be allotted $\frac{24,000}{6} \times 8 = 32,000$

as 5,000 shares are already with B Ltd; i.e. A Ltd. will now issue only 27,000 shares of

₹ 10 each i.e ₹ 2,70,000 (i)

For 10% preference shares, to be paid at 10% discount

₹ $\frac{1,00,000 \times 90}{100}$ ₹ 90,000 (ii)

Consideration amount [(i) + (ii)] ₹ 3,60,000

Note: It has been assumed that dividend on equity shares have been paid by both the companies.

Question 12

The following was the abridged Balance Sheet of X Co. Ltd, as at 31st March, 2014:

Liabilities	*₹*	*Assets*	*₹*
Capital: *Authorized:*		*Plant and machinery at depreciated value*	*8,60,000*
10,000 Equity shares of ₹ 100 each	*10,00,000*	*Land*	*7,00,000*
Issued and paid up:		*Current assets*	
8,000 Equity shares of ₹ 100 each, fully paid up	*8,00,000*	*Trade receivables* *Patents, trademarks and copyrights*	*8,00,000* *6,00,000*
Reserves and surplus: *General reserve 5,00,000* *Securities premium 4,00,000* *Profit and loss 3,60,000*	*12,60,000*		
11% Debentures secured against the			

assets of the Co.	*5,00,000*		
Trade payables	*4,00,000*		
	29,60,000		*29,60,000*

The Company ran two distinct departments utilizing the trademarks and copyrights owned and generated by it. The assets and liabilities of one of the departments as on the date of Balance Sheet were:

	₹
Plant and machinery	*4,00,000*
Land (used for business)	*2,00,000*
Current assets	*2,00,000*
Trademarks and copyrights	*3,50,000*
	11,50,000
Trade payables	*2,50,000*
	9,00,000

Due to managerial constraints, X is unable to develop this department. An overseas buyer is interested to acquire this department and after due diligence, offers a consideration of ₹ 20,00,000 to the company for transfer of business. The buyer offered to discharge the purchase consideration immediately after 31st March, 2014, in the following manner:

(i) *Issue of equity shares of the buyer's company for ₹ 10,00,000 nominal value at a premium of 20% over the face value; and*

(ii) *Payment of the balance consideration in £ Sterling. The exchange rate agreed upon is ₹ 80 per £ Sterling. This amount will be retained in London, till the actual takeover of the business is done by the buyer.*

(a) *expenses to put through the transaction come to ₹ 8,00,000 initially to be incurred by X but to be shared equally by the parties.*

(b) *the balance value of trademarks, copyrights and patents left with X does not enjoy any market value and has to be written off.*

(c) *the value of the balance of land in X's possession will be taken at its market value in the books of account. Such a value, determined by an approved valuer, is 200 percent of the book value.*

(d) *the parties agree that the date of legal ownership of the transferred business shall be 31st March, 2014 though certain formalities may have to be gone through and agree that the actual transfer to the buyer will be effected before 30th April, 2014.*

X Co. Ltd to carry on the business in the normal course and account for the profits of the transferred department to the foreign buyer. X made a net profit of

₹ 2,40,000 from the whole business for April, 2014; 40 percent of the net profit related to the business of the transferred department.

(e) the shares of the overseas buyer's company were quoted on the London Stock Exchange and on 30th April, 2014 were quoted at 95 percent of their face value.

(f) the cash received by X at London was remitted by it to its Indian banking account on 30th April 2014 when the rupee sterling rate was ₹ 75 per UK sterling pound.

Draw the Balance Sheet of X Co. Ltd. as at 30th April, 2014, after the transfer of the business to the overseas buyer.

Answer

Balance Sheet of X Co. Ltd. as at 30th April, 2014 (after demerger)

Particulars	*Note No.*	*(₹)*
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
(a) Share Capital	1	8,00,000
(b) Reserves and Surplus	2	20,54,000
(2) **Non-Current Liabilities**		
Long-term borrowings	3	5,00,000
(3) **Current Liabilities**		
Trade payables		1,50,000
Total		35,04,000
II. **Assets**		
(1) Non-current assets		
Fixed assets		
Tangible assets	4	14,60,000
(2) Current assets		
(a) Trade receivables (8,00,000-2,00,000)		6,00,000
(b) Current investment		9,50,000
(c) Cash and cash equivalents (W.N.2)		4,94,000
Total		35,04,000

Notes to Accounts

		₹	₹
1.	Share Capital Authorised share capital:		

	10,000 Equity shares of ₹ 100 each	10,00,000	
	Issued share capital:		
	8,000 Equity shares of ₹ 100 each		8,00,000
2.	Reserves and surplus		
	Revaluation reserve (W.N.6)	5,00,000	
	General reserve	5,00,000	
	Capital reserve (W.N.3)	11,00,000	
	Securities Premium	4,00,000	
	Profit and Loss Account (W.N.1)	(4,46,000)	20,54,000
3.	Long-term Borrowings		
	Secured borrowings		
	11% Debentures secured against the assets of the Co.		5,00,000
4.	Tangible Assets		
	Plant & Machinery at depreciated value (8,60,000-4,00,000)	4,60,000	
	Land (W.N.6)	10,00,000	14,60,000

Working Notes:

1. Computation of Profit and Loss Account as on 30th April, 2014

		₹
Balance as on 31st March, 2014		3,60,000
Add: Profit earned during the month of April, 2014 (W.N.4)	1,44,000	1,44,000
		5,04,000
Less: Expenses on sale of department (share of X Co.) (₹ 8,00,000 x 50%)	4,00,000	
Patents, trademarks and copyrights written off (W.N.5)	2,50,000	
Diminution in the value of investment (W.N.7)	2,50,000	
Loss due to on foreign exchange translation difference (W.N.8)	50,000	(9,50,000)
		(4,46,000)

2. Cash and bank

		₹
Cash received from Overseas buyer on 30th April, 2014 (£ 10,000 x ₹ 75)		7,50,000
Add: Cash reimbursed by Overseas buyer (₹ 8,00,000x50%)		4,00,000

Cash profit earned during the month of April, 2014 by X Co. Ltd. (See Note)		2,40,000
		13,90,000
Less: Expenses on sale of department to overseas buyer	8,00,000	
Share of profit (for April, 2014) paid to Overseas buyer (W.N.4)	96,000	(8,96,000)
		4,94,000

3. Calculation of gain on sale of department and discharge of purchase consideration

	₹
Purchase consideration	20,00,000
Less: Net assets sold	9,00,000
Gain on sale of department transferred to capital reserve	11,00,000
Purchase consideration	20,00,000
Less: Discharged by issue of Overseas Buyer's Equity shares of ₹ 10,00,000 at 20% premium	12,00,000
Balance discharged in cash i.e. (8,00,000/80) = £ 10,000	8,00,000

4. Profit earned during the month of April, 2014

	₹
Total profit earned by X Co. Ltd. during the month of April, 2014	2,40,000
Less: 40% Profit of the sold department	96,000
Profit of X Co. Ltd. on the retained department	1,44,000

5. Patents, trademarks and copyrights written off

	₹
Patents, trademarks and copyrights as per balance sheet of X Co. Ltd.	6,00,000
Less: Patents, trademarks and copyrights taken over by Overseas buyer	(3,50,000)
Patents, trademarks and copyrights written off (charged to Profit and Loss Account)	2,50,000

6. Land

	₹
Land as per balance sheet of X Co. Ltd.	7,00,000
Less: Land taken over by Overseas buyer	(2,00,000)

Book value of land retained by X Co. Ltd.	5,00,000
Revalued value (200% of book value)	10,00,000
Revaluation reserve (10,00,000-5,00,000)	5,00,000

7. Diminution in the market value of equity shares of Overseas Buyer

	₹
Nominal value of shares	10,00,000
Issued at 20% Premium	12,00,000
Market value of shares on 30th April, 2014 is 95% of nominal value (10,00,000 x 95%)	9,50,000
Diminution charged to Profit and Loss Account	2,50,000

8. Loss due to foreign exchange translation difference

	₹
Cash payment by overseas buyer £ 10,000 due on 31st March, 2014 @ ₹ 80 per £	8,00,000
Exchange rate on 30th April, 2014 is ₹ 75 per £	
Less: Amount remitted in Indian Currency (£ 10,000 x ₹ 75)	(7,50,000)
Loss on foreign exchange translation transferred to Profit and Loss Account	50,000

Note:

1. The above solution has been given on the assumption that X Co. Ltd intends to hold investment in shares of overseas buyer as temporary investment. Therefore, its carrying value has been shown in the balance sheet at market value and reduction to market value has been included in the profit and loss account. In case it is assumed as long term investment, then investment in shares of Overseas buyer will be shown at cost i.e. ₹ 12,00,000 and Profit and Loss account balance will be ₹ 9,04,000. The Balance Sheet total will be ₹ 37,54,000.
2. It is also assumed that the profit earned during the month of April, 2014 is entirely the cash profit and also the amount of current assets and current liabilities of X Co. Ltd. has been same as on 31.3.2014.

Question 13

The summarized Balance sheets of X Ltd. and its subsidiary Y Ltd. as at 31.3.2014 were as follows:

Liabilities	*X Ltd.* ₹	*Y Ltd.* ₹	*Assets*	*X Ltd.* ₹	*Y Ltd.* ₹
Share capital	*50,00,000*	*10,00,000*	*Fixed assets*	*60,00,000*	*18,00,000*

(Share of ₹ 10 each)			*Investment in Y Ltd. (60,000 shares)*	*6,00,000*	*---*
General reserves	*50,00,000*	*20,00,000*	*Trade receivables*	*35,00,000*	*5,00,000*
Profit and Loss account	*20,00,000*	*15,00,000*	*Inventories*	*30,00,000*	*25,00,000*
Secured loan	*20,00,000*	*2,50,000*	*Cash and bank*	*39,00,000*	*2,00,000*
Current liabilities	*30,00,000*	*2,50,000*			
	1,70,00,000	*50,00,000*		*1,70,00,000*	*50,00,000*

X Ltd. holds 60% of the paid-up capital of Y Ltd. and the balance is held by a foreign company.

A memorandum of understanding has been entered into with the foreign company by X Ltd. to the following effect:

(i) The shares held by the foreign company will be sold to X Ltd. at a price per share to be calculated by capitalizing the yield at 15%. Yield, for this purpose, would mean 50% of the average of pre-tax profits for the last 3 years, which were ₹ 12 lakhs, 18 lakhs and 24 lakhs respectively. (Average tax rate was 40%).

(ii) The actual cost of shares to the foreign company was ₹ 4,40,000 only. Gains accruing to the foreign company are taxable at 20%. The tax payable will be deducted from the sale proceeds and paid to government by X. 50% of the consideration (after payment of tax) will be remitted to the foreign company by X Ltd. and also any cash for fractional shares allotted.

(iii) For the balance of consideration, X Ltd. would issue its shares at their intrinsic value.

It was also decided that X Ltd. would absorb Y Ltd. Simultaneously by writing down the Fixed assets of Y Ltd. by 10%. The Balance Sheet figures included a sum of ₹ 1,00,000 due by Y Ltd. to X Ltd. and inventory of X Ltd. included inventory of ₹ 1,50,000 purchased from Y Ltd., who sold them at cost plus 20%.

The entire arrangement was approved and put through by all concern effective from 1.4.2014.

You are required to prepare a Balance Sheet after absorption of Y Ltd., in the books of X Ltd. Workings should form part of your answer.

Answer

X Ltd.

Balance Sheet as at 1st April, 2014

Particulars	*Note No.*	*Amount (₹)*
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
(a) Share Capital	1	53,34,660

	(b) Reserves and Surplus		2	89,64,320
(2)	**Non-Current Liabilities**			
	Long-term borrowings		3	22,50,000
(3)	**Current Liabilities**		4	31,50,000
		Total		1,96,98,980
II.	**Assets**			
(1)	**Non-current assets**			
	(a) Fixed assets			
	Tangible assets		5	76,20,000
(2)	**Current assets**			
	(a) Inventories		6	54,75,000
	(b) Trade receivables		7	39,00,000
	(c) Cash and cash equivalents			27,03,980
		Total		1,96,98,980

Notes to Accounts

		₹	₹
1.	Share Capital		
	5,33,466 shares of ₹ 10 each		53,34,660
	(Out of the above 33,466 shares of ₹ 10 each issued for consideration other than cash)		
2.	Reserves and surplus		
	General Reserve	50,00,000	
	Capital Reserve	13,20,000	
	Profit and Loss Account ₹20,00,000		
	Less: unrealized profit on inventory (₹25,000)	19,75,000	
	Securities Premium (₹33,466×20)	6,69,320	89,64,320
3.	Long Term Borrowings		
	Secured Loans (₹20,00,000 + ₹2,50,000)		22,50,000
4.	Current Liabilities		
	(₹30,00,000 + ₹2,50,000)	32,50,000	
	Less: Mutual owing	(1,00,000)	31,50,000
5.	Tangible Assets		
	Fixed Assets	78,00,000	

	Less :Revaluation loss	(1,80,000)	76,20,000
6.	Inventories (₹30,00,000+₹25,00,000)	55,00,000	
	Less: Unrealised profit on inventory	(25,000)	54,75,000
7.	Trade receivables		
	Trade receivables (₹35,00,000+₹5,00,000)	40,00,000	
	Less: Mutual owings	(1,00,000)	39,00,000

Working Notes:

(1) Yield of Y Ltd.

Average of Pre Tax Profit $= \frac{12+18+24}{3} =$ ₹ 18 lakhs*

Yield $= 18\times\frac{50}{100} =$ ₹ 9 lakhs

(2) Price per share of Y Ltd:-

Capitaised value of yield of Y Ltd. $= \frac{9 \text{ lakhs}}{15}\times 100 =$ ₹ 60 lakhs

No. of shares = 1,00,000

Price per share $= \frac{60 \text{ lakhs}}{1 \text{ lakh}} =$ ₹ 60 per share

(3) Purchase consideration for 40% of share capital of Y Ltd.

$= 1,00,000 \times 60 \times \frac{40}{100} =$ ₹ 24,00,000

(4) Calculation of intrinsic value of shares of X Ltd.

		₹
Total Assets excluding Investments in Y Ltd.		1,64,00,000
Value of Investment 60,000 × ₹60		36,00,000
		2,00,00,000
Less: Outside Liabilities:		
Secured Loan	20,00,000	
Current Liabilities	30,00,000	(50,00,000)
Net Assets		1,50,00,000

* By setting the trend, weighted average profit can also be calculated.

Intrinsic value per share = $\frac{\text{Net Assets}}{\text{No. of Shares}} = \frac{₹\,1,50,00,000}{5,00,000} =$ ₹ 30 per share

(5) Discharge of purchase consideration by X Ltd.

		Equity share capital ₹	*Cash* ₹	*Total* ₹
(i)	Payment of Tax (₹ 24 Lakh - ₹ 4.40 Lakh) x $\frac{20}{100}$ =	---	3,92,000	3,92,000
(ii)	Issue of shares to foreign company			
	[50% of (24 Lakh – 3.92 Lakh) = 10.04 lakhs			
	No. of shares issued by X Ltd. $\frac{10,04,000}{30}$ = 33,466.6666 shares			
	Value of shares capital = 33,466 × ₹ 30 =	10,03,980	---	10,03,980
(iii)	Cash Payment [50% of (₹ 24 Lakh – ₹ 3.92 Lakh) = 10.04 lakhs	---	10,04,000	10,04,000
(iv)	Cash for fractional shares = 0.6666 × ₹ 30	---	20	20
	Total	10,03,980	13,96,020	24,00,000

(6) Calculation for Goodwill/Capital Reserve to X Ltd.

		₹
Total of assets as per Balance Sheet of Y Ltd.		50,00,000
Less: 10% Reduction in the value of Fixed Assets $\left(\frac{10}{100} \times 18,00,000\right)$		(1,80,000)
		48,20,000
Less: Secured Loan	2,50,000	
Current Liabilities	2,50,000	(5,00,000)
Net Assets		43,20,000
Less: Purchase consideration (outside shareholders)		(24,00,000)
		19,20,000
Less: Investment in Y Ltd. as per Balance Sheet of X Ltd.		(6,00,000)
Capital Reserve		13,20,000

(7) Cash and Bank Balance of X Ltd. after acquisition of shares

	₹
Opening Balance (X Ltd.)	39,00,000
Cash and Bank Balance of Y Ltd.	2,00,000
	41,00,000
Less: Remittance to the foreign company	(10,04,020)
	30,95,980
Less: T.D.S. paid to Government	(3,92,000)
	27,03,980

(8) Unrealized profit included in inventory of X Ltd. =₹ 1,50,000 **x** $\frac{20}{120}$ = ₹ 25,000

Question 14

The following are the summarized Balance sheets (as at 31.3.2014) of A Ltd. and B Ltd.:

Liabilities	*A Ltd.* ₹	*B. Ltd.* ₹	*Assets*	*A Ltd.* ₹	*B. Ltd.* ₹
Share Capital:			***Fixed Assets***	*50,00,000*	*30,00,000*
Equity Shares of ₹ 10 each	*36,00,000*	*18,00,000*	*Investments*	*5,00,000*	*5,00,000*
			Current Assets		
10% Preference shares of ₹ 100 each	*12,00,000*	*-*	*Inventory*	*18,00,000*	*12,00,000*
			Trade receivables	*15,50,000*	*12,10,000*
12% Preference shares of ₹ 100 each	*-*	*6,00,000*	*Cash at Bank*	*1,50,000*	*90,000*
Reserves and Surplus:					
Statutory Reserve	*1,00,000*	*1,00,000*			
General Reserve	*25,00,000*	*17,00,000*			
Secured Loan					
15% Debentures	*5,00,000*	*-*			
12% Debentures	*-*	*5,00,000*			
Current Liabilities					
Trade payables	*11,00,000*	*13,00,000*			
	90,00,000	*60,00,000*		*90,00,000*	*60,00,000*

Contingent liabilities for bills receivable discounted ₹ 20,000.

(A) The following additional information is provided to you:

	A Ltd. ₹	B Ltd. ₹
Profit before Interest and Tax	*14,75,000*	*7,80,000*
Rate of Income-tax	*40%*	*40%*
Preference dividend	*1,20,000*	*72,000*
Equity dividend	*3,60,000*	*2,70,000*
Balance profit transferred to Reserve account.		

(B) The equity shares of both the companies are quoted on the Mumbai Stock Exchange. Both the companies are carrying on similar manufacturing operations.

(C) A Ltd proposes to absorb business of B Ltd. as on 31.3.2014. The agreed terms for absorption are:

(i) 12% Preference shareholders of B Ltd. will receive 10% Preference shares of A Ltd. sufficient to increase their present income by 20%.

(ii) The Equity shareholders of B Ltd. will receive equity shares of A Ltd. on the following terms:

(a) The Equity shares of B Ltd. will be valued by applying to the earnings per share of B Ltd. 60 per cent of price earnings ratio of A Ltd. based on the results of 2013-14 of both the Companies.

(b) The market price of Equity shares of A Ltd. is ₹ 40 per share.

(c) The number of shares to be issued to Equity shareholders of B Ltd. will be based on the 80% of market price.

(d) In addition to Equity shares, 10% Preference shares of A Ltd. will be issued to the equity shareholders of B Ltd. to make up for the loss in income arising from the above exchange of shares based on the dividends for the year 2013-2014.

(iii) 12% Debenture holders of B Ltd. are to be paid at 8% premium by 15% debentures in A Ltd. issued at a discount of 10%.

(iv) Details of Trade payables and Trade receivables:

	A Ltd.	B Ltd.
Trade payables		
Bills Payable	*20,000*	*20,000*
Sundry creditors	*10,80,000*	*12,80,000*
	11,00,000	*13,00,000*

Trade receivables		
Debtors	*15,00,000*	*12,00,000*
Bills Receivables	*50,000*	*10,000*
	15,50,000	*12,10,000*

(v) *₹ 16,000 is to be paid by A Ltd. to B Ltd. for liquidation expenses. Sundry creditors of B Ltd. include ₹ 20,000 due to A Ltd. Bills receivable discounted by A Ltd. were all accepted by B Ltd.*

(vi) *Fixed assets of both the companies are to be revalued at 20% above book value. Inventory in trade is taken over at 10% less than their book value.*

(vii) *Statutory reserve has to be maintained for two more years.*

(viii) *For the next two years no increase in the rate of equity dividend is anticipated.*

(ix) *Liquidation expense is to be considered as part of purchase consideration.*

You are required to:

(i) *Find out the purchase consideration.*

(ii) *Give journal entries in the books of A Ltd.*

(iii) *Give the Balance Sheet as at 31.3.2014 after absorption.*

Answer

(i) Computation of Purchase Consideration

	₹
For Preference Shareholders	
Present Income of Preference Shareholders of B Ltd.(6,00,000 $\times$ 12%)	72,000
Add : Required 20% increase	14,400
	86,400
10% Preference Shares to be issued of ₹ 8,64,000 (86,400/10x100)	8,64,000
For Equity Shareholders	
Valuation of Equity Shares of B Ltd. = Number of shares x Value of one share (i.e. EPS of B Ltd. x P/E ratio of A Ltd.[W.N.1] x 60/100) = 1,80,000 x $\left(₹\,2\times 20\times\frac{60}{100}\right)$=1,80,000 x 24 = ₹ 43,20,000	

Issue of Equity Shares	
No. of Equity Shares to be issued at 80% of Market Price i.e.	
80% of ₹ 40 = ₹ 32	
$\frac{43,20,000}{32} =$ 1,35,000 shares	
Equity Share Capital = 1,35,000 x ₹ 10 = ₹ 13,50,000	
Securities Premium = 1,35,000 x ₹ 22 = ₹ 29,70,000	
₹ 43,20,000	43,20,000
Issue of Preference Shares	₹
Present Equity Dividend	2,70,000
Less: Expected Equity Dividend from A Ltd. $\left(13,50,000 \times \frac{10}{100}\right)$	(1,35,000)
Loss in income	1,35,000
10% Preference Shares to be issued of ₹ 13,50,000 (1,35,000/10x 100)	13,50,000
Purchase Consideration	
Preference Shares Capital [₹ 8,64,000 + ₹ 13,50,000]	22,14,000
Equity Share Capital (1,35,000 shares of ₹ 10 each at ₹ 32 per share)	43,20,000
Liquidation Expenses (in cash)	16,000
	65,50,000

(ii) **Journal Entries in the Books of A Ltd.**

	Particulars		*Dr. (₹).*	*Cr. (₹)*
1.	Fixed Assets A/c [50,00,000 x 20 %]	Dr.	10,00,000	
	To Revaluation Reserve			10,00,000
	(Being Revaluation of Fixed assets at 20% above book value)			
2.	Business Purchase A/c	Dr.	65,50,000	
	To Liquidator of B Ltd.			65,50,000
	(Being purchase consideration payable for the business taken over from B Ltd.			
3.	Fixed Assets A/c [30,00,000 x 120 %]	Dr.	36,00,000	
	Investment A/c	Dr.	5,00,000	
	Inventory A/c [12,00,000 x 90 %]	Dr.	10,80,000	
	Sundry Debtors A/c	Dr.	12,00,000	

	Bills Receivable A/c	Dr.	10,000	
	Cash at Bank A/c	Dr.	90,000	
	Goodwill A/c (Balancing figure)	Dr.	19,10,000	
	To 12% Debentures in B Ltd.[5,00,000 x 108 %]			5,40,000
	To Sundry Creditors A/c			12,80,000
	To Bills Payable A/c			20,000
	To Business Purchase A/c			65,50,000
	(Being incorporation of different assets and liabilities of B Ltd. taken over at agreed values and balance debited to goodwill account)			
4.	Liquidator of B Ltd.	Dr.	65,50,000	
	To Equity Share Capital A/c			13,50,000
	To Securities Premium A/c			29,70,000
	To Preference Share Capital A/c			22,14,000
	To Bank A/c [Liquidation expenses]			16,000
	(Being discharge of consideration for B Ltd's business)			
5.	12% Debentures in B Ltd.	Dr.	5,40,000	
	Discount on issue of Debentures	Dr.	60,000	
	To 15% Debentures			6,00,000
	(Being allotment of 15% Debentures to debenture holders at a discount of 10% to discharge liability of B Ltd. debentures)			
6.	Sundry Creditors A/c	Dr.	20,000	
	To Sundry Debtors A/c			20,000
	(Being cancellation of Mutual owing)			
7.	Amalgamation Adjustment A/c	Dr.	1,00,000	
	To Statutory Reserve A/c			1,00,000
	(Being statutory reserve account is maintained under statutory requirements)			
8.	Securities Premium A/c	Dr.	60,000	
	To Discount on issue of Debentures A/c			60,000
	(Being discount on issue of Debentures written off out of securities premium)			

(iii) **Balance Sheet of A Ltd (after absorption of B Ltd.) as on 31.3.2014**

Particulars	*Note No.*	*(₹)*
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
(a) Share Capital	1	83,64,000
(b) Reserves and Surplus	2	66,10,000
(2) **Non-Current Liabilities**		
Long-term borrowings	3	11,00,000
(3) **Current Liabilities**		
Trade payables	4	23,80,000
Total		1,84,54,000
II. **Assets**		
(1) **Non-current assets**		
(a) Fixed assets		
i. Tangible assets	5	96,00,000
ii. Intangible assets	6	19,10,000
(b) Non-current investments	7	10,00,000
(c) Other non-current assets	8	1,00,000
(2) **Current assets**		
(a) Inventories	9	28,80,000
(b) Trade receivables	10	27,40,000
(c) Cash and cash equivalents [1,50,000+90,000-16,000]		2,24,000
Total		1,84,54,000

Notes to Accounts

		₹	₹
1.	Share Capital		
	4,95,000 Equity shares of ₹ 10 each fully paid (1,35,000 shares have been allotted as fully paid-upfor consideration other than cash)	49,50,000	

	10%,34,140 Preference shares of ₹ 100 each fully paid	34,14,000	83,64,000
	(Out of the above, 22,140 preference shares of ₹ 100 each have been allotted as fully paid up for consideration other than cash)		
2.	Reserves and surplus		
	Statutory reserve [1,00,000 + 1,00,000]	2,00,000	
	Revaluation reserve [Journal Entry 1 above]	10,00,000	
	General reserve	25,00,000	
	Securities Premium [29,70,000 – 60,000]	29,10,000	66,10,000
3.	Long Term Borrowings		
	Secured borrowings		
	15% Debentures (₹ 5,00,000 + ₹ 6,00,000)		11,00,000
4.	Trade payables		
	Creditors (10,80,000 + 12,80,000 -20,000)	23,40,000	
	Bills Payable (20,000+20,000)	40,000	23,80,000
5.	Tangible Assets		
	Other Fixed Assets (₹ 60,00,000+₹ 36,00,000)		96,00,000
6.	Intangible assets		
	Goodwill		19,10,000
7.	Non-current Investment		
	Investment(₹ 5,00,000+₹ 5,00,000)		10,00,000
8.	Other non-current assets		
	Amalgamation Adjustment A/c		1,00,000
9.	Inventories		
	Inventory (₹18,00,000+₹10,80,000)		28,80,000
10.	Trade receivables		
	Debtors (15,00,000 + 12,00,000 -20,000)	26,80,000	
	Bills Receivable (50,000+10,000)	60,000	27,40,000

Note: No footnote will appear for contingent liability as it has been converted into actual liability after absorption of B Ltd.

Working Notes:

1. Calculation of EPS & P/E ratio

	A Ltd. ₹	*B Ltd.* ₹
Profit before Interest and Tax	14,75,000	7,80,000
Less: Interest on debentures	(75,000)	(60,000)
Profit before tax	14,00,000	7,20,000
Less: Tax @ 40%	(5,60,000)	(2,88,000)
	8,40,000	4,32,000
Less: Preference Dividend	(1,20,000)	(72,000)
Earnings available for equity shareholders	7,20,000	3,60,000
Number of shares	3,60,000 shares	1,80,000 shares
EPS (Earnings/ No. of shares)	2	2
Market Price	₹ 40	Not given
P/E ratio	40/2 = 20	N.A.

2. Computation of Goodwill/Capital Reserve on absorption:

	₹	₹	₹
Purchase Consideration			65,50,000
Fixed Assets taken over	30,00,000		
Add: Increase by 20%	6,00,000	36,00,000	
Investments		5,00,000	
Current Assets:			
Inventory	12,00,000		
Less: Reduction in value by 10%	(1,20,000)		
	10,80,000		
Sundry Debtors	12,00,000		
Bills Receivable	10,000		
Cash at Bank	90,000	23,80,000	
		64,80,000	
Less: Outside Liabilities:			
12% Debentures at premium	5,40,000		
Sundry Creditors A/c	12,80,000		
Bills Payable A/c	20,000	(18,40,000)	46,40,000
Goodwill			19,10,000

Question 15

The summarized Balance Sheets of Strong Ltd. and Weak Ltd. as on 31.03.2014 is as below:

Summarised Balance Sheet as on 31.03.2014

Liabilities	*Strong Ltd.* ₹	*Weak Ltd.* ₹	*Assets*	*Strong Ltd.* ₹	*Weak Ltd.* ₹
Equity Share Capital (₹ 100 each)	*50,00,000*	*30,00,000*	*Fixed Assets other than Goodwill*	*30,00,000*	*20,00,000*
Reserve	*3,00,000*	*1,50,000*	*Inventory*	*8,00,000*	*6,00,000*
P/L A/c	*6,00,000*	*4,00,000*	*Trade receivables*	*14,00,000*	*9,00,000*
Trade payables	*5,00,000*	*3,00,000*	*Cash & Bank*	*12,00,000*	*3,50,000*
	64,00,000	*38,50,000*		*64,00,000*	*38,50,000*

Strong Ltd. takes over Weak Ltd. on 01.07.14. No Balance Sheet of Weak Ltd. is available as on that date. It is however estimated that Weak Ltd. earns estimated profit of ₹ 2,00,000 after charging proportionate depreciation @ 10% p.a. on fixed assets, during April-June, 2014.

Estimated profit of Strong Ltd. during these 3 months is ₹ 4,00,000 after charging proportionate depreciation @ 10% p.a. on fixed assets.

Both the companies have declared and paid 10% dividend within this 3 months' period. Goodwill of Weak Ltd. is valued at ₹ 2,00,000 and Fixed Assets are valued at ₹ 1,00,000 above the estimated book value. Purchase consideration is to be satisfied by Strong Ltd. by shares at par. Ignore Income-tax.

You are required to calculate the following:

(i) No. of shares to be issued by Strong Ltd. to Weak Ltd. against purchase consideration;

(ii) Net Current Assets of Strong Ltd. and Weak Ltd. as on 01.07.2014;

(iii) P/L A/c balance of the Strong Ltd. as on 01.07.2014;

(iv) Fixed Assets as on 01.07.2014;

(v) Balance Sheet of Strong Ltd. as on 01.07.2014 after takeover of Weak Ltd.

Answer

(i) Number of shares to be issued by Strong Ltd. to Weak Ltd. against purchase consideration

Weak Ltd.	₹	₹
Goodwill		2,00,000
Fixed Assets	20,00,000	
Less: Depreciation [20,00,000 × 10 % × 3/12]	(50,000)	

	19,50,000	
Add: Appreciation	1,00,000	20,50,000
Inventory		6,00,000
Trade receivables		9,00,000
Cash and Bank balances	3,50,000	
Add: Profit after depreciation 2,00,000		
Add: Depreciation (non-cash) 50,000	2,50,000	
Less: Dividend [30,00,000 × 10%]	(3,00,000)	3,00,000
		40,50,000
Less: Trade payables		(3,00,000)
Purchase Consideration		37,50,000
Number of shares to be issued by Strong Ltd. @ ₹ 100 each		37,500 shares

(ii) Calculation of Net Current Assets as on 01.07.2014

	₹	*Strong Ltd.* ₹		*Weak Ltd.* ₹
Current assets:				
Inventory		8,00,000		6,00,000
Trade receivables		14,00,000		9,00,000
Cash and Bank	12,00,000		3,50,000	
Less: Dividend	(5,00,000)		(3,00,000)	
Add: Profit after depreciation	4,00,000		2,00,000	
Add : Depreciation being non cash	75,000	11,75,000	50,000	3,00,000
		33,75,000		18,00,000
Less: Trade payables		(5,00,000)		(3,00,000)
		28,75,000		15,00,000

(iii) Profit and Loss Account balance of Strong Ltd. as on 1.07.2014

	₹
P & L A/c balance as on 31.03.2014	6,00,000
Less: Dividend paid	(5,00,000)
	1,00,000
Add: Estimated profit for 3 months after charging depreciation	4,00,000
	5,00,000

(iv) Fixed Assets as on 01.07.2014

Fixed Assets of Strong Ltd. as on 31.03.2014		30,00,000
Less: Depreciation for 3 months [30,00,000 X 10 % X 3/12]		(75,000)
		29,25,000
Fixed assets taken over of Weak Ltd. as on 31.03.2014	20,00,000	
Less: Proportionate depreciation for 3 months on fixed assets	(50,000)	
	19,50,000	
Add: Appreciation above the estimated book value	1,00,000	20,50,000
		49,75,000
Add: Goodwill		2,00,000
Total Fixed Assets as on 1.7.2014		51,75,000

(v) Balance Sheet of Strong Ltd. as on 01.07.2014 (after Take Over)

Particulars	*Note No.*	*(₹)*
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
(a) Share Capital	1	87,50,000
(b) Reserves and Surplus	2	8,00,000
(2) **Current Liabilities**		
Trade payables	3	8,00,000
Total		1,03,50,000
II. **Assets**		
(1) **Non-current assets**		
(a) Fixed assets		
i. Tangible assets	4	49,75,000
ii. Intangible assets	5	2,00,000
(2) **Current assets**		
(a) Inventories [8,00,000 + 6,00,000]		14,00,000
(b) Trade receivables [14,00,000 + 9,00,000]		23,00,000
(c) Cash and cash equivalents [11,75,000 + 3,00,000] – As per (ii) above		14,75,000
Total		1,03,50,000

Notes to Accounts:

		₹	₹
1.	Share Capital		
	87,500 (50,000+ 37,500)Equity shares of ₹ 100 each		87,50,000
	(Out of the above, 37,500 equity shares of ₹ 100 each has been issued for consideration other than cash)		
2.	Reserves and surplus		
	Reserves	3,00,000	
	Profit and Loss Account [as computed in (iii)]	5,00,000	8,00,000
3.	Trade payables (₹ 5,00,000 + ₹ 3,00,000)		8,00,000
4.	Tangible Assets		
	Fixed assets [as computed in (iv)]		49,75,000
5.	Intangible assets		
	Goodwill		2,00,000

Question 16

T. Ltd. and V. Ltd. propose to amalgamate. Their summarized balance sheets as at 31st March, 2014 were as follows:

Liabilities	*T. Ltd. ₹*	*V. Ltd. ₹*	*Assets*	*T. Ltd. ₹*	*V. Ltd. ₹*
Share capital:			*Fixed assets*		
Equity shares of ₹ 10 each	*15,00,000*	*6,00,000*	*Less: Depreciation*	*12,00,000*	*3,00,000*
General reserve	*6,00,000*	*60,000*	*Investments (fetching interest @ 6%)*	*3,00,000*	*-*
Profit & Loss A/c	*3,00,000*	*90,000*	*Inventory*	*6,00,000*	*3,90,000*
Trade payables	*3,00,000*	*1,50,000*	*Trade receivables*	*5,10,000*	*1,80,000*
			Cash and bank balances	*90,000*	*30,000*
	27,00,000	*9,00,000*		*27,00,000*	*9,00,000*

Their net profits (after taxation) were as follows:

Year	*T. Ltd.*	*V. Ltd.*
2011-12	*3,90,000*	*1,35,000*
2012-13	*3,75,000*	*1,20,000*
2013-14	*4,50,000*	*1,68,000*

Normal trading profit may be considered as 15% on closing capital invested. Goodwill may be taken as 4 years' purchase of average super profits. The inventory of T. Ltd. and V. Ltd. are to be taken at ₹ 6,12,000 and ₹ 4,26,000 respectively for the purpose of amalgamation. W. Ltd. is formed for the purpose of amalgamation of two companies. Assume tax @ 40%.

(a) Suggest a scheme of capitalization of W. Ltd. and ratio of exchange of shares; and

(b) Draft the opening balance sheet of W. Ltd.

Answer

(a) Scheme of capitalization of W. Ltd. and ratio of exchange of shares

Computation of Net Assets of amalgamating companies

	T. Ltd. ₹	*V. Ltd.* ₹
Goodwill (W.N.2)	3,19,200	1,21,200
Fixed Assets	12,00,000	3,00,000
6% investments (Non-trade)	3,00,000	-
Inventory	6,12,000	4,26,000
Trade receivables	5,10,000	1,80,000
Cash and Bank Balances	90,000	30,000
	30,31,200	10,57,200
Less: trade payables	(3,00,000)	(1,50,000)
Net Assets	27,31,200	9,07,200
No. of Equity shares	1,50,000	60,000
Intrinsic value of a share	₹ 18.208	₹ 15.12
No of shares to be issued by W. Ltd to		
T. Ltd 1,50,000 x 18.208/10	2,73,120 shares	
V. Ltd 60,000 x 15.12/10		90,720 shares

In total 2,73,120 + 90,720 i.e. 3,63,840 shares will be issued by W. Ltd.

Ratio of exchange of shares will be as follows:

1. Holders of 1,50,000 equity shares of T Ltd. will get 2,73,120 shares in W. Ltd.
2. Similarly, holders of 60,000 equity shares of V Ltd. will get 90,720 shares in W. Ltd.

(b) **Opening Balance Sheet of W. Ltd.**

Particulars	*Note No.*	*(₹)*
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
Share Capital	1	36,38,400
(2) **Current Liabilities**		
Trade payables [3,00,000 + 1,50,000]		4,50,000
Total		40,88,400
II. **Assets**		
(1) **Non-current assets**		
(a) Fixed assets		
i. Tangible assets	2	15,00,000
ii. Intangible assets	3	4,40,400
(b) Non-current investments	4	3,00,000
(2) **Current assets**		
(a) Inventories [6,12,000+ 4,26,000]		10,38,000
(b) Trade receivables [5,10,000 + 1,80,000]		6,90,000
(c) Cash and cash equivalents [90,000 + 30,000]		1,20,000
Total		40,88,400

Notes to Accounts

		(₹)
1.	Share Capital	
	Equity share capital	
	3,63,840 Equity shares of ₹ 10 each	36,38,400
	(Issued for consideration other than cash, pursuant to scheme of amalgamation)	
2.	Tangible Assets	
	Other Fixed Assets (₹12,00,000+ ₹ 3,00,000)	15,00,000
3.	Intangible assets	
	Goodwill (W.N.2) (₹3,19,200 + ₹ 1,21,200)	4,40,400
4.	Non-current investments	
	6%Investments	3,00,000

Working Notes:

1. Calculation of closing trading capital employed on the basis of net assets

	T. Ltd. ₹	V. Ltd. ₹
Fixed Assets	12,00,000	3,00,000
Inventory	6,12,000	4,26,000
Trade receivables	5,10,000	1,80,000
Cash and Bank Balances	90,000	30,000
	24,12,000	9,36,000
Less: Trade payables	(3,00,000)	(1,50,000)
Net Assets	21,12,000	7,86,000

2. Calculation of value of goodwill

		T. Ltd. ₹	V. Ltd. ₹
(i)	Average Trading Profit		
	2011-12	3,90,000	1,35,000
	2012-13	3,75,000	1,20,000
	2013-14	4,50,000	1,68,000
	Profit after tax	12,15,000	4,23,000
	Profit before tax @ 40%	20,25,000	7,05,000
	Add : Under valuation of closing inventory	12,000	36,000
		20,37,000	7,41,000
	Average of 3 years' profit before tax	6,79,000	2,47,000
	Less: Income from non-trade investments (₹ 3,00,000 x 6%)	(18,000)	-
	Average profit before tax	6,61,000	2,47,000
	Less: 40% tax	(2,64,400)	(98,800)
	Average profit after tax	3,96,600	1,48,200
(ii)	Super Profits		
	Average trading profit	3,96,600	1,48,200
	Less: Normal Profit		
	T. Ltd. ₹ 21,12,000 x 15%	(3,16,800)	

	V. Ltd ₹ 7,86,000 x 15%	______	(1,17,900)
	Super Profit	79,800	30,300
(iii)	Value of goodwill at 4 years' purchase of super profits	3,19,200	1,21,200

Note: It is assumed that investments are made before 2011-12.

Question 17

The following are the summarized Balance Sheets of Andrew Ltd. and Barry Ltd., as at 31.12.2014:

Andrew Ltd.

Liabilities	*Amount (₹ '000)*	*Assets*	*Amount (₹ '000)*
Share capital		*Fixed assets*	*3,400*
3,00,000 Equity shares of ₹ 10 each	*3,000*	*Inventory (pledged with secured loan trade payables)*	*18,400*
10,000 Preference shares of ₹ 100 each	*1,000*		
General reserve	*400*	*Other Current assets*	*3,600*
Secured loans (secured against pledge of inventories)	*16,000*	*Profit and Loss account*	*16,600*
Unsecured loans	*8,600*		
Current liabilities	*13,000*		
	42,000		*42,000*

Barry Ltd.

Liabilities	*Amount (₹ '000)*	*Assets*	*Amount (₹ '000)*
Share capital		*Fixed assets*	*6,800*
1,00,000 Equity shares of ₹ 10 each	*1,000*	*Current assets*	*9,600*
General reserve	*2,800*		
Secured loans	*8,000*		
Current liabilities	*4,600*		
	16,400		*16,400*

Both the companies go into liquidation and Charlie Ltd., is formed to take over their businesses. The following information is given:

(a) All Current assets of two companies, except pledged inventory are taken over by Charlie Ltd. The realisable value of all current assets are 80% of book values in case of Andrew Ltd. and 70% for Barry Ltd. Fixed assets are taken over at book value.

(b) The break-up of Current liabilities is as follows:

	Andrew Ltd. ₹	Barry Ltd. ₹
Statutory liabilities (including ₹ 22 lakhs in case of Andrew Ltd. in case of a claim not having been admitted shown as contingent liability)	*72,00,000*	*10,00,000*
Liability to employees	*30,00,000*	*18,00,000*

The balance of Current liability is miscellaneous trade payables.

(c) Secured loans include ₹ 16,00,000 accrued interest in case of Barry Ltd.

(d) 2,00,000 equity shares of ₹ 10 each are allotted by Charlie Ltd. at par against cash payment of entire face value to the shareholders of Andrew Ltd. and Barry Ltd. in the ratio of shares held by them in Andrew Ltd. and Barry Ltd.

(e) Preference shareholders are issued Equity shares worth ₹ 2,00,000 in lieu of present holdings.

(f) Secured loan payables agree to continue the balance amount of their loans to Charlie Ltd. after adjusting value of pledged security in case of Andrew Ltd. and after waiving 50% of interest due in the case of Barry Ltd.

(g) Unsecured loans are taken over by Charlie Ltd. at 25% of Loan amounts.

(h) Employees are issued fully paid Equity shares in Charlie Ltd. in full settlement of their dues.

(i) Statutory liabilities are taken over by Charlie Ltd. at full values and trade payables are taken over at 80% of the book value.

Show the opening Balance Sheet of Charlie Ltd. Workings should be part of the answer.

Answer

Balance sheet of Charlie Ltd. as at 31st December, 2014

Particulars	*Note No.*	*(₹ '000)*
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
Share Capital	1	7,000
(2) **Non-Current Liabilities**		
Long-term borrowings	2	10,630

	(3) **Current Liabilities**		
	(a) Trade Payables	3	5,440
	(b) Other current liabilities	7	8,200
	Total		31,270
II.	**Assets**		
	(1) **Non-current assets**		
	(a) Fixed assets		
	i. Tangible assets	4	10,200
	ii. Intangible assets	5	9,470
	(2) **Current assets**		
	(a) Cash and cash equivalents		2,000
	(b) Other current assets	6	9,600
	Total		31,270

Notes to Accounts

			(₹ 000)
1.	Share Capital		
	Issued, subscribed & Paid up:		
	7,00,000 equity shares of ₹ 10 each, fully paid up (W.N.5)		7,000
	(of the above 5,00,000 shares have been issued for consideration other than cash)		
2.	Long Term Borrowings		
	Secured loans (₹ 1,280 +₹ 7,200) – W.N. 2	8,480	
	Unsecured Loans (25% of ₹ 8,600)	2,150	10,630
3.	Trade Payables(W.N.1)		
	Andrew Ltd.	4,000	
	Barry Ltd.	1,440	5,440
4.	Tangible Assets		
	Fixed Assets (₹ 3,400 + ₹ 6,800)		10,200
5.	Intangible assets		
	Goodwill (W.N.4)		9,470

6.	Other Current Assets		
	Andrew Ltd.	2,880	
	Barry Ltd.	6,720	9,600
7.	Other Current liabilities		
	Andrew Ltd.	7,200	
	Barry Ltd.	1,000	8,200

Working Notes:

1. Value of trade payables taken over by Charlie Ltd. *(₹ '000)*

	Andrew Ltd.	*Barry Ltd.*
Given in balance sheet	13,000	4,600
Less: Statutory liabilities [72 lakhs – 22 lakhs]	(5,000)	(1,000)
Liability to employees	(3,000)	(1,800)
Trade payables	5,000	1,800
80% thereof	4,000	1,440

2. Value of total liabilities taken over by Charlie Ltd. *(₹ '000)*

	Andrew Ltd.		*Barry Ltd.*	
Current liabilities				
Statutory liabilities	7,200		1,000	
Liability to employees	3,000		1,800	
Trade payables (W.N.1)	4,000	14,200	1,440	4,240
Secured loans				
Given in Balance Sheet	16,000		8,000	
Interest waived	-		800	7,200
Value of Inventory (80% of ₹ 184 lakhs)	14,720	1,280		
Unsecured Loans(25% of ₹ 86 lakhs)		2,150		-
		17,630		11,440

3. Assets taken over by Charlie Ltd. *(₹ '000)*

	Andrew Ltd. ₹	*Barry Ltd.* ₹
Fixed Assets	3,400	6,800
Current Assets 80% and 70% respectively of book value	2,880	6,720
	6,280	13,520

4. Goodwill / Capital Reserve on amalgamation *(₹ '000)*

Liabilities taken over (W.N. 2)		17,630	11,440
Equity shares to be issued to Preference Shareholders		200	-
	A	17,830	11,440
Less: Total assets taken over (W.N. 3)	B	(6,280)	(13,520)
	A-B	11,550	(2,080)
		Goodwill	Capital Reserve
Net Goodwill		9,470	

5. Equity shares issued by Charlie Ltd.

			Number
(i)	For Cash		2,00,000
	For consideration other than cash		
(ii)	In Discharge of Liabilities to Employees	4,80,000	
(iii)	To Preference shareholders	20,000	5,00,000
			7,00,000
	Value of shares (₹ 10 x 7,00,000)		₹ 70 lakhs

Question 18

Agni Ltd. and Bayu Ltd. both engaged in similar merchanting activities since 2012, decide to amalgamate their businesses. A holding company, Chandrama Ltd. would be formed on 1st January, 2015 to acquire the entire shares in both the companies.

From the information given below you are required to prepare:

(a) A statement of purchase consideration, supported by requisite working notes.

(b) Balance Sheet of Chandrama Ltd. after the transactions have been completed.

(i) The terms of the offer were:

- *₹ 100, 15 per cent debentures for every ₹ 100 of net assets owned by each company on 31st December, 2014.*
- *₹ 100 equity shares based on two years purchase of profit before taxation. The profit is to be determined by taking weighted average profits of 2013 and 2014, weights being 1 and 2 respectively.*

(ii) It was agreed that the accounts of Bayu Ltd. for the two years ended 31st December, 2014 be adjusted, where necessary, to conform to the accounting policies followed by Agni Ltd.

(iii) *The Pre-tax profits, including investment income, of the two companies were as follows:*

	2013 ₹	2014 ₹
Agni Ltd.	16,38,000	18,36,000
Bayu Ltd.	17,88,300	25,74,000

(iv) *Agni Ltd. values its inventory on FIFO basis while Bayu Ltd. used a different basis. To bring Bayu Ltd.'s values in line with those of Agni Ltd, value of its inventory will require to be reduced by ₹ 36,000 at the end of 2013 and ₹ 1,02,000 at the end of 2014.*

(v) *Both the companies use straight line method of depreciation.*

(vi) *Bayu Ltd. deducts 1 per cent from trade receivables as a general provision against doubtful debts.*

(vii) *Prepaid expenses in Bayu Ltd. include advertisement expenditure carried forward of ₹ 1,80,000 in 2013 and ₹ 90,000 in 2014, being part of initial advertising in 2013, which is being written off over three years. Similar expenditure in Agni Ltd. has been fully written off in 2013.*

(viii) *To bring Director's remuneration on to a comparative basis, the profits of Bayu Ltd. are to be reduced by ₹ 1,20,000 in 2013 and ₹ 1,80,000 in 2014 and the net assets are also to be adjusted accordingly.*

Summarised Balance Sheets as at 31st December, 2013 and 2014 were as follows:

Agni Ltd.

Liabilities	2013 ₹	2014 ₹	Assets	2013 ₹	2014 ₹
Share capital issued and subscribed:			Fixed assets:		
12,000 shares of ₹ 100 each, fully paid	12,00,000	12,00,000	Furniture and Fixtures: at cost	6,90,000	6,90,000
Reserves and Surplus			Less: depreciation	(69,000)	(1,38,000)
				6,21,000	5,52,000
Capital reserve	-	2,10,000	Investments:		
			Quoted investments at market value	-	7,80,000
Revenue reserve	7,98,300	16,74,000	Current assets:		

Current Liabilities and provisions:			*Inventory at cost*	*18,30,000*	*21,75,000*
Trade payables	*15,02,700*	*18,21,000*	*Trade receivables*	*18,00,000*	*22,20,000*
Provision for taxation	*8,40,000*	*9,60,000*	*Prepaid expenses*	*30,000*	*42,000*
			Cash at bank	*60,000*	*96,000*
	43,41,000	*58,65,000*		*43,41,000*	*58,65,000*

Bayu Ltd.

Liabilities	*2013* ₹	*2014* ₹	*Assets*	*2013* ₹	*2014* ₹
Share capital:			*Fixed assets:*		
Issued and subscribed 15,000 equity shares of ₹ 100 each, fully paid	*15,00,000*	*15,00,000*	*Furniture and fixture at cost*	*9,60,000*	*9,60,000*
			Less: depreciation	*(1,44,000)*	*(2,88,000)*
Reserves and surplus:				*8,16,000*	*6,72,000*
Revenue reserve	*8,58,000*	*21,42,000*	*Investments:*		
Current liabilities and provisions:					
Trade payables	*14,70,000*	*14,82,000*	*Quoted investments (Market value ₹ 14,70,000)*	*-*	*12,00,000*
Bank overdraft	*-*	*5,10,000*	*Current assets:*		
Provision for taxation	*9,30,000*	*12,90,000*	*Inventory at cost*	*17,91,000*	*22,26,000*
			Trade receivables		
			Less: provision	*17,82,000*	*26,73,000*
			Prepaid expenses	*2,16,000*	*1,44,000*
			Cash at bank	*1,53,000*	*9,000*
	47,58,000	*69,24,000*		*47,58,000*	*69,24,000*

Answer

(a) Statement of Purchase Consideration

	Agni Ltd.			Bayu Ltd. (Refer W.N. 1)		
Year	*PBT (₹)*	*Weight*	*₹*	*PBT (₹)*	*Weight*	*₹*
2013	16,38,000	1	16,38,000	15,18,300	1	15,18,300
2014	18,36,000	2	36,72,000	27,63,000	2	55,26,000

Total Profit		53,10,000			70,44,300
Weighted average profit (Divided by 3)		17,70,000			23,48,100
(i)	Two years' purchase of average profits	35,40,000			46,96,200
(ii)	Net assets (Refer working notes 3 and 4)	30,84,000			35,43,000
		66,24,000			82,39,200
(iii)	Discharge of purchase consideration 82,362 Shares will be issued for goodwill amounting ₹ 82,36,200 (₹ 35,40,000 + ₹ 46,96,200) 66,270 15% Debentures will be issued for net assets amounting ₹ 66,27,000 (30,84,000 +35,43,000) Total purchase consideration will amount to ₹ 148,63,200.				

(b) **Balance Sheet of Chandrama Ltd. as on 1st January, 2015**

Particulars	*Note No.*	*(₹)*
I. **Equity and Liabilities**		
(1) **Shareholder's Fund**		
Share Capital	1	82,36,200
(2) **Non-Current Liabilities**		
Long-term borrowings	2	66,27,000
Total		1,48,63,200
II. **Assets**		
(1) **Non-current assets**		
Non-current investments	3	1,48,63,200
Total		1,48,63,200

Notes to Accounts

		(₹)	(₹)
1.	Share Capital		
	Issued and subscribed		
	82,362 shares of ₹ 100 each, fully paid up (Issued for consideration other than cash)		82,36,200
2.	Long Term Borrowings		
	Secured Loans		

	66,270 15% Debentures of ₹ 100 each, fully paid		66,27,000
3.	Non-current investments *		
	Shares in Agni Ltd.	66,24,000	
	Shares in Bayu Ltd.	82,39,200	1,48,63,200

* In this case, A holding company, Chandrama Ltd. is being formed on 1st January, 2015 to **acquire the entire shares** in both the companies. Hence, this will appear in the Non-current investments of Chandrama Ltd.

Working Notes:

1. Statement of adjusted Net Profits of Bayu Ltd.

	Year 2013		*Year 2014*	
	₹	₹	₹	₹
Net Profit as given		17,88,300	-	25,74,000
Add: Provision for Bad Debts-W.N.2(a)	18,000		27,000	
Advertising (to the extent written off)	-		90,000	
Depreciation- [W.N.2(b)]	48,000		48,000	
Appreciation in Investment	-		2,70,000	
Value of Opening Inventory	-	66,000	36,000	4,71,000
		18,54,300		30,45,000
Less: Value of Closing Inventory	36,000		1,02,000	
Advertising (to be written off in one year only)	1,80,000		-	
Directors' Remuneration	1,20,000	(3,36,000)	1,80,000	(2,82,000)
		15,18,300		27,63,000

2

		(₹) *Year 2013*	(₹) *Year 2014*
(a)	Trade receivables as per Balance sheet	17,82,000	26,73,000
	Provision created		
	1% of (₹ 17,82,000 /. 99)	18,000	
	1% of (₹ 26,73,000 / .99)		27,000
(b)	Rate of depreciation under straight line method for Agni Ltd. is (₹ 69,000 / 6,90,000) $\times$100 = 10%. Rate of depreciation under straight line method for Bayu Ltd. is (₹ 1,44,000 / 9,60,000) $\times$ 100= 15% Difference of 5% in depreciation amount i.e. (5% of ₹ 9,60,000 =₹ 48,000) has been added back to ensure uniform accounting policies.		

3 Statement of Net Assets of Agni Ltd.

	₹	₹
Total Assets		58,65,000
Less: Trade payables	18,21,000	
Provision for Taxation	9,60,000	(27,81,000)
		30,84,000

4 Statement of Adjusted Net Assets of Bayu Ltd.

	₹	₹
Furniture and Fixtures	9,60,000	
Less: Depreciation at 10% p.a. for two years	(1,92,000)	7,68,000
Quoted investments at market value		14,70,000
Inventory (₹ 22,26,000 – ₹ 1,02,000)		21,24,000
Trade receivables after Reversal of Provision		
(₹ 26,73,000 + ₹ 27,000)		27,00,000
Prepaid Expenses (₹ 1,44,000 – ₹ 90,000)		54,000
Cash at Bank		9,000
		71,25,000
Less: Trade payables	14,82,000	
Bank Overdraft	5,10,000	
Liability for Directors' Remuneration [1,20,000 + 1,80,000]	3,00,000	
Provision for Taxation	12,90,000	(35,82,000)
		35,43,000

Question 19

Small Ltd. and Little Ltd., two companies in the field of speciality chemicals, decided to go in for a follow on Public Offer after completion of an amalgamation of their businesses. As per agreed terms initially a new company Big Ltd. will be incorporated on 1st January, 2015 with an authorized capital of ₹ 2 crore comprised of 20 lakh equity shares of ₹ 10 each. The holding company would acquire the entire shareholding of Small Ltd. & Little Ltd. and in turn would issue its shares to the outside holders of these shares. It is also agreed that the consideration would be a multiple of the average P/E ratio for the period 1st January, 2014 to 31st March, 2014 times the rectified profits of each company, subject to necessary adjustments for complying with the terms of the share issue.

The following information is supplied to you:

	Small Ltd.	*Little Ltd.*
Ordinary Shares of ₹ 10 each (Nos.)	*40 lakhs*	*20 lakhs*
10% Preference shares of ₹ 100 each (Nos.)	*2 lakh*	*Nil*
10% Preference shares of ₹ 10 each (Nos.)	*Nil*	*2 lakh*
5% debentures of ₹ 10 each (Nos.)	*4 lakh*	*4 lakh*
Investments Held		
(a) 4 lakh ordinary shares in Small Ltd.	-	*₹ 40 lakhs*
(b) 2 lakh ordinary shares in Little Ltd.	*₹ 20 lakhs*	-
Profit before Interest& Tax (PBIT) after considering impact of Inter-company Transactions and Holdings.	*₹ 50 lakhs*	*₹ 25 lakhs*
Average P/E ratio January, 2014 to March, 2014	*10*	*8*

The following additional information is also furnished to you in respect of adjustments required to the profit figure as given above:

1. *The profits of the respective companies would be adjusted for half the value of contingent liabilities as on 31st March, 2014.*
2. *Trade receivables of Small Ltd. include an irrecoverable amount of ₹ 2 lakh against which ₹ 1 lakh was recovered but kept in Advance account.*
3. *Little Ltd. had omitted to provide for increased FOREX liability of US$ 10,000 on loan availed in financial year 2013-14 for purchase of Machinery. The machinery was acquired on 1st January, 2014 and put to use in financial year 2014-15. The additional liability arose due to change in exchange rates and is arrived at in conformity with prevailing provisions of AS 11. The exchange rate is US $ 1 = INR 50.*
4. *Small Ltd. has omitted to invoice a sale that took place on 31st March, 2014 of goods costing ₹ 2,50,000 at a mark-up of 15 per cent instead the goods were considered as part of closing inventory.*
5. *Closing Inventory of ₹ 45 lakhs of Little Ltd. as on 31st March, 2014 stands undervalued by 10 per cent.*
6. *Contingent liabilities of Small Ltd. and Little Ltd. as on 31st March, 2014 stands at ₹ 5 lakhs and ₹ 10 lakhs respectively.*

The terms of the share issue are as under:

(i) *Shares in Big Ltd. will be issued at a premium of ₹ 13 per share for all external shareholders of Small Ltd. The Premium will be ₹ 15 per share for shares in Big Ltd. issued to all external shareholders of Little Ltd.*

(ii) No shares in Big Ltd. will be issued in lieu of the investments (intercompany holdings) of both companies. Instead the shares so held shall be transferred to Big Ltd. at the close of the financial year ended 31st March, 2015 at Par Value consideration payable on date of transfer.

(iii) Big Ltd. would in addition to the issue of shares to outside shareholders of Small Ltd. and Little Ltd. make a preferential allotment on 31st March, 2015 of 2 lakhs ordinary shares at a premium of ₹ 28 per share to Virgin Capital Ltd. (VCL). These shares will not be eligible for any dividends declared or paid till that date.

(iv) Big Ltd. will go in for a 18 per cent unsecured Bank overdraft facility to meet incorporation costs of ₹ 16 lakhs and towards management expenses till 31st March, 2015 estimated at ₹ 14 lakhs. The overdraft is expected to be availed on 1st February, 2015 and closed on 31st March, 2015 out of the proceeds of the preferential allotment.

(v) It is agreed that interim dividends will be paid on 31.03.2015 for the period January, 2015 to March, 2015 by Big Ltd. at 2 per cent; Small Ltd. at 3 per cent and Little Ltd. at 2.5 per cent. Ignore Dividend Distribution tax.

(vi) The prevailing Income Tax Rate is 25 per cent.

You are required to compute the number of shares to be issued to the shareholders of each of the companies and prepare the projected Profit and Loss Account for the period from 1st January, 2015 to 31.03.2015 of Big Ltd. and its Balance Sheet as on 31st March, 2015.

Answer

Computation of number of shares issued

Calculation of Rectified Profits and Purchase consideration

	₹	₹
Small Ltd.		
Given profits		50,00,000
Less: Irrecoverable Trade receivables	1,00,000	
50% Contingent Liability	2,50,000	(3,50,000)
		46,50,000
Add: Profit on omitted sale (15% of ₹ 2,50,000)		37,500
		46,87,500
Less: Debenture interest (4,00,000 x₹ 10 x 5 %)		(2,00,000)
		44,87,500
Less: Income Tax @ 25%		(11,21,875)
Profits after Tax (PAT)		33,65,625
Less: Preference Dividend (10% of ₹ 2,00,00,000)		(20,00,000)
Rectified Profits		13,65,625

Average PE ratio = 10			
Total consideration for all equity shareholders (Average PE ratio × Profit)			1,36,56,250
*Less:*10% thereof for shareholders of Little Ltd. [As Little Ltd. holds 4 lakhs out of 40 lakhs shares of Small Ltd.]			(13,65,625)
Balance available for other shareholders of Small Ltd.	[A]		1,22,90,625
Little Ltd.			
Given profits			25,00,000
Less: Increase in FOREX liability (US$10,000 × 50) *		5,00,000	
50% Contingent Liability		5,00,000	(10,00,000)
			15,00,000
Add: Undervaluation of inventory (45,00,000×10/90)			5,00,000
			20,00,000
Less: Debenture interest (4,00,000 × ₹ 10 × 5 %)			(2,00,000)
			18,00,000
Less: Income Tax @ 25%			(4,50,000)
Profits after Tax (PAT)			13,50,000
Less: Preference Dividend (10% of ₹ 20,00,000)			(2,00,000)
Rectified Profits			11,50,000
Average PE ratio = 8			
Total consideration for all equity shareholders (Average PE ratio × Profit)			92,00,000
Less:10% thereof for shareholders of Small Ltd. [As Small Ltd. holds 2 lakhs out of 20 lakhs shares of Little Ltd.]			(9,20,000)
Balance available for other shareholders of Little Ltd.	[B]		82,80,000

Statement showing Disposal of Purchase Consideration

	Small Ltd. ₹	*Little Ltd.* ₹	*Total* ₹
Purchase Consideration	1,22,90,625 [A] above	82,80,000 [B] above	2,05,70,625
Number of shares [Purchase consideration/(Face Value + Securities Premium)]	5,34,375	3,31,200	8,65,575
Share Capital	53,43,750	33,12,000	86,55,750

Securities Premium	69,46,875	49,68,000	1,19,14,875
Purchase Consideration	1,22,90,625	82,80,000	2,05,70,625

* As per para 46 and 46A of AS 11 as per the Companies (Accounting Standards) Rules, 2006, the Companies have the option to treat the exchange difference on long-term foreign currency monetary items i.e. they can be added to or deducted from the cost of the asset. It is assumed, that this option has not been exercised, hence the exchange difference been taken to profit and loss. Other alternative is also possible.

Projected Profit and Loss Account of Big Ltd.
for the period 1st January, 2015 to 31st March, 2015

		Note No.	₹
I.	Revenue from operations		—
II.	Other income	5	17,00,000
III.	Total Revenue(I+II)		17,00,000
IV.	Expenses:		
	Employee benefits expense	7	14,00,000
	Finance costs	6	90,000
	Other expenses	8	16,00,000
V.	Total expenses		30,90,000
VI.	Loss for the period (V - III)		(13,90,000)

Projected Balance Sheet of Big Ltd.
as on 31st March, 2015

Particulars	*Note No.*	*(₹ in Lacs)*
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
(a) Share Capital	1	1,06,55,750
(b) Reserves and Surplus	2	1,59,51,760
Total		2,66,07,510
II. **Assets**		
(1) **Non-current assets**		
Non-current investments	3	2,65,70,625
(2) **Current assets**		
Cash and cash equivalents	4	36,885
Total		2,66,07,510

Notes to Accounts

		(₹)	(₹)
1.	Share Capital		
	Authorised		
	20 lakhs shares of ₹ 10 each	2,00,00,000	
	Issued & Paid up		
	10,65,575 shares of ₹ 10 each (out of the above 8,65,575 shares have been issued for consideration other than cash)	1,06,55,750	1,06,55,750
2.	Reserves and surplus		
	Securities Premium (₹ 1,19,14,875 + 56,00,000)		1,75,14,875
	Loss for the period	(13,90,000)	
	Less: Proposed Dividend (2% of ₹ 86,55,750)	(1,73,115)	(15,63,115)
	Balance of Profit and Loss Account carried forward		1,59,51,760
3.	Non-current investments		
	Shares in Subsidiaries (W.N. 4)		2,65,70,625
4.	Cash and cash equivalents		
	Cash at Bank (W.N. 3)		36,885
5.	Other income		
	Dividends received from Subsidiaries (₹ 12,00,000 + 5,00,000)		17,00,000
6.	Finance costs		
	Interest on Bank O/D		90,000
7.	Employee benefits expenses		
	Management expenses		14,00,000
8.	Other expenses		
	Preliminary expenses*		16,00,000

*As per para 56 of AS 26, 'Intangible Assets', preliminary expenses are to be recognized as expenses as and when they are incurred.

Working Notes:

1. Shares issued by Big Ltd. to Virgin capital Ltd. (VCL)

Number of shares issued	2,00,000
Face Value of Share Capital @ ₹ 10 each	₹ 20,00,000
Securities Premium @ ₹ 28 each	₹ 56,00,000
Total cash received from VCL	₹ 76,00,000

2. Overdraft of Big Ltd. as on 31.3.2015

	₹
Towards Incorporation expenses i.e. preliminary expenses	16,00,000
Towards Management expenses	14,00,000
Total Bank Overdraft availed	30,00,000
Interest @ 18% p.a. for 2 months	90,000

3. Bank balance of Big Ltd. as on 31.3.2015

Bank Account of Big Ltd.

		₹			₹
01.02.2015	To Overdraft	30,00,000	01.02.2015	By Incorporation expenses	16,00,000
31.03.2015	To VCL	76,00,000	31.03.2015	By Management expenses	14,00,000
31.03.2015	To DividendSmall	12,00,000*	31.03.2015	By Interest on Overdraft	90,000
	Little	5,00,000†	31.03.2015	By Overdraft	30,00,000
			31.03.2015	By Dividend paid	1,73,115‡
			31.03.2015	By Shares in Small Ltd. bought from Little Ltd.	40,00,000
			31.03.2015	By Shares in Little Ltd. bought from Small Ltd.	20,00,000
				By Balance c/d (Bal.fig.)	36,885
		1,23,00,000			1,23,00,000

* (40,00,000 x 10) x 3% = 12,00,000.

† (20,00,000 x 10) x 2.5% = 5,00,000.

‡ [(5,34,375 + 3,31,200) x 10] x 2% = 1,73,115.

4. **Investments of Big Ltd. in Projected Balance Sheet**

	₹
Purchase consideration paid for acquiring shares of outside holders of-	
Small Ltd	1,22,90,625
Little Ltd.	82,80,000
Consideration paid in cash for acquiring cross holdings	
From Small Ltd. (shares of Little Ltd.)	20,00,000
From Little Ltd. (shares of Small Ltd.)	40,00,000
	2,65,70,625

Question 20

Dawn Ltd. was incorporated to take over Arun Ltd., Brown Ltd. and Crown Ltd. Summarised Balance Sheets of all the three companies as on 31.03.2015 are as follows:

(₹ '000)

Particulars	*Arun Ltd.*	*Brown Ltd.*	*Crown Ltd.*
Liabilities :			
Equity Share Capital (Share of ₹ 10 each)	*1,800*	*2,100*	*900*
Reserves	*300*	*150*	*300*
10% Debentures	*600*	*---*	*300*
Other Liabilities	*600*	*450*	*300*
Total	*3,300*	*2,700*	*1,800*

(₹ '000)

Particulars	*Arun Ltd.*	*Brown Ltd.*	*Crown Ltd.*
Assets :			
Net Tangible Block	*2,400*	*1,800*	*1,500*
Goodwill	*-*	*150*	*-*
Other Assets	*900*	*750*	*300*
Total	*3,300*	*2,700*	*1,800*

From the following information you are to:

(a) Work out the number of Equity shares and Debentures to be issued to the shareholders of each company.

(b) Prepare the Balance Sheet of Dawn Ltd. as on 31.03.2015.

Information:

(i) Assets are to be revalued and the revalued amount of Tangible Block and other Assets are as follows:

	Tangible Block	*Other Assets*
Arun Ltd.	*₹ 30,00,000*	*₹ 10,50,000*
Brown Ltd.	*₹ 15,00,000*	*₹ 4,20,000*
Crown Ltd.	*₹ 18,00,000*	*₹ 2,40,000*

(ii) Normal profit on capital employed is to be taken at 10%

(iii) Average amount of profit for three years before charging interest on Debentures are:

Arun Ltd.	*₹ 5,40,000*
Brown Ltd.	*₹ 4,32,000*
Crown Ltd.	*₹ 3,12,000*

(iv) Goodwill is to be calculated at three years' purchase of average super profits for three years, such average is to be calculated after adjustment of 10% depreciation on Increase/Decrease on revaluation of Fixed Assets (Tangible Block).

(v) Capital employed being considered on the basis of revaluation of Tangible Assets.

(vi) Equity Shares of ₹ 10 each fully paid up in Dawn Ltd. are to be distributed in the ratio of average profit after adjustment of depreciation on revaluation of Tangible Block.

(vii) 10% Debentures of ₹ 100 each fully paid up are to be issued by Dawn Ltd. for the balance due.

(viii) The ratio of issue of Equity shares and debentures of Dawn Ltd. are to be maintained at 3:1, towards the take over companies.

(ix*) The amount required for preliminary expenses of ₹ 1,50,000 and for payment to existing Debenture holders, were provided by issuing Equity shares of ₹ 10 each in Dawn Ltd.*

Answer

(a) Number of Equity shares and Debentures to be issued to the shareholders of each company

Total Purchase Consideration (WN 2) ₹ 74,34,000

As per point (viii) in the question, ratio of equity shares and debentures to be issued/maintained by Dawn Ltd. is 3:1. Therefore,

Total Equity to be issued = 74,34,000/4 x 3 = ₹ 55,75,500

Total Debentures to be issued = 74,34,000/4 = ₹ 18,58,500

	Arun Ltd. ₹	*Brown Ltd.* ₹	*Crown Ltd.* ₹	*Total paid by Dawn Ltd. in 3:1* ₹
Equity shares of ₹ 10 each in the ratio of adjusted profits (420:462:252)	20,65,000	22,71,500	12,39,000	55,75,500
10% Debentures [Balance of purchase consideration] – Refer W.N. 2	11,90,000	1,43,500	5,25,000	18,58,500
	32,55,000	24,15,000	17,64,000	74,34,000
No. of shares of ₹ 10 each	2,06,500	2,27,150	1,23,900	5,57,550
10% Debentures of ₹ 100 each in numbers	11,900	1,435	5,250	18,585

(b) Balance Sheet of Dawn Ltd. as at 31.3.2015

Particulars	*Note No.*	₹
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
(a) Share Capital	1	66,25,500
(b) Reserves and Surplus	2	(1,50,000)
(2) **Non-Current Liabilities**		
Long-term borrowings	3	18,58,500
(3) **Current Liabilities** (600 + 450 + 300)		13,50,000
Total		96,84,000
II. **Assets**		
(1) **Non-current assets**		
Fixed assets		
(a) Tangible assets (30 + 15 + 18)**		63,00,000
(b) Intangible assets	4	16,74,000
(2) **Current assets** (10.5 + 4.2 + 2.4)		17,10,000
Total		96,84,000

Notes to Accounts

		(₹)
1.	Share Capital	
	Equity share capital (W.N.3)	
	6,62,550 shares of ₹ 10 each, fully paid up (All shares issued for consideration other than cash)	66,25,500
2.	Reserves & Surplus	
	Profit or loss A/c (Loss)*	(1,50,000)
3.	Long Term Borrowings	
	Secured	
	18,585,10% Debentures of₹ 100 each	18,58,500
4.	Intangible assets	
	Goodwill (W.N.1)	16,74,000

* As per para 56 of AS 26 "Intangible Assets", preliminary expenses are to be recognized as expenses as and when they are incurred. As per Schedule III*, debit balance of statement of profit and loss shall be shown as a negative figure under the head 'Surplus'.

** It is assumed that tangible assets have been taken over at the revalued amount and the depreciation impact of the same is only considered for the goodwill and capital employed calculation.

Working Notes:

1. Computation of Goodwill

	Arun Ltd. ₹	*Brown Ltd.* ₹	*Crown Ltd.* ₹	*Total* ₹
Profit	5,40,000	4,32,000	3,12,000	12,84,000
Debenture Interest	(60,000)	-	(30,000)	(90,000)
Profit after Debenture Interest	4,80,000	4,32,000	2,82,000	11,94,000
Adjustment for increase/decrease in depreciation due to revaluation (WN 4)	(60,000)	30,000	(30,000)	(60,000)
Adjusted Profit	4,20,000	4,62,000	2,52,000	11,34,000
Less: Normal Profit @ 10% on Capital employed as per Working				

Erstwhile Schedule VI to the Companies Act, 1956.

Note 2 – Calculation [A]	(2,85,000)	(1,47,000)	(1,44,000)	(5,76,000)
Super Profits	1,35,000	3,15,000	1,08,000	5,58,000
Goodwill on 3 years of super profits	4,05,000	9,45,000	3,24,000	16,74,000

2. Statement showing calculation of Capital Employed and Purchase Consideration

	Arun Ltd. ₹	*Brown Ltd.* ₹	*Crown Ltd.* ₹	*Total* ₹
Fixed Assets	30,00,000	15,00,000	18,00,000	63,00,000
Current Assets	10,50,000	4,20,000	2,40,000	17,10,000
	40,50,000	19,20,000	20,40,000	80,10,000
Less: Debentures	(6,00,000)	---	(3,00,000)	(9,00,000)
Current Liabilities	(6,00,000)	(4,50,000)	(3,00,000)	(13,50,000)
Capital Employed [A]	28,50,000	14,70,000	14,40,000	57,60,000
Goodwill as per W.N.1	4,05,000	9,45,000	3,24,000	16,74,000
Purchase consideration	32,55,000	24,15,000	17,64,000	74,34,000

3. Total number of equity shares issued

Equity Shares ₹

For purchase consideration	5,57,550
Preliminary expenses (₹ 1,50,000/ ₹ 10)	15,000
Payment of existing debenture holders (₹ 6,00,000 + ₹ 3,00,000) / ₹ 10	90,000
	6,62,550

4. Adjustment for increase/decrease in depreciation due to revaluation

	Arun Ltd.	**Brown Ltd.**	**Crown Ltd.**
	₹	**₹**	**₹**
Revalued Tangible Block	30,00,000	15,00,000	18,00,000
Less : Net Tangible Block as per BS	24,00,000	18,00,000	15,00,000
Increase/(Decrease) in tangible block	6,00,000	(3,00,000)	3,00,000
Increase/(Decrease) in depreciation @ 10%	60,000	(30,000)	30,000

Question 21

The following are the summarized Balance Sheets of H Ltd. and S Ltd. as at 31.03.15:

				₹ in lakhs	
	H Ltd. (₹)	S Ltd. (₹)		H Ltd. (₹)	S Ltd. (₹)
Share capital			Fixed assets	60	18
Share of ₹ 10 each	50	10	Investment in S Ltd. (60,000 shares)	6	-
General reserve	50	20	Trade receivables	35	5
Profit and Loss	20	15	Inventories	30	25
Secured loan	20	3	Cash at Bank	39	2
Current liabilities	30	2			
	170	50		170	50

H Ltd. holds 60% of the paid up capital of S Ltd. and balance is held by a foreign company. The foreign company agreed with H Ltd. as under:

(i) The shares held by the foreign company will be sold to H Ltd. at ₹ 50 above than nominal value of per share.

(ii) The actual cost per share to the Foreign Company was ₹ 11, gain accruing to Foreign Company is taxable @ 20%. The tax payable will be deducted from the sale proceeds and paid to Government by H Ltd. 50% of the consideration (after payment of tax) will be remitted to Foreign Company by H Ltd. and also any cash for fractional shares allotted.

(iii) For the Balance of consideration H Ltd. would issue its shares at their intrinsic value.

It was also decided that H Ltd. would also absorb S Ltd. simultaneously by writing down the fixed assets of S Ltd. by 10%. The Balance Sheet figure included a sum of ₹ 1 lakh due by S Ltd. to H Ltd, included inventory of ₹ 1.5 lakhs purchased from S Ltd. who sold them at cost plus 20%.

Pass Journal entries in the books of H Ltd. to record the above arrangement on 31.03.15. Also prepare Balance Sheet of H Ltd. after absorption. Workings should form part of your answer

Answer

Journal Entries in the books of H Ltd.

			₹	₹
1.	Business Purchase A/c	Dr.	24,00,000	
	To Foreign Company (W.N.1)			24,00,000
	(Being business purchased)			

2.	Foreign Company	Dr.	24,00,000	
	To Tax Payable A/c			3,92,000
	To Bank A/c(₹ 10,04,000 + ₹ 20)			10,04,020*
	To Equity Share Capital A/c			3,34,660
	To Securities Premium A/c			6,69,320
	(Being payment made to foreign company)			
3.	Fixed Assets A/c [18,00,000 – 10%]	Dr.	16,20,000	
	Trade receivables A/c	Dr.	5,00,000	
	Inventories A/c	Dr.	25,00,000	
	Cash at Bank A/c	Dr.	2,00,000	
	To Current Liabilities A/c			2,00,000
	To Secured Loan A/c			3,00,000
	To Investment in S Ltd. A/c			6,00,000
	To Business Purchase A/c			24,00,000
	To Capital Reserve A/c (B.F.)			13,20,000
	(Being various assets and liabilities taken over)			
4.	Profit and Loss A/c	Dr.	25,000	
	To Inventories A/c			25,000
	(Being elimination of unrealized profit i.e. $\frac{1,50,000}{(100+20)} \times 20 =$ ₹ 25,000)			
5.	Current Liabilities A/c	Dr.	1,00,000	
	To Trade receivables A/c			1,00,000
	(Being elimination of mutual owing)			
6.	Tax Payable A/c	Dr.	3,92,000	
	To Bank A/c			3,92,000
	(Being tax paid to Government)			

* It is assumed that payment of fractional shares has also been routed through Bank A/c along with 50% payment remitted to Foreign Company.

Balance Sheet of H Ltd. (After Absorption)

Particulars	*Note No.*	*(₹)*
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
(a) Share Capital	1	53,34,660
(b) Reserves and Surplus	2	89,64,320
(2) **Non-Current Liabilities**		
Long-term borrowings	3	23,00,000
(3) **Current Liabilities**₹ (30,00,000 + 2,00,000–1,00,000)		31,00,000
Total		1,96,98,980
II. **Assets**		
(1) **Non-current assets**		
(a) Fixed assets		
Tangible assets	4	76,20,000
(2) **Current assets**		
(a) Inventories (₹ 30,00,000-₹ 25,000+₹ 25,00,000)		54,75,000
(b) Trade receivables (₹ 35,00,000 –₹ 1,00,000 +₹ 5,00,000)		39,00,000
(c) Cash and cash equivalents	5	27,03,980
Total		1,96,98,980

Notes to Accounts

		(₹)	*(₹)*
1.	Share Capital		
	5,33,466 Shares of ₹ 10 each (out of above, 33,466 shares issued for consideration other than cash)		53,34,660
2.	Reserves and surplus		
	General Reserve	50,00,000	
	Profit & Loss (₹ 20,00,000 – ₹ 25,000)	19,75,000	
	Capital Reserve	13,20,000	
	Securities Premium	6,69,320	89,64,320
3.	Long Term Borrowings		
	Secured Loan (₹ 20,00,000+₹ 3,00,000)		23,00,000

4.	Tangible Assets		
	Fixed Assets (₹ 60,00,000+ ₹ 16,20,000)		76,20,000
5.	Cash and cash equivalents		
	Cash at Bank (₹ 39,00,000 + ₹ 2,00,000 – ₹ 10,04,020 – ₹ 3,92,000)		27,03,980

Working Notes:

1. Amount payable to foreign company & Capital Gain of Foreign Company

Price per share of S Ltd.=₹ 50 + ₹ 10 (Nominal value) = ₹ 60

Value of 40% shares held by foreign company = 10,00,000 x 40% x $\frac{60}{10}$ = ₹ 24,00,000

Capital gain = ₹ 24,00,000 – $\left(4{,}00{,}000 \times \frac{11}{10}\right)$ = ₹ 19,60,000

Tax on capital gain = ₹ 19,60,000 × 20% = ₹ 3,92,000

Amount payable to Foreign Company after tax = ₹ 24,00,000 – ₹ 3,92,000

= ₹ 20,08,000

50% of ₹ 20,08,000 = ₹ 10,04,000 to be remitted to foreign company.

2. Intrinsic value of shares of H Ltd. and balance payment to foreign company

	₹	₹
Total assets (Excluding Investment in S Ltd.)		1,64,00,000
Add: Investment in S Ltd. (60,000 shares × ₹ 60) (Since they have been purchased from Foreign Co.)		36,00,000
		2,00,00,000
Less: Liabilities:		
Secured Loan	20,00,000	
Current Liability	30,00,000	(50,00,000)
Net Assets		1,50,00,000
No. of equity shares		5,00,000
Intrinsic value per share		₹ 30

Number of shares to be issued for payment of 50% balance amount $\frac{₹\,10{,}04{,}000}{30} = 33{,}466$ shares

Cash for fractional shares = ₹ 10,04,000 – (33,466 x ₹ 30) = ₹ 20

Question 22

The following are the summarized Balance Sheets of Cat Ltd. and Bat Ltd. as on 31.3.2015:

Liabilities	(₹ in thousands)	
	Cat Ltd.	Bat 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 (including investments in Bat Ltd.)	700	---
Trade receivables	400	150
Cash at bank	250	---
Accumulated loss	---	800
Total	4,050	1,800

Bat Ltd. has acquired the business of Cat Ltd. The following scheme of merger was approved:

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

(ii) Bat 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 Cat Ltd. will be given one share (new) of Bat Ltd. in exchange of every share held in Cat Ltd.

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

(v) Trade payables of Bat Ltd. includes ₹ 100 thousands payable to Cat Ltd.

(vi) Cat Ltd. will cancel 20% holding in Bat Ltd. as investment, which was held at a cost of ₹ 250 thousands.

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

Answer

Journal Entries in the books of Bat Ltd.

Date			*(₹ in thousands)*	
2015			*Dr.*	*Cr.*
March,31	Loan from bank A/c	Dr.	60	
	To Reconstruction A/c			60
	(Being loan from bank waived off to the extent of ₹ 60 thousand)			
	Equity share capital A/c (₹ 100)	Dr.	1,000	
	To Equity share capital A/c (₹ 10)			100
	To Reconstruction A/c			900
	(Being Equity share of ₹ 100 each reduced to ₹ 10 each)			
	Equity share capital A/c (₹ 10)	Dr.	100	
	To Equity share capital A/c (₹ 100 each)			100
	(Being 10 Equity shares of ₹ 10 each consolidated to one share of ₹ 100 each)			
	Reconstruction A/c	Dr.	960	
	To Profit and loss A/c			800
	To Capital reserve A/c			160
	(Being accumulated losses set off against reconstruction A/c and balance transferred to capital reserve account)			
	Business purchase A/c	Dr.	1,980	
	To Liquidator of Cat Ltd.			1,980
	(Being purchase of business of Cat Ltd.)			
	Fixed asset A/c	Dr.	2,700	
	Investment A/c ₹ (700 – 250)	Dr.	450	
	Trade receivables A/c	Dr.	400	
	Cash at bank A/c	Dr.	250	
	To Trade payables A/c			300
	To Proposed dividend A/c			200
	To Loans from bank A/c			250

	To 10% Debenture A/c			500
	To Business purchaseA/c			1,980
	To Reserves A/c [W.N.2]			570
	(Being assets, liabilities and reserves taken over under pooling of interest method)			
	Liquidator of Cat Ltd. A/c	Dr.	1,980	
	To Equity share capital A/c			1,980
	(Being payment made to liquidators of Cat Ltd. by allotment of 19,800 new equity shares)			
	Trade payables A/c	Dr.	100	
	To Trade receivables A/c			100
	(Being mutual owing cancelled)			
	Proposed dividend A/c	Dr.	200	
	To Bank A/c			200
	(Being dividend paid off)			

Balance Sheet of Bat Ltd. (and reduced) after merger as on 31.3.2015

Particulars	*Note No.*	*(₹ in thousands)*
I. Equity and Liabilities		
(1) **Shareholder's Funds**		
(a) Share Capital	1	2,080
(b) Reserves and Surplus	2	730
(2) **Non-Current Liabilities**		
Long-term borrowings	3	1,140
(3) **Current Liabilities**		
(a) Trade Payables (300 + 300 – 100)		500
(b) Other current liabilities	4	50
Total		4,500
II. **Assets**		
(1) **Non-current assets**		
(a) Fixed assets (2,700 + 850)		3,550
(b) Non-current investments (700 – 250)		450
(2) **Current assets**		
(a) Trade receivables (400 + 150 – 100)		450
(b) Cash and cash equivalents	5	50
Total		4,500

Notes to Accounts

		(₹ in thousands)	(₹ in thousands)
1.	Share Capital		
	20,800 Equity shares of 100 each fully paid		
	Out of the above, 19,800 shares have been issued		
	for consideration other than cash)		2,080
2.	Reserves and Surplus		
	Capital reserve	160	
	General reserve	570	730
3.	Long Term Borrowings		
	Secured		
	10% Debentures	500	
	Loan from bank (₹ 250 + ₹ 450 – ₹ 60)	640	1,140
4.	Other current liabilities		
	Bank overdraft		50
5.	Cash and cash equivalents		
	Cash at Bank (₹ 250 – ₹ 200)		50

Working Notes:

1. Calculation of purchase consideration

	Shares
One share of Bat Ltd. will be issued in exchange of every share of Cat Ltd. (i.e. 20,000 equity shares of Bat Ltd will be issued against 20,000 equity shares of Cat Ltd.)	20,000
Less: Shares already held (20% of 10,000)	
2,000 shares converted in new equity shares	(200)
Number of shares to be issued by Bat Ltd to shareholders of Cat Ltd.	19,800

2. Calculation of Reserve as per AS 14

Reserves as on 31.03.2015 of CAT Ltd.	₹ 800 thousands
Less : Cancellation of investment in BAT Ltd.	₹ 250 thousands
Balance of reserve on the amalgamation date	₹ 550 thousands

As per Para 35 of AS 14, the difference between the amount recorded as share capital issued (plus any additional consideration in the form of cash or other assets) and the amount of share capital of the transferor company should be adjusted in reserves (of the transferee company – as explained in Para 16 of AS 14)

Amount recorded as share capital issued by BAT Ltd	₹ 1,980 thousands
Amount of share capital of CAT Ltd.	₹ 2,000 thousands
Net adjustment to the reserves of BAT Ltd	₹ 20 thousands

"Hence, net credit to reserves at the time of taking over of assets and liabilities will be ₹ 550 thousands + ₹ 20 thousands = ₹ 570 thousands".

Question 23

A Ltd., agreed to absorb B Ltd., on 31st March 2015, whose summarized Balance Sheet stood as follows:

Liabilities	₹	Assets	₹
Share Capital:		Fixed Assets	7,00,000
80,000 Equity shares of		Investments	-
₹ 10 each fully paid up	8,00,000	Current Assets,	
Reserves & Surplus:		Loans and Advances:	
General Reserve	1,00,000	Inventory-in-trade	1,00,000
Current Liabilities and		Trade receivables	2,00,000
Provisions :			
Trade payables	1,00,000		
	10,00,000		10,00,000

The consideration was agreed to be paid as follows:

(a) *A payment in cash of ₹ 5 per share in B Ltd., and*

(b) *The issue of shares of ₹ 10 each in A Ltd. on the basis of 2 equity shares (valued at ₹ 15) and one 10% Cumulative Preference shares (valued at ₹ 10) for every five shares held in B Ltd.*

The whole of the share capital consists of shareholdings in exact multiple of five except the followings holdings:

A	116
B	76
C	72
D	28
Other individual	8 (each member holding one share each)
	300

It was agreed that A Ltd. will pay in cash for fractional shares equivalent at agreed value of shares in B Ltd., i.e. ₹ 65 for five shares of ₹ 50 paid.

Prepare a statement showing the purchase consideration receivable in shares and cash.

Answer

Purchase Consideration

	₹
31,994 Equity shares @ ₹ 15 each	4,79,910
15,997 Preference shares @ ₹ 10 each	1,59,970
Cash on 79,985 shares (i.e 80,000 – 15) of B Ltd.@ ₹ 5 each	3,99,925
	10,39,805
Add: Cash for fractional shares (W.N. 3)	195
	10,40,000

Working Notes:

1. Schedule showing fractional shares

Holding of Shares		*Exchangeable in multiple of five*	*Exchange in Equity shares*	*Exchange in preference shares*	*Non exchangeable shares*
A	116	115	46	23	1
B	76	75	30	15	1
C	72	70	28	14	2
D	28	25	10	5	3
Others	8	-	-	-	8
	300	285	114	57	15

2. Shares Exchangeable: Equity Shares in A Ltd.

	No. of shares		No. of shares
(i) 80,000 – 300	79,700	2/5 thereof	31,880
(ii) 300 – 15	285	2/5 thereof	114
	79,985		31,994

Shares Exchangeable: Preference Shares in A Ltd.

	No. of shares		No. of shares
(i) 80,000 – 300	79,700	1/5 thereof	15,940
(ii) 300 – 15	285	1/5 thereof	57
	79,985		15,997

3. There are 15 shares (W.N.1) in B Ltd. which are not capable of exchange into equity and preference shares of A Ltd. They will be paid cash = $15 \times 10 \times \frac{65}{50} = 195$.

Question 24

As part of its expansion strategy White Ltd. has decided to amalgamate its business with that of Black Ltd. and new company Black & White Ltd. being incorporated on the 1st September 2014 having an authorized equity capital of 2 crore shares of ₹ 10 each. M/s Black & White Ltd. shall in turn acquire the entire ownership of White Ltd. and Black Ltd. in consideration for issuing its equity at 25% premium on 1st October, 2014. It is also agreed that the consideration shall be based on the product of the profits available to equity shareholders of each entity, times it PE multiple. The preference shareholders & debenture holders are to be satisfied by the issue of similar instruments in Black & White Ltd. on 1-10-2014 in lieu of their existing holdings. Accordingly the relevant information is supplied to you as under:

	White Ltd.	*Black Ltd.*
Paid up Equity shares of ₹ 10 class (Nos)	*3 Lakhs*	*1.2 Lakhs*
8% Preference Shares ₹ 10 paid (Nos)		*1 Lakh*
5% Redeemable Debentures 2015 of ₹ 10 each (Nos)		*0.8 Lakh*
Profits before Interest & Taxation (₹)	*6,00,000*	*4,40,000*
Price to Earnings Multiple	*15*	*10*

To augment the Cash retention level of Black & White Ltd. it is decided that on 1st October, 2014 Black & White Ltd. shall collect full share application money for the issue 20,00,000 equity shares @40% premium under Private Placement. The allotment of the shares will be made on 31-12-2014 and such shares shall qualify for dividend from 2015 only.

Black & White Ltd. also shall avail a 12.50% TOD of 15 lakhs to meet its preliminary expenses and cost of working which amount to ₹ 12 lakhs and ₹ 2 lakhs respectively. The TOD will be availed on 1st November, 2014 and closed on 31st December, 2014. Preliminary expenditure is tax deductible @ 20% each year.

Due to an accounting omission the opening inventory of Black Ltd. of 5 lakh (actual value) & the closing inventory of White Ltd. of 2.20 lakh was understated & overstated by 5% and 10% respectively.

The dividend schedule proposed is that all companies would pay interim dividend for equity, for the period from 1st October, 2014 to 31st December, 2014. The rates of dividend being White Ltd. @ 5%, Black Ltd. @ 2% and Black & White Ltd. @ 3.5%. The preference shareholders &debentureholders dues for the post take over period are discharged on 31.12.2014.

It is proposed that in the period October-December 2014, Black & White Ltd. would carry out trade in futures that would generate an absolute post tax return of 18% by using the funds *generated from the Private Placement. The trades would be squared off on 31.12.2014. Proceeds from such transactions are not liable to withholding taxes.*

You are required to prepare a projected Profit & Loss A/c for the period ended 31st December, 2014 and a Balance Sheet on that date for Black & White Ltd.

The corporation tax rate for the company is 40%.

Answer

Projected Profit & Loss Account of Black & White Ltd. for the period ended 31-12-2014

		Note No.	₹
I.	Revenue from operations		—
II.	Other income	6	85,74,000
III.	Total Revenue(I+II)		85,74,000
IV.	Expenses:		
	Finance costs	7	41,250
	Other expenses	8	2,00,000
V.	Total expenses		2,41,250
VI.	Profit before tax (III - V)		83,32,750
VII	Tax expense:		
	Current tax	9	32,63,500
VIII	Profit for the period (VI-VII)		50,69,250

Projected Balance Sheet of Black & White Ltd. as at 31-12-2014

Particulars	*Note No.*	*(₹)*
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
(a) Share Capital	1	2,63,36,000
(b) Reserves and Surplus	2	1,29,96,490
(2) **Non-Current Liabilities**		
Long-term borrowings	3	8,00,000
(3) **Current Liabilities**		
Short-term provisions	4	32,63,500
Total		4,33,95,990

II.	**Assets**		
	(1) **Non-current assets**		
	Non-current investments	5	84,70,000
	(2) **Current assets**		
	Cash and cash equivalents		3,49,25,990
	Total		4,33,95,990

Notes to Accounts

		₹	₹
1.	Share Capital		
	Authorised share capital 2 crore Equity shares of ₹ 10 each	20,00,00,000	
	Issued, subscribed & paid up		
	25,33,600 Shares of ₹ 10 each (of the above 5,33,600 shares issued for consideration other than cash)	2,53,36,000	
	Preference Shares		
	1 lakh 8% Preference Shares ₹ 10 paid	10,00,000	2,63,36,000
2.	Reserves and Surplus		
	Securities Premium Account (93,34,000 – 12,00,000)	81,34,000	
	Profit & Loss Account	50,69,250	
	Less: Appropriation		
	Dividends (Equity & Preference)	(2,06,760)	1,29,96,490
3.	Long-term borrowings		
	Secured loan		
	5% Red. Debentures 2015 of ₹ 10 each		8,00,000
4.	Short-term provisions		
	Provision for taxation		32,63,500
5.	Non-current investments		
	Investments in Subsidiaries		
	In Equity shares at cost	66,70,000	
	In preference shares at cost	10,00,000	84,70,000
	5% Red. Deb 2015 of ₹ 10	8,00,000	

6.	Other income		
	Dividends received from Subsidiaries	1,74,000	
	Profits from Futures Trading	84,00,000	85,74,000
7.	Finance costs		
	Interest on TOD	31,250	
	Debenture interest	10,000	41,250
8.	Other expenses		
	Working capital expenses		2,00,000
9.	Current tax		
	Provision for tax @ 40% on pre-tax profit - ₹ 81,58,750		32,63,500

Note:

1. Dividend received is exempted income and is not subject to tax in the hands of recipient. It is assumed that rate of dividend given in the question is net of tax.
2. Dividend distributed by Black and White Ltd. is subject to dividend distribution tax, if not net of tax.
3. As per the Companies Act, 2013, the balance of securities premium account can be used for writing off the preliminary expenses. As the company is having sufficient balance in the securities premium account, the amount of preliminary expenses is adjusted from the balance of securities premium account. As per para 56 of AS 26, when an expenditure is incurred to provide future economic benefits to an enterprise, but no intangible asset or other asset is acquired or created that can be recognized, then such an expenditure is recognized as an expense when it is incurred. However, whenever there is conflict in the treatment of a particular item as per Law / Statue & Accounting Standards then the Law / Statue will prevail. Accordingly, the above question has been solved by setting off the preliminary expenses from Securities Premium A/c. In this case it will be treated as permanent difference. Hence no DTA/DTL will be created.
4. Alternatively, one may follow the treatment prescribed by AS 26 and expense out the preliminary expenses in the year it is incurred. In that case Deferred tax asset will be created due to the temporary difference arising on account of the difference in the treatment of preliminary expense in the books of accounts and as per the Income tax Act, 1961.

Working Notes:

1. Calculation of Rectified Profits

	White Ltd.(₹)	*Black Ltd. (₹)*
Value of inventory as given	2,20,000 (Overstated)	5,00,000 (Actual)

Adjustment therein due to incorrect valuation will be reduced from profits	2,20,000 x 10/110 = 20,000	5,00,000 x 5/100 = 25,000

2. Computation of Shares to be issued as purchase consideration

	White Ltd. ₹	*Black Ltd.* ₹
Profit before interest & tax	6,00,000	4,40,000
Less: Reduction in profit due to incorrect inventory valuation	(20,000)	(25,000)
Less: Debenture interest	______	(40,000)
Profit before tax	5,80,000	3,75,000
Less: Tax @ 40%	(2,32,000)	(1,50,000)
Profit after tax (PAT)	3,48,000	2,25,000
Less: Preference dividend	-	(80,000)
Profit available to equity shareholders [A]	3,48,000	1,45,000
Price Earnings Multiple [B]	15	10
Total Purchase Consideration to be given (A x B)	52,20,000	14,50,000
Equity Share Capital (Purchase Consideration x 100/125)	41,76,000	11,60,000
Securities Premium (25% of the above)	10,44,000	2,90,000

3. Bank Account

Date	Particulars		₹	Date	Particulars	₹
1.10.2014	To Share Application Money (20,00,000x₹ 14)		2,80,00,000	1.10.2014	By Futures Trading A/c	2,80,00,000
1.11. 2014	To 12.5% TOD		15,00,000	1.11.2014	By Preliminary Expenses	12,00,000
31.12.2014	To Future Trading A/c [(2,80,00,000 x (18/100) x (100/60) + 2,80,00,000}		3,64,00,000	31.12.2014	By Working Capital expenses	2,00,000
31.12.2014	To Dividend received			31.12.2014	By Dividends Paid [(41,76,000 + 11,60,000) x 3.5/100]	1,86,760

	White Ltd (3,00,000 x 10 x 5%)	1,50,000		31.12.2014	By TOD Interest (15,00,000 x 12.5/100 x 2/12)	31,250
	Black Ltd. (1,20,000 x 10 x 2 %)	24,000	1,74,000	31.12.2014	By Debenture Interest (80,000 x ₹ 10 x 5/100 x 3/12)	10,000
				31.12.2014	By Preference Dividend (1,00,000 x ₹ 10 x 8/100 x 3/12)	20,000
				31.12.2014	By 12.5% TOD	15,00,000
				31.12.2014	By Balance c/d	3,49,25,990
			6,60,74,000			6,60,74,000

Amalgamation-Cross Holdings

Question 25

The following are the Balance Sheets of A Ltd. & B Ltd. as on 31st March, 2015:

Liabilities	*A Ltd.*	*B Ltd.*
Share Capital:		
Equity Shares of ₹ 10 each fully paid	45,00,000	10,00,000
8% Preference Shares of ₹ 10 each fully paid	-	5,00,000
General Reserve	3,50,000	3,10,000
Profit and Loss Account	6,34,000	60,000
10% Debentures	-	8,00,000
Current Liabilities	6,00,000	3,80,000
Total	60,84,000	30,50,000
Assets:		
Fixed Assets	30,50,000	7,30,000
30,000 Equity Shares in B Ltd.	3,00,000	-
90,000 Equity Shares in A Ltd.	-	10,00,000
Debtors	12,70,000	4,50,000
Stock	8,40,000	5,50,000
Bank Balance	6,24,000	3,20,000
Total	60,84,000	30,50,000

A Ltd. absorbs B Ltd. on the basis of intrinsic value of both the companies as on 31st March, 2015. It is informed that the Preference Shares of B Ltd. do not have priority over payment of capital and dividend. Before absorption, A Ltd. declared dividend of 8%, Dividend tax is 10%.

Prepare Balance sheet of A Ltd., after the absorption of B Ltd. with necessary Notes to accounts.

Answer

Balance Sheet of A Ltd. (after absorption of B Ltd.) as on 31st March, 2015

Particulars	*Note No.*	*(₹)*
I. **Equity and Liabilities**		
1. Shareholders fund		
a) Share capital	1	49,73,950
b) Reserves and Surplus	2	7,56,040
2. Non-current liabilities		
Long term borrowings		8,00,000
3. Current liabilities		9,80,000
Total		75,09,990
II. **Assets**		
1. Non-current Assets		
Fixed Assets		
Tangible Assets (₹ 30,50,000 + ₹ 7,30,000)		37,80,000
2. Current Assets		
a) Inventories		13,90,000
b) Trade receivables		17,20,000
c) Cash and Cash equivalents		6,19,990
		75,09,990

Notes to Accounts:

		₹	₹
1.	**Share Capital**		
	4,97,395 Equity Shares of ₹ 10 each fully paid		49,73,950
	(out of which, 47,395 shares were allotted to vendors for consideration other than cash)		
2.	**Reserves and surplus**		
	General Reserve	4,46,000	
	Profit and loss account (₹ 6,34,000 – ₹ 3,60,000 – ₹ 36,000)	2,38,000	
	Securities premium reserve (47,395 shares x ₹ 1.52)	72,040	7,56,040

Workings Notes:

(1) Computation of Net Assets (excluding inter-company investments)

	A Ltd.	*B Ltd.*
	₹	₹
Total Assets		
Assets Excluding invest	57,84,000	20,50,000
Dividend receivable	-	72,000
(A)	57,84,000	21,22,000
External Liabilities		
Current Liabilities	6,00,000	3,80,000
Proposed dividend	3,60,000	-
Dividend Distribution tax @ 10%	36,000	-
10% Debentures	-	8,00,000
(B)	9,96,000	11,80,000
Net Assets (A)-(B)	47,88,000	9,42,000

Note: (1) Dividend distribution tax has been calculated without grossing up.

(2) Since the Preference Shares of B Ltd. do not have priority over the payment of capital and dividend, they have to be treated at par with the equity shares. Both types of shares have the same paid up value.

(2) In view of the above, the proportion of shareholding in B Ltd. is worked out, as follows:

(a) **A Ltd. in B. Ltd.**

$$\frac{\text{Number of shares held by B Ltd.}}{\text{Total number of Equity and Preference Shares of B Ltd.}} = \frac{30,000}{1,00,000 + 50,000} = \frac{1}{5}$$

(b) **B Ltd. in A Ltd.**

$$\frac{\text{Number of shares held by B Ltd.}}{\text{Total number of Equity and A Ltd.}} = \frac{90,000}{4,50,000} = \frac{1}{5}$$

(3) Calculation of intrinsic value of shares:

Let 'a' be the intrinsic value of shares of A Ltd. and 'b' be the intrinsic value of shares of B Ltd.

Now, a = ₹ 47,88,000 + 1/5 x b

b = ₹ 9,42,000 + 1/5 x a

By substituting the value of a in b, we get

b = ₹ 9,42,000 + 1/5 (₹ 47,88,000 + 1/5 x b)

$$b = ₹\ 9,42,000 + 9,57,600 + b/25$$

$$\frac{24\ b}{25} = ₹\ 18,99,600$$

$$b = \frac{₹\ 18,99,600 \times 25}{24}$$

$$b = ₹\ 19,78,750$$

$$a = ₹\ 47,88,000 + \frac{19,78,750}{5} = ₹\ 51,83,750$$

$$\text{Intrinsic value of shares of A. Ltd.} = \frac{₹\ 51,83,750}{4,50,000} = 11.52$$

$$\text{Intrinsic value of shares of B. Ltd.} = \frac{₹\ 19,78,750}{1,00,000 + 50,000} = ₹\ 13.19$$

(4) **Calculation of Purchase Consideration:**

No. of shares held by outside shareholders of B Ltd.

=1,00,000 – 30,000 + 50,000 = 1,20,000

Intrinsic value of shares = 1,20,000 x ₹ 13.19 per share

= 15,82,800

Shares to be issued on the basis of intrinsic value of shares

$$= \frac{₹\ 15,82,800}{₹\ 11.52} = 1,37,395.83 \text{ shares}$$

Less: Shares already held by A Ltd.	= 90,000.00 Shares
Number of shares to be issued	= 47,395.83 shares

(5) Total Purchase price

	₹
Additional shares in A. Ltd. (47,395 shares of ₹ 11.52)	5,45,990
Cash for fractional shares (0.83 x ₹ 11.52)	10
	5,46,000
Value of 30,000 shares already held by A Ltd.	
(30,000 shares x ₹ 13.19)	3,96,000*
Total	9,42,000

* Approximate figure has been considered.

(6) General Reserve

	₹
As per balance sheet	3,50,000
Add: Appreciation in the value of shares held B. Ltd. (₹ 3,96,000 – ₹ 3,00,000)	96,000
Closing balance	4,46,000

(7) Bank Balance

		A Ltd. ₹	B Ltd. ₹
As per balance sheet		6,24,000	3,20,000
Dividend received		-	72,000
		6,24,000	3,92,000
Less: Dividend payment	3,60,000		
Dividend tax @ 10%	36,000		
Cash for fraction shares	10	(3,96,010)	-
		2,27,990	3,92,000
Total bank balance			6,19,990

Question 26

The following are the Balance Sheets of Big Ltd. and Small Ltd. as at 31.3.15:

(₹ in lakhs)

	Big Ltd.	*Small Ltd.*		*Big Ltd.*	*Small Ltd.*
	₹	₹		₹	₹
Share Capital	*40*	*15*	*Sundry Assets (including cost of shares)*	*56*	*20*
Profit & Loss A/c	*7.5*	*--*	*Goodwill*	*4*	*5*
Sundry Creditors	*12.5*	*12.5*	*Profit and Loss A/c*	*--*	*2.5*
	60.0	*27.5*		*60.0*	*27.5*

Additional Information:

(i) The two companies agree to amalgamate and form a new company, Medium Ltd.

(ii) Big Ltd. holds 10,000 shares in Small Ltd. acquired at a cost of ₹ 2,50,000 and Small Ltd. holds 5,000 shares in Big Ltd. acquired at a cost of ₹ 7,00,000.

(iii) The shares of Big Ltd. are of ₹ 100 and are fully paid and the shares of Small Ltd. are of ₹ 50 each on which ₹ 30 has been paid-up.

(iv) It is agreed that the goodwill of Big Ltd. would be valued at ₹ 1,50,000 and that of Small Ltd. at ₹ 2,50,000.

(v) The shares which each company holds in the other are to be valued at book value having regard to the goodwill valuation decided as given in (iv).

(vi) The new shares are to be of a nominal value of ₹ 50 each credited as ₹ 25 paid.

You are required to:

(i) Prepare the Balance Sheet of Medium Ltd., as at 31st March, 2015 after giving effect to the above transactions; and

(ii) Prepare a statement showing the shareholdings in the new company attributable to the shareholders of the merged companies.

Answer

(i) Balance Sheet of Medium Ltd. as on 31st March, 2015

Particulars	*Note No.*	*(₹)*
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
Share Capital	1	45,50,000
(2) **Current Liabilities**		
Trade Payables		25,00,000
Total		70,50,000
II. Assets		
(1) **Non-current assets**		
Fixed assets		
Intangible assets	2	4,00,000
(2) **Current assets** (₹ 53,50,000+ ₹ 13,00,000)		66,50,000*
Total		70,50,000

Notes to Accounts:

		(₹ in crores)
1.	**Share Capital**	
	1,82,000 shares of ₹ 50 each, ₹ 25 paid up	45,50,000

* Sundry assets are assumed to be current assets.

	[Issued for consideration other than cash]	
2.	**Intangible Assets**	
	Goodwill (₹ 1,50,000 + ₹ 2,50,000)	4,00,000

(ii) Statement of Shareholding in Medium Ltd.

	Big Ltd. ₹	*Small Ltd.* ₹
Total value of Assets	44,20,513	8,52,564
Less: Pertaining to shares held by the other company	5,52,564	1,70,513
	38,67,949	6,82,051
Rounded off	38,67,950	6,82,050
Shares of new company (at ₹ 25 per share)	1,54,718	27,282
Total purchase consideration to be paid to Big Ltd and Small Ltd. (₹ 38,67,950 +₹ 6,82,050)		₹ 45,50,000
Number of shares in Big Ltd. (40,00,000/100)		40,000 shares
Number of shares in Small Ltd. (15,00,000/30)		50,000 shares
Holding of Small Ltd. in Big Ltd. (5,000/40,000)		1/8
Holding of Big Ltd. in Small Ltd. (10,000/50,000)		1/5
Number of shares held by outsiders in Big Ltd. (40,000 – 5,000) =		35,000
Number of shares held by outsiders in Small Ltd. (50,000 – 10,000)		40,000

Working Note:

Calculation of Book Value of Shares

	Big Ltd	*Small Ltd.*
	₹	₹
Goodwill	1,50,000	2,50,000
Sundry Assets other than shares in other company		
(56,00,000 – 2,50,000)	53,50,000	
(20,00,000 – 7,00,000)		13,00,000
	55,00,000	15,50,000
Less: Sundry Creditors	12,50,000	12,50,000
	42,50,000	3,00,000

If “x” is the Book Value of Assets of Big Ltd and “y” of Small Ltd.

$$x = 42{,}50{,}000 + \frac{1}{5}y$$

$$y = 3,00,000 + \frac{1}{8}x$$

$$x = 42,50,000 + \frac{1}{5}(3,00,000 + \frac{1}{8}x)$$

$$= 42,50,000 + 60,000 + \frac{1}{40}x$$

$$\frac{39}{40}x = 43,10,000$$

$$x = 43,10,000 \times \frac{40}{39}$$

$$x = 44,20,513 \text{ (approx.)}$$

$$y = 3,00,000 + \frac{1}{8}(44,20,513)$$

$$= 3,00,000 + 5,52,564 = ₹\ 8,52,564 \text{ (approx.)}$$

Book Value of one share of Big Ltd. = $\frac{44,20,513}{40,000}$ = ₹ 110.513 (approx.)

Book Value of one share of Small Ltd. = $\frac{8,52,564}{50,000}$ = ₹ 17.05 (approx.)

Question 27

AB Ltd. and MB Ltd. decide to amalgamate and to form a new company AM Ltd. The following are their summarised balance sheets as at 31.3.2015: (₹)

Liabilities	*AB Ltd.*	*MB Ltd.*	*Assets*	*AB Ltd.*	*MB Ltd.*
Share Capital			*Fixed Assets*	*7,50,000*	*2,00,000*
(₹ 100) each	*10,00,000*	*6,00,000*	*Investments:*		
General Reserve	*1,00,000*	*50,000*	*1,500 Shares in MB*	*3,50,000*	–
Investment Allowance			*4,000 Shares in AB*	–	*5,00,000*
Reserve	*40,000*	*30,000*			
12% Debentures			*Current Assets*	*4,00,000*	*1,00,000*
(₹ 100 each)	*3,00,000*	*1,00,000*			
Trade payables	*60,000*	*20,000*			
	15,00,000	*8,00,000*		*15,00,000*	*8,00,000*

Calculate the amount of purchase consideration for AB Ltd. and MB Ltd. and draw up the balance sheet of AM Ltd. after considering the following:

(a) Assume amalgamation is in the nature of purchase.

(b) Fixed assets of AB Ltd. are to be reduced by ₹ 50,000 and that of MB Ltd. are to be taken at ₹ 3,00,000.

(c) 12% debentureholders of AB Ltd. and MB Ltd. are discharged by AM Ltd. by issuing such number of its 15% debentures of ₹ 100 each so as to maintain the same amount of interest.

(d) Shares of AM Ltd. are of ₹ 100 each.

Also show, how the investment allowance reserve will be treated in the Financial Statement assuming the Reserve will be maintained for 3 years.

Answer

Calculation of Purchase consideration

(i) Value of Net Assets of AB Ltd. and MB Ltd. as on 31st March, 2015

		AB Ltd. (₹)		*MB Ltd.* (₹)
Assets taken over:				
Fixed Assets	7,00,000		3,00,000	
Current Assets	4,00,000	11,00,000	1,00,000	4,00,000
Less: Liabilities taken over:				
Debentures (WN)	2,40,000		80,000	
Trade payables	60,000	(3,00,000)	20,000	(1,00,000)
		8,00,000		3,00,000

(ii) Value of Shares of AB Ltd. and MB Ltd.

AB Ltd. holds 1,500 shares in MB Ltd. i.e. $1/4^{th}$ of the shares of MB Ltd.

The value of shares of AB Ltd. is ₹ 8,00,000 plus 1/4 of the value of the shares of MB Ltd.

MB Ltd. holds 4,000 shares in AB Ltd. i.e. $2/5^{th}$ of the shares of AB Ltd.

Similarly, the value of shares of MB Ltd. is ₹ 3,00,000 plus 2/5 of the value of shares of AB Ltd.

Let 'a' denote the value of shares of AB Ltd. and 'm' denote the value of shares of MB Ltd. then

$$a = 8,00,000 + 1/4\ m \text{ ; and}$$

$$m = 3,00,000 + 2/5\ a.$$

Substituting the value of m,

$$a = 8{,}00{,}000 + 1/4\ (3{,}00{,}000 + 2/5\ a)$$
$$a = 8{,}00{,}000 + 75{,}000 + 1/10\ a$$
$$9/10\ a = 8{,}75{,}000$$
$$a = 9{,}72{,}222$$
$$m = 3{,}00{,}000 + 2/5\ (9{,}72{,}222)$$
$$m = 6{,}88{,}889$$

(iii) Amount of Purchase Consideration

	AB Ltd. ₹	*MB Ltd.* ₹
Total value of shares (as determined above)	9,72,222	6,88,889
Less: Internal investments:		
2/5 for shares held by MB Ltd.	(3,88,889)	
1/4 for shares held by AB Ltd.	_______	(1,72,222)
Amount due to outsiders	5,83,333	5,16,667

Purchase Consideration will be satisfied by AM Ltd. as follows:

	AB Ltd. ₹	*MB Ltd.* ₹
In shares (of ₹ 100 each)	5,83,300	5,16,600
In cash	33	67

(iv) Net Amount of Goodwill/Capital Reserve

	₹	₹
Total Purchase Consideration		
AB Ltd.	5,83,333	
MB Ltd.	5,16,667	11,00,000
Less: Net Assets taken over		
AB Ltd.	8,00,000	
MB Ltd.	3,00,000	(11,00,000)
		Nil

(Alternatively, the calculations may be made separately for both the companies)

Balance Sheet of AM Ltd.
as at 31st March, 2015

Particulars	*Note No.*	*Amount (₹)*
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
(a) Share Capital	1	10,99,900
(b) Reserves and Surplus	2	70,000
(2) **Non-Current Liabilities**		
Long-term borrowings	3	3,20,000
(3) **Current Liabilities**		
Trade payables		80,000
Total		15,69,900
II. **Assets**		
(1) **Non-current assets**		
(a) Fixed assets		10,00,000
(b) Other non-current assets	4	70,000
(2) **Current assets**	5	4,99,900
Total		15,69,900

Notes to Accounts

		(₹)	*(₹)*
1.	Share Capital		
	10,999 shares of ₹ 100 each		10,99,900
	(All the above shares are allotted as fully paid-up for consideration other than cash)		
2.	Reserves and surplus		
	Investment Allowance Reserve		70,000
3.	Long Term Borrowings		
	15% Debentures (W.N.)		3,20,000
4.	Other non-current assets		
	Amalgamation Adjustment Account		70,000
5.	Current assets [4,00,000 + 1,00,000]	5,00,000	
	Less: Purchase consideration paid in cash ₹ (33+67)	(100)	4,99,900

Working Note:

Calculation of Debentures to be issued

	AB Ltd.	*MB Ltd.*
12% Debentures	3,00,000	1,00,000
Interest on Debentures @ 12 % (a)	36,000	12,000
AM Ltd. Debentures rate of interest (b)	15 %	15 %
Debenture Value to earn above calculated interest (a/b)	2,40,000	80,000

Question 28

The summarized Balance Sheets of O Ltd. and P Ltd. as on 31st March, 2015 are as under:

(₹ in lakhs)

Liabilities	*O*	*P*	*Assets*	*O*	*P*
Equity Shares of ₹ 10 each	*25.00*	*50.00*	*Fixed Assets*	*110.00*	*50.00*
Reserves	*122.5*	*20*	*Investments*	*16.25*	*25.00*
12% Debentures	*11.00*	*5.50*	*Current Assets*	*40.25*	*3.25*
Trade payables	*8.00*	*2.75*			
	166.5	*78.25*		*166.5*	*78.25*

Investments of O Ltd. represent 1,25,000 shares of P Ltd. Investments of P Ltd. are considered worth ₹ 30 lakhs.

P Ltd. is taken over by O Ltd. on the basis of the intrinsic value of shares in their respective books of account.

Prepare a statement showing the number of shares to be allotted by O Ltd. to P Ltd. and the Balance Sheet of O Ltd. after absorption of P Ltd.

Answer

Balance Sheet of O Ltd.
(after absorption)

Particulars	*Note No.*	*(₹ in lakhs)*
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
(a) Share Capital	1	34.375
(b) Reserves and Surplus	2	171.875
(2) **Non-Current Liabilities**		
Long-term borrowings	3	16.500

	(3) **Current Liabilities**		
	Trade payables	4	10.750
	Total		233.50
II.	**Assets**		
	(1) **Non-current assets**		
	(a) Fixed assets		
	Tangible assets	5	160.00
	(b) Non-current Investments		30.00
	(2) **Current assets**	6	43.50
	Total		233.50

Notes to Accounts

		(₹ in lakhs)	*(₹ in lakhs)*
1.	Share Capital		
	3,43,750 Equity Shares of ₹ 10 each		34.375
	(Of the above shares, 93,750 equity shares are allotted as fully paid-up for consideration other than cash)		
2.	Reserves and surplus		
	As per last Balance Sheet	122.5	
	Capital Reserve (W.N.3)	2.500	
	Securities Premium (W.N.2)	46.875	171.875
3.	Long Term Borrowings		
	12% Debentures	11.000	
	Add: Taken over	5.500	16.500
4.	Trade payables	8.000	
	Add: Taken over	2.750	10.750
5.	Tangible assets		
	Fixed Assets	110.000	
	Add: Taken over	50.000	160.000
6.	Current assets		
	Current Assets	40.250	
	Add: Taken over	3.250	43.500

Working Notes:

1.

(i)	*Calculation of Net Assets*	*(₹ in lakhs)*	
		O Ltd.	*P Ltd.*
	Fixed Assets	110.00	50.00
	Investments [1.25 lakh shares X ₹ 15*]	18.75	30.00
	Current Assets	40.25	3.25
	Total (A)	169.00	83.25
	12% Debentures	11.00	5.50
	Trade payables	8.00	2.75
	Total (B)	19.00	8.25
	Net Assets (A – B)	150.00	75.00
(ii)	Number of equity shares	2.50 lakhs	5.00 lakhs
	Intrinsic Value	₹ 60.00	₹ 15.00*

2. *Calculation of Shares Allotted*

	(₹ in lakhs)
Net assets taken over	75.00
Less: Belonging to O Ltd. $\left(\frac{1,25,000}{5,00,000} \times 75 \text{ lakhs}\right)$	(18.75)
Payable to other equity shareholders	56.25
Number of equity shares of ₹ 10 each to be issued = $\frac{56,25,000}{60}$	
= 93,750 shares (valued at ₹ 60 each)	
Credit to share capital	₹ 9,37,500
Credit to securities premium	₹ 46,87,500

3. Calculation of Capital Reserve / Goodwill

Fixed Assets	50.00
Investments	30.00
Current Assets	3.25
Total of Assets	83.25

12 % Debentures	(5.50)
Trade payables	(2.75)
Net Assets taken over	75.00
Less : Investments of O Ltd. in P Ltd.	(16.25)
	58.75
Purchase Consideration	56.25
Capital Reserve	2.5

Question 29

The following are the summarized Balance Sheets of X Ltd. and Y Ltd. as on 31st March, 2015:

		Amount in ₹
	X Ltd.	*Y Ltd.*
Assets		
Fixed Assets	*7,00,000*	*2,50,000*
Inventory	*2,40,000*	*3,20,000*
Trade receivables	*4,20,000*	*2,10,000*
Cash at Bank	*1,10,000*	*40,000*
Investments in :		
6,000 shares of Y Ltd.	*80,000*	
5,000 shares of X Ltd.		*80,000*
	15,50,000	*9,00,000*
Liabilities		
Share Capital:		
Equity shares of ₹ 10 each	*6,00,000*	*3,00,000*
10% preference shares of ₹ 10 each	*2,00,000*	*1,00,000*
Reserve and Surplus	*3,00,000*	*2,00,000*
12% Debentures	*2,00,000*	*1,50,000*
Trade payables	*2,50,000*	*1,50,000*
	15,50,000	*9,00,000*

Details of Trade payables and Trade receivables:

	X Ltd.	*Y Ltd.*
Trade payables		
Bills Payable	*30,000*	*25,000*

Sundry creditors	*2,20,000*	*1,25,000*
	2,50,000	*1,50,000*
Trade receivables		
Debtors	*3,60,000*	*1,90,000*
Bills Receivables	*60,000*	*20,000*
	4,20,000	*2,10,000*

Fixed assets of both the companies are to be revalued at 15% above book values and inventory and debtors are to be taken over at 5% less than their book values. Both the companies are to pay 10% equity dividends, preference dividends having been paid already.

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

(i) 8 equity shares of ₹ 10 each will be issued by X Ltd. at par against 6 shares of Y Ltd.

(ii) 10% preference shares of Y Ltd. will be paid off at 10% discount by issue of 10% preference shares of ₹ 100 each of X Ltd. at par.

(iii) 12% Debenture holders of Y Ltd. are to be paid off at a 8% premium by 12% debentures in X Ltd. issued at a discount of 10%.

(iv) ₹ 30,000 to be paid by X Ltd. to Y Ltd. for liquidation expenses.

(v) Creditors of Y Ltd. include ₹ 10,000 due to X Ltd.

Prepare: (a) A statement of purchase consideration payable by X Ltd.

(b) A Balance Sheet of X Ltd. after its absorption of Y Ltd.

Answer

Total No. of shares of X Ltd. = 6,00,000/10 = 60,000 shares

X Ltd's shares held by Y Ltd. = 5,000 shares

Total No. of shares of Y Ltd. = 3,00,000/10 = 30,000 shares

Y Ltd's shares held by X Ltd. = 6,000 shares

Hence, X Ltd. hold's 1/5th (6,000/30,000) of Y Ltd.'s total shares

(a) Statement of Purchase Consideration payable by X Ltd.

(i) **For Equity Shareholders**

8 Equity Shares of X Ltd. for every 6 Equity Shares of Y Ltd.

	30,000 shares x $\frac{8}{6}$ =	40,000 shares
Less:1/5th Share of X Ltd.		(8,000) shares
	Balance for outsiders	32,000 shares

Less: 5,000 Shares of X Ltd. already with Y Ltd.	(5,000) shares
Shares to be issued	27,000 shares
Value of 27,000 equity shares at ₹ 10	₹ 2,70,000

(ii) **For Preference Shareholders**

Preference Share Capital of Y Ltd.	₹ 1,00,000
Less : 10 % Discount	₹ 10,000
X Ltd.'s Preference to be issued	₹ 90,000

Total Purchase Consideration

Particulars	*Numbers*	*Amount*
Equity Shares @ ₹ 10 each	27,000	₹ 2,70,000
Preference Shares @ ₹ 100 each	900	₹ 90,000
Total Purchase Consideration		₹ 3,60,000

(b) Balance Sheet of X Ltd. after its absorption of Y Ltd.

Particulars	*Note No.*	*₹*
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
(a) Share Capital	1	11,60,000
(b) Reserves and Surplus	2	3,76,000
(2) **Non-Current Liabilities**		
Long-term borrowings	3	3,80,000
(3) **Current Liabilities**		
Trade payables	4	3,90,000
Total		23,06,000
II. **Assets**		
(1) **Non-current assets**		
(a) Fixed assets [7,00,000 X 115 % + 2,87,500]		10,92,500
(b) Other non-current assets	5	18,000
(2) **Current assets**		
(a) Inventories (2,40,000 + 3,04,000)		5,44,000
(b) Trade receivables	6	6,10,500
(c) Cash and cash equivalents	7	41,000
Total		23,06,000

Notes to Accounts

		₹	₹
1.	Share Capital		
	Equity share capital		
	87,000 (60,000 + 27,000) Equity shares of ₹ 10 each, fully paid up	8,70,000	
	(Out of the above, 27,000 equity shares have been issued for consideration other than cash)		
	20,000 10% Preference shares of ₹ 10 each	2,00,000	
	900 10% Preference shares of ₹ 100 each	90,000	11,60,000
2.	Reserves and Surplus		
	Revaluation Reserve [15 % of ₹ 7,00,000]	1,05,000	
	Capital Reserve (W. N.1)	25,000	
	Other Reserves (W.N.4)	2,46,000	3,76,000
3.	Long Term Borrowings		
	Secured (assumed)		
	12% Debentures Existing	2,00,000	
	Add : Issued to Y Ltd. [W.N. 5, Calculation (B)]	1,80,000	3,80,000
4.	Trade payables		
	Creditors (2,20,000 + 1,25,000 – 10,000)	3,35,000	
	Bills Payable (30,000 + 25,000)	55,000	3,90,000
5.	Other non-current assets		
	Discount on issue of Debentures [W.N. 5, Calculation (C)]		18,000
6.	Trade receivables		
	Debtors (3,60,000 + 1,80,500 – 10,000)	5,30,500	
	Bills Receivable (60,000 + 20,000)	80,000	6,10,500
7.	Cash & cash equivalents		
	Cash at Bank (W.N. 3)		41,000

Working Notes:

1. Calculation of Capital Reserve

Net Assets taken over from Y Ltd.	₹
Fixed Assets (₹ 2,50,000 × 115%)	2,87,500

Inventory (₹ 3,20,000 x 95%)	3,04,000
Debtors (₹ 1,90,000 x 95%)	1,80,500
Bills Receivable	20,000
Cash at Bank (W.N. 2)	15,000
Total Assets (A)	8,07,000
Liabilities taken over:	
Debentures [W.N. 5, Calculation (A)]	1,62,000
Creditors	1,25,000
Bills Payable	25,000
Total Liabilities (B)	3,12,000
Net Asset taken over (A – B)	4,95,000
Less: Investment cancelled (i.e. 5,000 shares held in × Ltd.)	(80,000)
	4,15,000
Purchase Consideration	(3,60,000)
Capital Reserve	55,000
Less: Liquidation expenses reimbursed to Y Ltd.	(30,000)
Capital Reserve	25,000

2. Cash taken over from Y Ltd.

	₹
Cash balance given in Balance Sheet of Y Ltd.	40,000
Add: Dividend received from X Ltd.(5,000 shares ×₹ 1)	5,000
	45,000
Less: Dividend paid (30,000 shares ×₹ 1)	(30,000)
	15,000

3. Cash balance in Balance Sheet (after absorption)

			₹
Cash balance given in Balance Sheet of X Ltd.			1,10,000
Add: Cash taken over from Y Ltd. (W.N. 2)			15,000
			1,25,000
Less:	Dividend paid	₹60,000	
	Expenses on liquidation	₹30,000	(90,000)
			35,000
Add: Dividend from Y Ltd.			6,000
			41,000

4. Other Reserves in the Balance Sheet (after absorption)

	₹
Reserves given in the Balance Sheet of X Ltd.	3,00,000
Add: Dividend from Y Ltd.[6,000 shares X ₹ 1)	6,000
	3,06,000
Less: Dividend declared [60,000 shares X ₹ 1)	(60,000)
	2,46,000

5. Debenture Holders Payment

Debenture Holders of Y Ltd.		₹ 1,50,000
Add: Premium @ 8 %		₹ 12,000
Value of Debenture Holder Liability taken over by X Ltd.	(A)	₹ 1,62,000
Issue Price of X Ltd. Debentures @ 10 % discount [(A) / 90 %]	(B)	₹ 1,80,000
Discount on Issue of Debentures	(C)	₹ 18,000

6 Inter-company transactions

Creditors of Y Ltd. include ₹ 10,000 due to X Ltd.

Therefore journal entry in the books of X Ltd. will be

Creditors A/c	Dr.	10,000	
To Debtors A/c			10,000

Internal Reconstruction

Question 30

The shareholders of Sunrise Ltd. decided on a corporate restructuring exercise necessitated due to economic recession and a slump in business. From the audited statements as on 31-3-2015 and the information supplied, you are requested to prepare:

(i) Balance Sheet after the completion of the restructuring exercise,

(ii) The capital reduction account,

(iii) The cash account of the entity.

Balance Sheet of Sunrise Ltd. as on 31.3.2015

Liabilities	*₹*	*Assets*	*₹*
Share Capital		*Fixed Assets*	
30,000 Equity shares of ₹ 10 each	*3,00,000*	*Trademarks and Patents*	*1,10,000*
40,000 8% Cumulative Preference	*4,00,000*	*Goodwill at cost*	*36,100*

shares ₹ 10 each			
Reserves and Surplus		*Freehold Land*	*1,20,000*
Securities Premium Account	*10,000*	*Freehold Premises*	*2,44,000*
Profit and Loss Account	*(1,38,400)*	*Plant and Equipment*	*3,20,000*
Secured Borrowings: *9% Debentures (₹ 100) 1,20,000*		*Investment (marked to Market)*	*64,000*
Accrued Interest 5,400	*1,25,400*	*Current Assets*	
Trade payables	*1,20,000*	*Inventories:*	
Deferred vat payable	*50,000*	*Raw materials and*	
Temporary bank overdraft	*2,23,100*	*packing materials 60,000*	
		Finished goods 16,000	*76,000*
		Trade receivable	*1,20,000*
	10,90,100		*10,90,100*

Note: Preference dividends are in arrears for 4 years.

The scheme of reconstruction that received the permission of the Court was on the following lines:

(1) *The authorized capital of the Company to be re-fixed at ₹ 10 lakhs (preference capital ₹ 3 lakhs and equity capital 7 lakhs both ₹ 10 shares each).*

(2) *The preference shares are to be reduced to ₹ 5 each and equity shares reduced by | ₹ 3 per share. Post reduction, both classes of shares to be re-consolidated into ₹ 10 shares.*

(3) *Trade Investments are to be liquidated in open market.*

(4) *One fresh equity shares of ₹ 10 to be issued for every ₹ 40 of preference dividends in arrears (ignore taxation).*

(5) *The securities premium is to be fully utilized to meet the reconstruction programme.*

(6) *The debenture holders took over freehold land at ₹ 2,10,000 and settled the balance after adjusting their dues.*

(7) *Unprovided contingent liabilities were settled at ₹ 54,000 and a pending insurance claim receivable settled at ₹ 12,500 on condition that claim will be immediately settled.*

(8) *The intangible assets were all to be written off along with ₹ 10,000 worth obsolete packing material and 10% of the receivables.*

(9) *Expenses for the scheme were ₹ 10,000.*

(10) *Remaining cash available as a result of the above transactions is to be utilized to pay off the bank overdraft to that extent.*

(11) The Equity shareholders agree that they will bring in cash to liquidate the balance outstanding on the overdraft account and also agree that sufficient funds will be bought in to bring up the net working capital, after completing the re-structuring exercise, to ₹ 2 lakhs. The equity shares will be issued at par for this purpose.

Answer

Balance Sheet of Sunrise Ltd. (and reduced) as on 31.3.2015

Particulars	*Note No.*	*(₹)*
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
(a) Share Capital	1	7,64,000
(2) **Non-Current Liabilities**		
Deferred vat payable		50,000
(3) **Current Liabilities**		
Trade payables		1,20,000
Total		9,34,000
II. **Assets**		
(1) **Non-current assets**		
(a) Fixed assets		
i. Tangible assets	2	5,64,000
(2) **Current assets**		
(a) Inventories	3	66,000
(b) Trade Receivables (1,20,000 – 12,000)		1,08,000
(c) Cash and cash equivalents		1,96,000
Total		9,34,000

Notes to Accounts

		₹	₹
1.	Share Capital		
	Authorised share capital:		
	70,000 Equity shares of ₹ 10 each	7,00,000	
	30,000 Preference shares of ₹ 10 each	3,00,000	
		10,00,000	

	Issued share capital:		
	56,400 Equity shares of ₹10 each (W.N.2)	5,64,000	
	(Out of the above 3,200 equity shares have been issued for consideration other than cash)		
	20,000 Preference shares of ₹10 each (W.N.2)	2,00,000	7,64,000
2.	Tangible Assets		
	Freehold premises	2,44,000	
	Plant & equipment	3,20,000	5,64,000
3.	Inventories:		
	Raw materials and packing materials (60,000 – 10,000)	50,000	
	Finished goods	16,000	66,000
4.	Trade receivables (1,20,000-12,000)		1,08,000

Capital Reduction Account

	Particulars	₹		*Particulars*	₹
To	Equity share capital	32,000	By	Preference share capital	2,00,000
To	Cash (contingent liability settled)	54,000	By	Equity share capital	90,000
To	Trademarks and Patents	1,10,000	By	Freehold land (2,10,000-1,20,000)	90,000
To	Goodwill	36,100	By	Cash (insurance claim)	12,500
To	Raw material and Packing materials	10,000			
To	Trade receivables	12,000			
To	Profit and loss account	1,38,400			
		3,92,500			3,92,500

Cash Account

	Particulars	₹		Particulars	₹
To	Investment	64,000	By	Capital reduction (Contingent liability)	54,000
To	9% Debenture holders (2,10,000-1,25,400)	84,600			
To	Capital reduction (insurance claim)	12,500	By	Securities Premium – Expenses (See Note)	10,000
To	Equity share capital	3,22,000	By	Temporary bank overdraft (64,000+84,600+12,500-54,000-10,000) 97,100	

		By	Temporary bank overdraft (2,23,100 – 97,100) 1,26,000	2,23,100
		By	Balance c/d (W.N.1)	1,96,000
	4,83,100			4,83,100

Working Notes:

1. **Calculation of cash brought in by Equity shareholders:**

		₹
Net working capital:		
Raw Materials & Packing materials		50,000
Finished goods		16,000
Trade Receivables		1,08,000
		1,74,000
Less: Trade payables	1,20,000	
Deferred VAT payable	50,000	(1,70,000)
		4,000
Add : Cash brought in to maintain net working capital of ₹ 2,00,000 (Bal.fig.)		1,96,000
Desired net working capital		2,00,000

2. **Determination of number of shares issued**

	Equity shares		*Preference shares*	
	₹	*No. of shares*	*₹*	*No. of shares*
Share capital as per balance sheet before reconstruction	3,00,000		4,00,000	
Less: Capital reduction	(90,000)		(2,00,000)	
Share capital of ₹ 7 each	2,10,000			
Share capital of ₹ 5 each			2,00,000	
Consolidated value per share	10	21,000	10	20,000
Add: Shares issued against arrears of preference dividend (₹ 4,00,000 x 8% x 4 years) /₹ 40		3,200		
Add: Shares issued to existing equity shareholders for bringing cash for payment of balance of bank overdraft (1,26,000/10)		12,600		
Add: Shares issued to existing equity shareholders for bringing cash for				

maintaining net working capital of ₹ 2,00,000 (1,96,000/10)		19,600		
		56,400		20,000

Note: As per section 52 of the Companies Act, 2013, securities premium can be utilized only for limited purpose. Since, the question requires utilization of securities premium to meet the reconstruction programme, it is assumed that 'Expenses for the scheme ₹ 10,000' has been incurred on account of issue of shares to existing shareholders which is an eligible expense to be set off against securities premium amount.

Question 31

The summarised Balance Sheets of 'S' Limited and 'H' Limited as on 30th June 2014 were as follows: *₹ in crores*

	S Limited		***H Limited***	
Equity and Liabilities				
Equity share capital		*80*		*25*
Reserves and surplus		*400*		*75*
Non-current Liabilities				
10%, 25,00,000 Debentures of ₹ 100 each				*25*
Other non-current liabilities		*120*		
Current Liabilities		*356*		*200*
Total		*956*		*325*
Assets				
Fixed assets (At cost)	*200*		*75*	
Less: Depreciation	*(100)*	*100*	*(50)*	*25*
Investment in 'H' Limited				
2 Crores Equity shares of ₹ 10 each at cost	*32*			
10%, 25,00,000 Debentures of ₹ 100 each at cost	*24*	*56*		
Current Assets		*800*		*300*
Total		*956*		*325*

In a duly approved scheme of absorption, 'S' Limited took over the assets of 'H' Limited at an agreed value of ₹ 330 crores and the liabilities were taken over at book value. Other shareholders of 'H' Limited were allotted equity shares in 'S' Limited at a premium of ₹ 90 per share in satisfaction of their claim. 'S' Limited valued the fixed assets taken over at ₹ 40 crores and all other assets and liabilities were recorded at book value. The scheme of absorption was completed on 1st July 2014.

You are required to:

(a) Pass necessary Journal Entries in the books of 'S' Limited to record the transactions.

(b) *Prepare the Balance Sheet of 'S' Limited after absorption in the Schedule III format along with Notes to accounts.*

Answer

(a) **Journal Entries in the books of 'S' Limited**

			(₹ in crores)	
			Dr.	*Cr.*
1.	Business Purchase Account (W.N.1)	Dr.	105	
	To Liquidator of H Ltd.			105
	(Being business purchased from H Ltd.)			
2.	Fixed Assets Account	Dr.	40	
	Current Assets Account	Dr.	300	
	To 10% Debentures Account			25
	To Current Liabilities Account			200
	To Business Purchase Account			105
	To Capital Reserve Account			10
	(Being incorporation of various assets and liabilities taken over from H Ltd. at agreed values)			
3.	10% Debentures of H Ltd. Account	Dr.	25	
	To Investment in 10% Debentures of H Ltd.			24
	To Capital ReserveAccount			1
	(Being offsetting of 10% debentures held as liability as well as investment in debentures of H Ltd. and transferring the difference to capital reserve)			
4.	Liquidator of H Ltd.Account	Dr.	21	
	To Equity share capital Account			2.10
	To Securities Premium Account			18.90
	(Being discharge of purchase consideration to outside shareholders of H Ltd.)			
5.	Liquidator of H Ltd.		84	
	To Investment in Equity shares of H Ltd.			32
	To Capital ReserveAccount			52
	(Being Investment in H Ltd. cancelled and the resultant profit transferred to capital reserve account)			

(b) Balance Sheet of S Ltd. as at 1st July, 2014 (after absorption)

Particulars	*Note No.*	*(₹ in crores)*
I. **Equity and Liabilities**		
(1) **Shareholder's Funds**		
(a) Share Capital	1	82.10
(b) Reserves and Surplus	2	481.90
(2) **Non-current Liabilities**		
Other non-current liabilities	3	120.00
(3) **Current Liabilities**	4	556.00
		1,240.00
II. Assets		
(1) Fixed assets	5	140.00
(2) Current assets	6	1,100.00
Total		1,240.00

Notes to Accounts

			(₹ in crores)
1.	**Share Capital**		
	8.21 crores equity shares of ₹ 10 each		82.10
	(Out of the above, 0.21 crores equity shares has been issued for consideration other than cash)		
2.	**Reserves and Surplus**		
	As already shown in the S Ltd.'s balance sheet	400.00	
	Capital Reserve (1+52+10)	63.00	
	Securities Premium	18.90	481.90
3.	**Other non-current liabilities**		
	S Limited		120
4.	**Current Liabilities**		
	S Limited	356	
	Add: Taken over from H Limited	200	556
5.	**Fixed assets**		
	S Limited	100	
	Add: Taken over from H Limited	40	140
6.	**Current assets**		
	S Limited	800	
	Add: Taken over from H Limited	300	1,100

Working Notes:

1. Calculation of Purchase consideration to outside shareholders of H Ltd.

		(₹ in crores)
Assets of H Ltd. taken over at agreed value		330
Less: Liabilities taken over at		
10% Debentures	25	
Current liabilities	200	(225)
Net assets of H Ltd./Purchase consideration		105
Less: Shares held by S Ltd. (80%)		(84)
Payable to outside shareholders @ ₹ (10 + 90)		21
Number of Equity Shares to be issued 21/100 = 21,00,000 lacs		
Nominal value of Equity shares of S Ltd. paid to outside shareholders (21/100 x 10)		2.10
Securities premium (21/100 x 90)		18.90

Question 32

XY Limited has been incorporated with an authorised capital of ₹ 70 lacs equity shares of ₹ 10 each and ₹ 4 lacs preference shares of ₹ 100 each.

The subscribers to the Memorandum of Association have subscribed and paid for 1 lac equity shares. The expenses for incorporation incurred amounted to ₹ 8.09 lacs.

XY Limited desires to amalgamate X Limited and Y Limited as at 31st March, 2015. Following information is available:

Balance Sheet as on 31st March, 2015

		(₹ in lacs)
	X Limited	***Y Limited***
Liabilities		
Equity Shares (FV ₹ 100)	*750*	*725*
10% Preference shares (FV ₹ 100)	*420*	*180*
Reserves and Surplus		
Revaluation Reserve	*125*	*75*
Capital reserve	*270*	*190*
Statutory Reserves	*60*	*40*
Profit and Loss Account	*35*	*12*
Loan funds		
Secured Loans		

12.5% Debentures (FV ₹ 100)	*50*	*28*
Unsecured Loans	*25*	*0*
Current Liabilities		
Trade Payables	*165*	*75*
Total	***1,900***	***1,325***
Assets		
Fixed Assets		
Land and Building	*470*	*290*
Plant and Machinery	*310*	*210*
Investments	*75*	*50*
Current Assets		
Trade Receivables	*345*	*270*
Inventories	*345*	*254*
Cash and cash equivalents	*355*	*251*
Total	***1,900***	***1,325***

Before amalgamation, X Ltd. and Y Ltd. will make the following adjustments in their balance sheets:

(i) Pay off the unsecured loans.

(ii) X Limited will revalue its Land and Building by enhancing the book value by 10% and Y Limited will revalue the Land and Building at ₹ 330 lacs.

(iii) Y Limited will revalue its Plant and Machinery at ₹ 220 lacs.

(iv) Investment will be disposed off. X Limited sold its investments for ₹ 67 lacs and Y Limited disposed the same for ₹ 52 lacs.

(v) Debenture holders of X Limited and Y Limited will be discharged by XY Limited by issue of 15% debentures of ₹ 100 each for such an amount which will not put any additional burden of interest outgo on XY Limited than presently payable by X Limited and Y Limited.

(vi) Preference shareholders of X Limited and Y Limited will be issued 15% Preference Shares in XY Limited in the ratio 2: 3 i.e. 2 shares will be issued for every 3 shares held at a premium of ₹ 25.

(vii) Equity shares in XY Limited will be issued as under:

(a) Shareholders of X Limited in the ratio of 4:1 @ ₹ 35 per share; and

(b) Shareholders of Y Limited in the ratio of 3:1 @ ₹ 32 per share.

(viii) Statutory reserves having met its purpose will be merged with Capital Reserves.

Prepare the amalgamated Balance Sheet of XY Limited as on 31st March, 2015 as per Schedule III to the Companies Act, 2013 with Notes to Accounts.

Answer

Balance Sheet of XY Ltd.

As on 31st March, 2015

Particulars	*Note No.*	*(₹ in lacs)*
I. Equity and Liabilities		
(1) Shareholder's funds		
(a) Share capital	1	927.50
(b) Reserves and surplus	2	2060.41
(2) Non-current liabilities		
Long-term borrowings	3	65.00
(3) Current liabilities		
Trade payables	4	240.00
Total		3,292.91
II. Assets		
(1) Non-current assets		
(a) Fixed assets		
Tangible assets	5	1,377
(2) Current assets		
(a) Inventories	6	599
(b) Trade receivables	7	615
(c) Cash & cash equivalents	8	701.91
Total		3,292.91

Notes to Accounts

		(₹ in lacs)	*(₹ in lacs)*
1.	Share Capital		
	Authorised share capital		
	70 lacs Equity shares @ ₹ 10 each		700
	4 lacs 15% Preference shares @ ₹ 100 each		400
			1,100
	Issued share capital		
	52.75 lacs Equity shares of ₹ 10 each	527.50	
	4 lacs 15% Preference shares of 100 each	400.00	927.50
	(Out of the above, 51.75 lacs Equity shares and 4 lacs		

	Preference shares are issued for consideration other than cash)		
2.	Reserves and surplus		
	Capital Reserve (W.N.1)	740.00	
	Securities Premium Reserve (W.N.5)	1,328.50	
	Profit and Loss A/c (Incorporation expenses)	(8.09)	2,060.41
3.	Long term borrowings		
	15% Debentures of ₹ 100 each		
	X Ltd.	41.67	
	Y Ltd.	23.33	65.00
4.	Trade payables		
	X Ltd.	165.00	
	Y Ltd.	75.00	240.00
5.	Tangible assets		
	Land & building		
	X Ltd.	517.00	
	Y Ltd.	330.00	847.00
	Plant & machinery		
	X Ltd.	310.00	
	Y Ltd.	220.00	530.00
			1,377.00
6.	Inventories		
	X Ltd.	345.00	
	Y Ltd.	254.00	599.00
7.	Trade Receivables		
	X Ltd.	345.00	
	Y Ltd.	270.00	615.00
8.	Cash and Cash equivalents		
	X Ltd. (W.N.2)	397.00	
	Y Ltd. (W.N.2)	303.00	700.00
	XY Ltd.		
	Received from subscribers of shares	10.00	
	Less: Incorporation expenses paid	(8.09)	1.91
			701.91

Note: As per AS 26 preliminary expenses are charged to Profit and loss account in the year in which it is incurred. Accordingly, the treatment for incorporation expense has been done.

Working Notes:

1. Calculation of Capital Reserve on amalgamation

				(₹ in lacs)
		X Ltd.		Y Ltd.
Assets taken over:				
Land and Building	(470 x 110%)	517		330
Plant and Machinery		310		220
Inventories		345		254
Trade receivables		345		270
Cash andBank (W.N.2)		397		303
		1,914		1,377
Less : Liabilities taken over:				
13% Debentures (W.N.3)	41.67		23.33	
Trade payables	165.00	(206.67)	75.00	(98.33)
Net Assets taken over		1707.33		1,278.67
Less: Purchaseconsideration (W.N.4)		(1,400)		(846)
Capital Reserve		307.33		432.67
Total capital reserve (307.33 + 432.67) = 740.00 lacs				

2. Calculation of Cash and Cash Equivalents

	X Ltd. ₹ in lacs	Y Ltd. ₹ in lacs
Balance as per the Balance Sheet	355.00	251.00
Less: Payment for unsecured loans	(25.00)	-
Add: Receipt from sale of investments	67.00	52.00
	397.00	303.00

3. Calculation of 15% Debentures issued by XY Ltd.

	X Ltd. ₹ in lacs	Y Ltd. ₹ in lacs
$50 \times \frac{12.5}{15}$	41.67	
$28 \times \frac{12.5}{15}$		23.33

4. Computation of Purchase consideration (On Payment Basis)

		(₹ in lacs)	
		X Ltd.	*Y Ltd.*
(1)	15% Preference Shares:		
	(4.20/3) x 2 = 2.80 lacs shares @ ₹ 125 each	350	
	(1.80/3) x 2 = 1.20 lacs shares @ ₹ 125 each		150
2.	Equity Shares:		
	(4 × 7,50,000) = 30,00,000 equity shares @ ₹ 35 each	1050	
	(3 × 7,25,000) = 21,75,000 equity shares @ ₹ 32 each		696
		1,400	846

5. Calculation of Securities Premium

	₹ in lacs
15% Preference Shares issued at premium of ₹ 25 each (4 lacs x ₹ 25 each)	100
Equity Shares issued to - X Ltd. (30 lacs x ₹ 25 each)	750
Y Ltd. (21.75 lacs x ₹ 22 each)	478.50
	1,328.50

Exercise

Question 1

The summarized Balance Sheets of A Ltd. and its subsidiary B Ltd. as on 31.3.2015 are as follows:

	A Ltd. *₹*	*B Ltd.* *₹*
Shares of ₹ 10 each	*1,00,00,000*	*20,00,000*
Reserves and Surplus	*1,40,00,000*	*60,00,000*
Secured Loans	*40,00,000*	*–*
Current Liabilities	*60,00,000*	*20,00,000*
	3,40,00,000	*1,00,00,000*
Fixed Assets	*1,20,00,000*	*35,00,000*
Investment in B Ltd.	*7,40,000*	*–*
Trade receivables	*70,00,000*	*10,00,000*
Inventories	*60,00,000*	*50,00,000*
Cash and Bank	*82,60,000*	*5,00,000*
	3,40,00,000	*1,00,00,000*

A Ltd. holds 76% of the paid up capital of B Ltd. The balance shares in B Ltd. are held by a Foreign Collaborating company. A memorandum of understanding has been entered into with the foreign company providing for the following:

(a) The shares held by the foreign company will be sold to A Ltd. The price per share will be calculated by capitalizing the yield at 16%. Yield, for this purpose, would mean 40% of the average of pre-tax profits for the last 3 years, which were ₹ 35 lakhs. ₹ 44 lakhs and ₹ 65 lakhs.

(b) The actual cost of shares to the foreign company was ₹ 2,40,000 only. The profit that would accrue to them would be taxable at an average rate of 30%. The tax payable be deducted from the proceeds and A Ltd. will pay it to the Government.

(c) Out of the net consideration, 50% would be remitted to the foreign company immediately and the balance will be an unsecured loan repayable after one year. It was also decided that A Ltd. would absorb B Ltd. simultaneously by writing down the Fixed Assets of B Ltd. by 5%. The Balance Sheet figures included a sum of ₹ 1,50,000 due by B Ltd. to A Ltd.

The entire arrangement was approved by all concerned for giving effect to on 1.4.2015.

You are required to show the Balance Sheet of A Ltd. as it would appear after the arrangement is put through on 1.4.2015.

[Answer: Total of the balance sheet of A Ltd. ₹ 410.99 Lakhs; Yield of B Ltd.:₹ 19.2 lakhs; Price per share of B Ltd. =₹ 60; Purchase consideration for 24% of share capital of B Ltd. = ₹ 28.80 lakhs; Capital Reserve to A Ltd. ₹ 42.05 lakhs; Cash and bank balance of A Ltd. after acquisition of shares ₹ 69.24 lakhs.

Discharge of Purchase Consideration:

(i) as Tax :₹ 7.92 lakhs

(ii) 50% of (28.80 – 7.92 i.e. ₹ 20.88 lakhs) = ₹ 10.44 lakhs (to be remitted immediately)

(iii) Balance 50% = ₹ 10.44 lakhs (to be retained as unsecured loan)]

Question 2

Travels & Tours Ltd. has two divisions – 'Inland' and 'International'. The Balance Sheet as at 31st December, 2014 was as under:

	Inland (₹ crores)	International (₹ crores)	Total (₹ crores)
Fixed Assets:			
Cost	600	600	1,200
Depreciation	500	200	700
W.D.V. (written down value) (A)	100	400	500
Net Current Assets:			
Current assets	400	300	700

Less: Current liabilities	*200*	*200*	*400*
(B)	*200*	*100*	*300*
Total (A + B)	*300*	*500*	*800*
Financed by:			
Loan funds:			
(Secured by a charge on fixed assets)	–	*100*	*100*
Own Funds:			
Equity capital (fully paid up ₹ 10 shares)			*50*
Reserves and surplus	____	____	*650*
	?	*?*	*700*
Total	*300*	*500*	*800*

It is decided to form a new company 'IT Ltd.' for international tourism to take over the assets and liabilities of international division.

Accordingly 'IT Ltd.' was formed to takeover at Balance Sheet figures the assets and liabilities of international division. 'IT Ltd.' is to allot 5 crores equity shares of ₹ 10 each in the company to the members of 'Travels & Tours Ltd.' in full settlement of the consideration. The members of 'Travels & Tours Ltd.' are therefore to become members of 'IT Ltd.' as well without having to make any further investment.

(a) You are asked to pass journal entries in relation to the above in the books of 'Travels & Tours Ltd.' and also in 'IT Ltd.'. Also show the Balance Sheets of both the companies as on 1st January, 2015 showing corresponding figures, before the reconstruction also.

(b) The directors of both the companies ask you to find out the net asset value of equity shares pre and post-demerger.

(c) Comment on the impact of demerger on "shareholders wealth".

[Answer: Loss on reconstruction ₹ 400 crores, Total of the balance sheet of Travels & Tours Ltd. before and after reconstruction would be ₹ 800 crores and ₹ 300 crores respectively.

Net Asset Value of an equity share	**Pre-Demerger**	**Post-Demerger**
Travels & Tours Ltd.	**= ₹ 140**	**= ₹ 60]**

Question 3

System Ltd. and HRD Ltd. decided to amalgamate as on 01.04.2015. Their Balance Sheets as on 31.03.2015 were as follows: (₹ in '000)

Particulars	*System Ltd.*	*HRD Ltd.*
Source of Funds :		
Equity share capital (₹ 10 each)	*150*	*140*
9% preference share Capital (₹ 100 each)	*30*	*20*

Investment allowance Reserve	5	2
Profit and Loss Account	10	6
10 % Debentures	50	30
Trade payables	25	15
Tax provision	7	4
Equity Dividend Proposed	30	28
Total	307	245
Application of Funds :		
Building	60	50
Plant and Machinery	80	70
Investments	40	25
Trade receivables	45	35
Inventory	36	40
Cash and Bank	40	25
Preliminary Expenses	6	—
Total	307	245

From the following information, you are to prepare the draft Balance Sheet as on 01.04.2015 of a new company, Intranet Ltd., which was formed to take over the business of both the companies and took over all the assets and liabilities:

(i) *50% Debenture are to be converted into Equity Shares of the New Company.*

(ii) *Out of the investments, 20% are non-trade investments.*

(iii) *Fixed Assets of Systems Ltd. were valued at 10% above cost and that of HRD Ltd. at 5% above cost.*

(iv) *10% of trade receivables were doubtful for both the companies. Inventories to be carried at cost.*

(v) *Preference shareholders were discharged by issuing equal number of 9% preference shares at par.*

(vi) *Equity shareholders of both the transferor companies are to be discharged by issuing Equity shares of ₹ 10 each of the new company at a premium of ₹ 5 per share.*

Amalgamation is in the nature of purchase.

[Answer: Value of equity shares issued to System Ltd. ₹ 1,98,500 and to HRD Ltd. ₹ 1,78,500
Cash paid for fraction of shares = ₹ 1,98,500 less ₹ 1,98,495 = ₹ 5 to System Ltd.
Cash paid for fraction of shares = ₹ 25,000 less ₹ 24,990 = ₹ 10 to HRD Ltd.
Total of M/s Intranet balance sheet as at 1.4.2015 ₹ 5,64,985]

Question 4

The Balance Sheet of Munna Ltd as on 31st March, 2015 is as follows:

Liabilities	₹	*Assets*	₹
Authorised and issued Share capital		*Goodwill*	*2,00,000*

20,000 equity shares of ₹ 100 each, fully paid	*20,00,000*	*Plant & Machinery*	*18,00,000*
10,000, 7% Preference shares of ₹ 100 each	*10,00,000*	*Inventory*	*3,00,000*
Trade payables	*7,00,000*	*Trade receivables*	*7,50,000*
Bank overdraft	*3,00,000*	*Cash*	*1,50,000*
		Preliminary expenses	*1,00,000*
		Profit and Loss Account	*7,00,000*
	40,00,000		*40,00,000*

Additional Information: *Two years' preference share dividend is in arrears. The company had bad time during the last two years and hopes for better business in future, earning profit and paying dividend, provided the capital base is reduced.*

An internal reconstruction scheme, agreed to by all concerned, is as follows:

(i) Trade payables agreed to forego 50% of their claim.

(ii) Preference shareholders withdrew arrear dividend claim. They also agreed to lower down their capital claim by 20% by reducing nominal value in consideration of 9% dividend effective after reconstruction, in case equity shareholder's loss exceeded 50% on the application of the scheme.

(iii) Bank has agreed to convert overdraft into term loan to the extent required for making current ratio to 2:1.

(iv) Revalued amount for plant and machinery was accepted as ₹ 15,00,000.

(v) Trade receivables to the extent of ₹ 4,00,000 were considered as good.

(vi) Equity shares shall be exchanged for the same number of equity shares at a revised denomination as required after the reconstruction.

You are required to show the following:

(a) Total loss to be borne by the equity and preference shareholders for the reconstruction.

(b) Share of loss to the individual class of shareholders.

(c) New structure of share capital after reconstruction.

(d) Working capital of the reconstructed company, and

(e) A Performa Balance Sheet after reconstruction.

[Answer: Loss to be borne by Equity and Preference Shareholders ₹ 14,40,000; New structure of share capital after reorganization ₹ 17,00,000; Working capital of the reorganized company ₹ 4,25,000; Balance Sheet (total) of Munna Ltd. (and reduced) ₹ 23,50,000]