Amalgamation, Absorption and External Reconstruction

Gamma LTd. was formed to takeover the business of the existing company sheets of Alpha Ltd. and Beta Ltd. as on 31st Maria companies. The Camma Liu. When the company companies of the existing companies. The Balance sheets of Alpha Ltd. and Beta Ltd. as on 31st March 2001 are given

Liabilities	Alpha	Beta	Assets (Rs.		in Lakhs)	
	Ltd.	Ltd.	2135EIS	Alpha	Beta	
Share capital Equity shares of Rs. 100 each	1,000	800	Fixed Assets Current Assets,	1,200	1,000	
Rs. 100 each Rs. 100 each	400	300	Loans and Advances	880	565	
Reserves and Surplus:	ALL CALLS	THE DESIGN	:mrive	nucl mas	pro. F.E	
Revaluation Reserve	100	80	encurs earland 00 i	HE 383	the same of the same	
General Reserve	200	150	Charles Char	basse old	d. Tang	
P&LA/c	80	60	ets (1,200 - 1,000)	et bouit	265 155 17	
Secured Loan: 12% Debentures of	96	80	in languages of	in the sound of the sound	S STATE OF S	
Rs. 100 each	and the second second second		and the commence of the property of the property of the second of the se	andrews on Marie Consequence	ensemble femile relations	
Current Liabilities &			piteriosa.	es. Y late a	Count	
Provisions	204	95	eight lands	bdeire		
	2,080	1,565	In icias e	2,080	1,565	

Other Informations:

(i) 12% Debentures of Alpha Ltd. and Beta Ltd. are discharged by Gamma Ltd. by issuing adequate number of 16% Debentures of Rs. 100 each to ensure that they continue to receive the same amount of interest.

(ii) Preference shareholders of Alpha Ltd. and Beta Ltd. have received same number of 15% Preference shares of Rs. 100 each of Gamma Ltd.

Gamma Ltd. has issued 1.5 equity shares for each equity share of Alpha Ltd. and 1 equity share for each equity share of Beta Ltd. The face value (iii) of shares issued by Gamma Ltd. is Rs. 100 each.

Required:

Prepare the Balance Sheet of Gamma Ltd. as on 1st April 2001 after the Amalgamation has been carried out using the 'Pooling of Interest method'. [C.A. (Final) May 2001]

Solution:

Notes to Accounts:

1. Share capital:	on Late	I minute to the	Rs. in lake
Issued and paid up capital			2.00
Equity shares of Rs.100 each 15% pref.shares of Rs.100 each	Alphy Lini	(0)	2,300 700 3,000
2. Reserves and Surplus: Revaluation reserve (100 + 80)	0001	den ser	180
General reserve (W.N 3)			34
Profit & loss a/c (W.N 3)	420	10 x 1210	214
3. Long term borrowings:	PLANTE TRANSP	elle of the	1 20 1 4.55
16% Debentures of Rs.100 each (W.	N 2)	correspondingly	132
. Tangible assets:	200	Resorve	2 200
Fixed assets $(1,200 + 1,000)$	10		2,200

Balance sheet of Gamma Ltd. as on 1.4.2001

	Note No.	Rs.in lakh
I. Equity and Liabilities:		- 15000
(i) Shareholders' funds:	(ROIE)	261
Share capital		3,000
Reserves and surplus	2	214
(ii) Non-current liabilities:	20 3 - 20 May 19 May 1	A Land Land
Long term borrowings	maha sammadad o	132
(iii) Current liabilities (204 + 95)	ingress gardes south	299
Total (i) + (ii) + (iii)	Modernes	3,645
II. Assets: Sureman of Gamera of the same	riner of 1 Prefer	3,013
(i) Non- current assets:	Mei aud bid aren	cris (id)
Tangible assets	and former shall names issued by G	2,200
(ii) Current assets: (880 + 565)		Francis in the State of the Sta
Total (i) + (ii)	of 8 assets of the	1,445
TOUR WALL COME TO BE THE STATE OF THE STATE	The 1900 Per a little	3,645

Working Note 1

Purchase Consideration

advented to the term of the term	374 (8)	Rs	. in Lakhs
Car shareholders of	Alpha Ltd.	Beta Ltd.	Total
Alpha Ltd. (1,000 × 1.5) Equity shares for shareholders of Equity shares for shareholders of Reta Ltd. (800 × 1)	1,500		1,500
	75, 190 Data	800	800
preference shares for shareholders of		Light ones	2,300
Aiplia Dia. de 2 de 2002 De 200	400	300	700
Purchase consideration		MALLIAN.	3,000
Share Capital of Transferor Co.,s Alpha & Beta	1,400	1,100	2,500
Excess of Purchase consideration over share capital		10/A 2-0	500

Working Note 2

Settlement of Debentures of Transferor Companies

of Mario area at per shareho	seastly in the	Rs.	in Lakhs
THE STATE OF THE S	Alph	na Beta	Total
Value of Debentures issued by Gamma Ltd.	$96 \times \frac{12}{16} = 7$	$80 \times \frac{12}{16} = 60$	132
Face Value of Debentures of Transferor Co.,s	S Comments	80	176
Excess of Face Value of Debentures settled over value of debentures issued.	and the second second	4) (20)	(44)

Net Excess Payment to be adjusted in the Balance Sheet of Transferee Co., against reserves = 500 - 44 = 456.

Working Note 3

Reserves to be Shown in Balance Sheet

	The second second	T 201 4/2
	General Reserve	P&LA/c
	200	80
Alpha Ltd.	150	60
Beta Ltd.	350	140

Less: Excess Payment to be adjusted	350	106
Balance to be shown in Balance sheet	et of lagrant	34 (1)
	desp.	of nurchase consider

Illustration

On 31st March 1999, Thin Ltd., was absorbed by Thick Ltd., the later taking On 31st was and liabilities of the former at book values. The consideration over all the assets was fixed at Rs. 4,00,000 to be discharged by the transferee for the business form of its fully paid equity shares of Rs. 10 each, to be distributed company in the shareholders of the transferor company, each shareholder getting two shares for every share held in the transferor company, each shares of the two company.

The balance sheets of the two companies as on 31st March 1999

	1 0771 1 7 -	2	- Se TVIAICH	1 1 9 9 9	
Liabilities	Thick Ltd. (Rs.)	Thin Ltd. (Rs.)	Assets	Thick Ltd.	Thin Ltd.
Share Capital: Authorised Issued & Subscribed Eq. Shares of Rs. 10 each fully paid General Reserve Profit & Loss A/c Workmen's compensation Fund Sundry Creditors Staff Provident Fund Provision for Tax	9,00,000 1,80,000 20,502 12,000 58,567 10,200 12,300	5,00,000 2,00,000 50,000 12,900 9,000 30,456 4,000 5,000	Goodwill Plant & Machinery Furniture Stock in trade Sundry Debtors Prepaid Insurance Income Tax refund claim Cash in hand Cash at Bank		(Rs.) 60,000 1,00,000 30,000 60,000 700 6,000 356 8,300
18.0.9) Su	11,93,569	3,11,356		11,93,569	3,11,356

Amalgamations expenses amounting to Rs. 1,000 were paid by Thick Ltd., You are required to -

- (i) Prepare realisation account and equity shareholders account in the books or ideas any as parchase price of Thin Ltd.
- (ii) Pass the necessary journal entries in the books of Thick Ltd., and
- Prepare the balance sheet of Thick Ltd., after the amalgamation in the nature of merger.

[Madras, B.Com (PZ4A) Nov. 2008; 1st M.Com (CAIA) Ap. 2008] [A.C.S. Inter. June 1999]

Solution:

In the books of Thin Ltd. (Selling Co.) Realisation A/c

Particulars	Rs.	Particulars
31-3-99	A Secretaria	31-3-99 Rs
To Goodwill	60,000	By Sundry Creditors
To Plant & Machinery	1,00,000	By Staff Provident Fund 30,456
To Furniture	30,000	By Provision for Taxation 4,000
To Stock	60,000	By Thick I td (Pumbase . 3,000
o Sundry Debtors	46,000	4,00,000
o Prepaid Insurance	700	10 0002 0112 Subsess Services
I.T. Refund claim	6,000	
Cash in hand	356	
Cash at bank	8,300	
Equity shareholders	1,28,100	
000 1 000 CEN S	4,39,456	4,39,456

Equity Shareholders A/c

Particulars	Rs.	D	10000
.99	765.	Particulars	Rs.
Juity shares in Title		31-3-99	1000
quity shares in Thick Ltd.	4,00,000	By Eq. share Capital A/c	2,00,000
	100	By General Reserve A/c	50,000
		By P&L A/c	12,900
		By Workmen's compensation	
	- Table	Fund A/c	9,000
	11/10/2	By Realisation A/c (Profit)	1,28,100
A COLUMN SERVICE SERVI	4,00,000		4,00,000
Amalgamation Expens		TREBUNE CLUDGESS TOURS	_

the purchasing company pays them and it is

Solution:

In the books of Thin Ltd. (Selling Co.) Realisation A/c

Particulars	Rs.	Particulars
31-3-99		31-3-99
To Goodwill	60,000	By Sundry Creditors
To Plant & Machinery	1,00,000	By Staff Provident Fund 30,45
To Furniture	30,000	By Provision for Taxation 4,00
To Stock	60,000	By Thick Ltd. (Purchase - 3,00
To Sundry Debtors	46,000	4,00,00
To Prepaid Insurance	700	on one of the bar of
To I.T. Refund claim	6,000	the state of the s
To Cash in hand	356	The second of th
To Cash at bank	8,300	
To Equity shareholders	1,28,100	
CAUR ON OF THE	4,39,456	bearing 4,39,450

Equity Shareholders A/c

Particulars	Rs.	Particulars	11 11 85
31-3-99 To Equity shares in Thick Ltd.	4,00,000	31-3-99 By Eq. share Capital A/c By General Reserve A/c	2,00,00 50,00
1000 L 1000	0.0	By P&L A/c By Workmen's compensation Fund A/c	12,900 9,000
TO THE TANK	4,00,000	By Realisation A/c (Profit)	1,28,100

Note: Amalgamation Expenses are not recorded in the selling Company's books because the purchasing company pays them and it is preferable to show the amount payable to shareholders only as purchase price.

Amalgamation, reconstruction Books of Thick Ltd. (Purchasing Company) 10.39 **Particulars** L.F.Debit Date Credit Rs. Rs. Business Purchase A/c 1993 Dr 4,00,000 March 31 To Liquidator of Thin Ltd. Being purchase consideration 4,00,000 payable as per agreement] Goodwill A/c 60,000 plant & Machinery A/c Dr 1,00,000 Furniture A/c of aDr. a cr 30,000 Stock A/c Dr MI 60,000 Sundry Debtors Dr 46,000 Prepaid Insurance A/c Dr 700 I.T. Refund Claim A/c Dr 6,000 Cash in hand A/c Dr 356 Cash at Bank A/c Dr 8,300 General Reserve A/c (W.N.1) Dr 1,37,100 orb To Workmen's Compensation 9,000 Fund A/c To Sundry Creditors 30,456 4,000 To Staff Provident Fund 5,000 THE PROPERTY OF THE PROPERTY To Provision for Taxation 4,00,000 To area of abilities to To Business Purchase A/c [Being assets & liabilities takenover and excess of purchase price over familians of horner our share capital of Thin Ltd. adjusted in General Reserve, after adjusting hall? General Reserve and P&L A/c of Thin Ltd.] [Note: Even P&L A/c may be credited in the above entry with Rs. 12,900 and the debit to General Reserve in that

case is Rs. 1,50,000 instead of

Rs. 1,37,100]

10.40	The same was the same with the same was the same with the same was the	Dr	3 4 30	4,0	00,000	auto
Cyclin	Liquidator of Thin Ltd. A/c To Equity Share Capital A/c [Being purchase price paid inthe of 40,000 equity shares of Rs.	form	N.	Pu		4,00,000
	each at par] General Reserve A/c	Dr	pl/h.	7 7 1 k	1,000	
000,004	To Bank A/c [Being Amalgamation expenses pa	id] gods 3	A CAS	अवस्थिति । सन्दर्भाति	Jackson Angel	1,000
Pusha Less: Pai Less: Gen	nt to be adjusted in general reserve rchase consideration payable to treholders of Thin Ltd. d up capital of Thin Ltd. deral Reserve of Thin Ltd. A/c of Thin Ltd.,	of Thick I		Rs.	4 6 1	Rs. 000 000
	ount to be debited to General Rese	rve of Thi	ck Ltd	ns s	1,37,1	
Working Not	te 2			S Freeze	1	Time!
Thick	Limited's general reserve to be sl	nown in ba	lance	sheet	01	
Thick Less: Amou	Ltd.'s general reserve (given) nt debited towards excess of	HEROE LIE	101. 0 131. 0	n4. r	R 1,80,00	ds. 00

Worl

Less: Amount debi	general reserve (given) ted towards excess of	Rs. 1,80,000
purchase pric	e over share capital of Thin Ltd.,	1,37,100
Less: Amount debite General Reserv	ed towards amalgamation expenses	42,900 1,000
11050	ve of Thick Ltd., after amalgamation	41,900

a capital:	
Share capital: Authorized capital:	Rs.
1.50,000 shares of Rs.10 each	The state of the s
Issued, subscribed and paid up capital:	15,00,000
1 30,000 shares of Rs. 10 each	May control
Reserves and Surplus:	13,00,000
General reserve (W.N 2)	filling the part of the
Profit & loss a/c	41,900
Workmen compensation fund	20,502
	21,000
Trade payables:	15 12 17 17 17 18 18 18 18 18 18 18 18 18 18 18 18 18
Sundry creditors	
Short term provisions:	89,023
Provision for taxation	17 200
Staff provident fund	17,300
Stall provident fund	14,200
Tangible assets:	51,500
Plant & Machinery	5,12,000
	1,10,000
Furniture	6,22,000
Intangible assets:	2,60,000
Goodwill	
Short term loans and advances:	700
Prepaid insurance	6,000
Income tax refund claim	6,700

To sale 1984 17 (48) 2

Balance sheet of Thick Ltd. as on 31.3. 1999

	The state of	Note No.	Rs.in lakh
I. Equity and Liabilities:	THE SAFE	Brittin Us	odus A
(i) Shareholders' funds:	the of Many course	inde Otto, D	
Share capital	rais cus bren bee	bediciacu	13,00,000
Reserves and surplus	Has Oliva to a	20	83,402
(ii) Non-current liabilities:	, and	gar 7 One	Straight A.
Long term borrowings		196 - 199	6e
(iii) Current liabilities:	. 3'	s teologic	
Trade payables	boni nuissanse	างจ กรุเส	89,023
Short term provisions		4	31,500
Total (i) + (ii) + (iii)		i basali	15,03,925
I. Assets:		disk marginal	103
(i) Non-current assets:		e reselvent	pine a
Tangible assets	noltex		riot hote t
Intangible assets	bmt		6,22,000
(ii) Current assets:		6.	2,60,000
Stock		· ·	
Trade receivables (debtors)		W4708	3,25,500
Cash in hand		V DAM X	2,67,200
Market Barrier Control of the Contro		201	1,225
Cash at bank		\ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \ \	21,300
Short term loans and advances		in sque	migm6,70
Total (i) + (ii)		Part	
	1890 HP che	Training to the second	15,03,92
	and the second	and and a second	A Day Change

Amalgamation - Net assets method

Illustration 9

MLtd. and N Ltd. agreed to amalgamate on the basis of the following Balance Sheets as on 31.3.97.

Liabilities Rs.	M	N Rs.	Assets Rs.	Manager And	N Rs.
Share capital Rs. 25 each P & L A/c Creditors Depreciation fund The assets and	75,000 7,500 3,500 - 86,000	50,000 2,500 3,500 2,500 58,500	Stock Debtors Bankolst windship	30,000 31,500 15,000 8,000 1,500 86,000	38,800 12,000 5,200 2,500 58,500

The assets and liabilities are to be taken over by a new company formed alled P Ltd., at book values. P Ltd.'s capital is Rs. 2,00,000 divided into 10,000 quity shares of Rs. 10 each and 10,000 9% preference shares of Rs. 10 each.

PLtd. issued the equity shares equally to the vendor companies and preference lares were issued for any balance of purchase price.

Pass journal entries in the books of P Ltd. and prepare its Balance Sheet, if the

amalgamation is in the nature of purchase. nalgamation is in the nature of partition, B. Com., Ap. 2005; Nov. 2004] [Madras, [Periyar, B. Com., Ap. 2000. 1st M. Com., Ap. 2008; B. Com., Nov. 2007 (10 iyar, B.Com., Ap. 2003; Ist M.Com., Ap. 2008; B.Com., Nov. 2007 (10 Times)]

Solution: Statement showing pure	chase con	sideration (net	assets)	411
Particulars	T	M Ltd.	349-11-4	N Ltd.
Sundry assets taken over	Rs.	Rs. 86,000	Rs.	Rs. 58,500
Less: Liabilities: Creditors Depreciation fund	3,500	3,500	3,500 2,500	(iii) 6,000
Purchase consideration Less: Equity shares issued		82,500	ายจ กลังรั	52,500
equally $\left(\frac{1,00,000}{2}\right)$		50,000	i angirle Imangit	50,000
Value of preference shares issued		32,500	Current	2,500

Books of P Ltd. (Transferee company) Journal entries

Journal entries						
Date	Particulars		L.F.	Dr	Cr	
Que (Business purchase A/c To Liquidator of M Ltd. To Liquidator of N Ltd.	regisma et be	or is is	Rs. 1,35,000	Rs. 82,500 52,500	
	[Being purchase price payable to the companies]	e vendor	and demogration in	-4.16.110	Starts 1	
" F S D B	Fixed assets A/c Stock A/c Debtors A/c ank A/c oodwill A/c To Creditors A/c To Depreciation fund A/c		or or or	70,300 27,000 13,200 4,000 30,000	7,000 2,500	
ГВ	To Business purchase A/c eing assets and liability taken over	Jack d	1 3.11	Commence of	1,35,000	
Liq	The Ltd. and goodwill thereon] [uidator of M Ltd. A/c To Equity share capital A/c To 9% preference share capital A/c ing payment of purchase price] uidator of N Ltd. A/c To Equity share capital A/c	C Dr		82,500 52,500	50,000 32,500	
1, 1, 12 / 1	Fo 9% preference share capital A/c ng payment of purchase price]	a standard vic. Ordanad o do po	nr.h	ine Permios	50,000 2,500	

Notes to Accounts:	The state of the state of	William State of	And the second second second second second	10.57
Share capital:	195 - range E. Le	The state of the It	- OFFICE I	Talesta A
Authorized capital:	is share or	THE WAY	The second	Rs.
10.000 Equity shares of Rs.10 ea				at the
10,000 3,6223,633,60	each	-	of the w	,00,000
ad and paid up capital.		1970 42100		,00,000
10,000 Equity shares of Rs.10 e	ach Aloco	Testernett.		of residen
3,500 9% Pref, shares of Rs. 10 e	each		History	
(all the above shares were issued	for conside	ration	13 14 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	35,000
other than cash to vendors)	id. et a di	Ont Hills	1.00	1,35,000
Trade payables: Third but A to go	oregice shar	inn mik	well bed	N. C.
Creditors Type 301 Day 1 min	cs. 160 cac	Min cone is	Comme	7.000
			res m B I	7,000
Tangible assets: Other fixed assets (70,300 - 2,5	กด้าวโฮยพ.ะ			emate. History
	្តនាការប្រជុំប្រធន្ត ។ «ខាត់ការប្រជុំប្រធន្ត ។			67,800
Intangible assets.	1			
Goodwiii	ra armente e	AF1 802 22 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2 2		30,000
Balance sheet of P	Lta. as on	31.3.199		Rs.
2/52.1	Bleet	ALLA	Note No.	aduil
Equity and Liabilities:		Last de la Contraction de la C	processor processor and	Market and productive and transport of the
(i) Shareholders funds:			1 1	1,35,000
Share capital		l con oo t	None C	a Si
Reserves and surplus	000,00,7	ENUMA, P	noes ()	% Prefice
(ii) Non-current liabilities:	That they			in isoletla
Long term borrowings	G00.00.6-	I want to the same		P. CO.
(iii) Current liabilities:	000015	THAT SELLEN	2	7,00 1,42,00
Trade payables Total (i) + (ii) + (iii)	for and	2001000		23,12,5
I. Assets:		1.1.	F No.	DITTO STATE
(i) Non- current assets:	and the second second	DROBE	3	67,80
Tangible assets	WOOR !	(AN)	4	30,00
Intangible assets	Try mon	OSU EST	VI.	N
(ii) Current assets:	W. W. W.	- Farmer	a louing	27,00
		a construction	a we start	13,20
To de receivables (debtors)	solia e bred	LA CONTRACTOR	to interior	4,0
	- 10 10 1		on Actor	1,42,0
Bank	IM.1			

Amalgamation, Absorption and External Reconstruction Absorption – Net assets Method

10.71

Illustration 13

Following is the Balance Sheet of K Ltd. as on 31.12.1980

Liabilities	Rs.	2.1980	
2,000 shares of Rs. 10 each fully paid profit & Loss A/c	20,000	Soodwill	Rs. 4,000
Debentures Debentures	10000	- Acu assets	16,500
Creditors	3,000	Current assets	19,500
a Limited agreed to take over the	40,000	of state of the st	40,000

to take over the assets of K. Ltd. (exclusive of one fixed asset of Rs. 4,000 and cash Rs. 1,000 included in current assets) at 10% more than the book values. It agreed to take over creditors also. The purchase price was to be discharged by the issue of 2,000 shares of Rs. 10 each at the market value of Rs. 15 each and the balance in cash. Liquidation expenses came to Rs. 400.

K Ltd. sold the fixed asset of Rs. 4,000 and realised the book value. It paid off its debentures and liquidation expenses.

You are required to give journal entries in the books of K Ltd. and R Ltd.

[Periyar, B.Com., April 2005] [Madras, B.Com (AF) Ap. 2009; M.Com., (ICE) (PCMA) April 2007; April 2007, Oct. 2006; Bangalore, B.Com., Nov. 1989]

Solution:

Books of K Ltd. (Transferor company) Journal entries manage and any good and

Date	Particulars	L.F.	Dr	Cr
		and to transport	Rs.	Rs.
31.12.80	Realisation A/c Di		39,000	
if A.	To Goodwill	14 .500	Mark Control	4,000
13-5	To Fixed assets	15 72	navu, si.	16,500
	To Current assets (19,500 – 1,000)	for the d	Henry and	18,500
13	[Being transfer of assets to realisation except	0.007	ell live book	in the second
	cash of Rs. 1,000]	1 18 4	node block	
(de	Creditors A/c	r A	3,000	3,000
	To Realisation A/c	harge'	TIME OF	3,000
	[Being transfer of liability taken over]	1,7194	35,500	Times of the
	R Ltd. A/c	4 1/13	de est juriadi	35,500
	To Realisation A/c	in Ems	caso lo mui	
22	[Being purchase price receivable]	or the contract	5,500	The state of the s
"	Bank A/c	2. 10	30,000	
	Shares in R Ltd. A/c	"	30,0	35,500
	To R Ltd. A/c			
	[Being purchase price received]			

	1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	Dr 4.000			
10.72		Dr		4,000	- Auting
"	Bank A/c To Realisation A/c [Being fixed asset not taken over realised] [Bealisation A/c	Dr Dr		400 10,000	4,000
30	Debentures A/c To Bank A/c [Being payment of expenses and discharge	O Car	** 31	是"在"的 "力"。这	10,400
00 01 00 2 01	of debentures] Share capital A/c Profit & Loss A/c	Dr Dr		20,000 7,000	
A Ti	To Shareholders A/c [Being transfer of capital and accumulated prof	fit]	· Ex	3,100	27,000
22 (o i]	Realisation A/c To Shareholders A/c Being profit on realisation]	Maria Control	N 1518 _		3,100
" L	hareholders A/c	Dr	2	30,100	
bind re	To Bank A/c To Shares in R Ltd. A/c Being final payment to the shareholders]	BRES.		O. bless	30,000

Books of R Ltd. (Transferee company) Journal Entries

Date	Particulars Particulars	The property	L.F.	Dr	Cr
} * E7 *3	a tem in disendance forme its comme	made		Rs.	Rs.
31.12	.80 Business purchase A/c	Dr		35,500	HILDRIN
	To Liquidator of K Ltd. A/c	J M lo exe	14		35,500
	[Being purchase price payable]	16			
"	Fixed assets A/c	Dr		13,750	
time of 1	Current assets A/c	Dr	Medical and angel	20,350	
	Goodwill A/c	Dr		4,400	
A.J.R.	To Creditors A/c		2.0	POTS HUSTEL	3,000
	To Business purchase A/c		HY		35,500
P KI	[Being assets and liabilities taken over and	12 01	The same	richt fal	33,300
	goodwill thereon]	ar estama	F	1111	
"	Liquidator of K Ltd A/c	najon a i i	ESPECTOR OF	四月 是以其情。	
	To Bank A/c	Dr	All hadron	35,500	
	To Share capital A/c (2,000 × 10)	45 × 4	3	* (JID5*)	5,500
	To Securities premium A/c (2,000 × 10) [Being payment of	Villa als	J (8)	bank to	20,000
35	L TO MUNICIPALITY OF MANAGES			C SIMPLE	10,000
1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	form of cash and shares]	11.46	in a H	and at	
	All the second s		100	rest of	

av bulk niger, and

Norking notes: Working notes: Purchase consideration (net asset) purchase dwill (4,000 + 400)	s method	Carrier of the Control of the Control	growth
Wolfe consider we	4411/61	William I was a series of the	l Rs
Goodwill (4,000 + 400)	and the second section of the second	and the state of t	4,400
G000W12 (16 500 - 4	1.000 + 1	250)	13,750
gurrent assets (199	- 1,000 +	- 1,850)	20,350
Gross assets taken		chain of Fr. 100 each	38,500
1.4/ATT NEW YORK TO A STATE OF THE STATE OF	4 PAGE		3,000
less. Not assets or Purchase C	considera	tion	35,500
chares to be given (2,00	0×15	en A (a ducerior).	30,000
Cash to be given (bal. fig	g)	a souther	5,500
Cash to stustated			35,500
n i A	Realisa	ntion A/c	
TOTAL TO COS AND JUST 1	Rs.	DIAM OF YOUR TORING IS THE BASE	Rs.
1 accets	39,000	By Creditors	3,000
Sundry assets Bank (expenses)	400	By R Ltd. (Purchase price)	35,500
Shareholders (profit) (bal. fig)	3,100	By Bank (fixed assets)	4,000
Sharenord	42,500	f share copitel and reserve.	42,500
of the fatter with i	· top-owish it	k A/c	
and the state of t	Rs.	or somethic soft by a more of the f	Rs.
	1,000	By Realisation (Expenses)	400
Balance b/d	O warter	By Debentures	10,000
(part of current assets)	4,000	By Shareholders (Bal. Fig.)	100
Realisation (Fixed Assets) R Ltd.	5,500		10,500
The state of the s	10,500	N. Arthird V.	10,500
the following and the second of the second o	Shareho	lders A/c	Rs.
· · · · · · · · · · · · · · · · · · ·	Rs.		20,000
Bank	100	By Share capital	7,000
	30,000	D. D&IA/C	3,100
Shares in R Ltd.	30,000	By Realisation (Profit)	30,100
The second secon	30,100	Service of the servic	3/
		2 - 2 - 2 - 2 - 2 - 2 - 2 - 2 - 2 - 2 -	A comment

External reconstruction – Net payment method Illustration 21

Given below is the Balance Sheet of Hard Luck Ltd. as at 31st March 1995 Balance Sheet

Liabilities	Rs.	Assets	Rs.
40,000 shares of Rs. 10 each fully paid Creditors	4,00,000 3,00,000	TATACITATION Y	3,20,000 1,30,000 70,000 1,20,000
	7,00,000	Preliminary expenses Profit & Loss A/c	500 5,000 54,500 7,00,000

Amalgamation, Absorption and External Reconstruction following scheme of reconstruction

The following scheme of reconstruction was arranged: The company to go into liquidation and a new company, Lucky Ltd. with

The company, Lucky Ltd. with an authorised capital of Rs. 8,00,000 to be formed to take over the assets and liabilities.

preferential creditors of Rs. 10,000 included in the above Balance Sheet

are to be paid in full.

Unsecured creditors to receive either (a) 50 per cent of their claim in cash Unsecured the per cent debentures in the new company, equivalent to their of (b) 6 per cent debentures in the new company, equivalent to their claims at par. Shareholders in Hard Luck Ltd. to be allotted one share in the new company

of Rs. 10 each, Rs. 5 paid for every existing share held by them.

Reconstruction costs amounting to Rs. 6,000 to be paid by Hard Luck Ltd. from cash made available by the new company.

Half of the unsecured creditors in value opted out for immediate cash payment for which purpose necessary cash was made available by the new company which made a call of Rs. 5 each on the partly paid shares allotted as aforesaid. The new company valued all assets (except Land & Buildings) taken over from Hard Luck Ltd. at book values.

Prepare the Balance Sheet of the new company after the above transactions are concluded.

[Madras, 1st M.Com., (CAIA) Ap. 2007; M.Com., Oct. 1998]

Solution:

Notes to Accounts:	Rs.
1. Share capital:	Carle of A
Authorized capital: 80,000 shares of Rs.10 each	8,00,000
Issued and paid up capital: 40,000 shares of Rs.10 each	4,00,000
2. Long term borrowings: 6% Debentures	1,45,000
3. Tangible assets.	1 12 000
Land & buildings Plant & machinery	1,13,000 1,30,000 2,43,000

10.08	t of Lucky Ltd. as on 31.3.1995	Accountin
10.98	Balance sheet of Lucky Ltd. as on 31.3.1995 Note No.	$\overline{}$
i Kine		Rs.
I. Equity and L	iabilities:	10.
I. Equity and —	olders' funds:	
Sh	are capital	4.00
Re	serves and surplus	4,00,00
(ii) Non-cu	rrent liabilities:	
Long tel	m borrowings 2	1,45
(iii) Current	liabilities:	1,45,00
Trade pa	ayables	
Total Total	al (i) + (ii) + (iii)	5,45,00
II. Assets:	e electron de la companie de la comp	3.5,00
(i) Non-cur	rent assets:	
Tangible	assets and burg virusq and mo Mano 2 43 43	2.40
Intangible	e assets will a board topoxa) eassets the bout a grace of	2,43,00
(ii) Current a	ssets:	
Stock	he Be a ce Sheet of the new company after the a	
Trade rec	eivables (debtors)	70,00
Cash and		1,20,00
Total (i) +	(ii)	1,12,00
orking Note 1:	d 1/03/16/04	5,45,00

Working Note 1:

Calculation of Purchase consideration

For Shareholders, $40,000 \times 5 = \text{Rs. } 2,00,000$

Working Note 2:

Value of Land & Buildings

O CO	
Purchase consideration for shareholders Claims to be settled by Lucky Ltd., after taking over: Preferential Creditors (Cash)	Rs. 2,00,000
Unsecured Creditors (Cash) 2,90,000 × 50 × 50	72,500
Reconstruction expenses to be reimbursed Total Payments to be made by Lucky Ltd. Less: Plant & Machinery	1,45,000 6,000 4,33,500

Stock Debtors Cash 1,20,000 500	grade patricing make and
	1881
	3,20,500
Land & Building (Bal. Fig.)	1,13,000

Except Land and Buildings, all other assets are taken at Book values. So, Land and Buildings must be the Balancing figure in the above calculation.

2. As per AS-14 purchase consideration should include Cash and securities given by transferee company to the shareholders of Transferor company. So, Preferential Creditors and Unsecured Creditors should be transferred to the purchasing company in whose books payment can be shown.

Balance of Cash and Bank

Cash and Bank A/c

The was to that was	Rs.	" MAN FOREST SARDES SE SEE SEE SEE SEE	Rs.
Business purchase A/c	500	By Preferential Creditors	10,000
Share capital A/c	2,00,000	By Unsecured Creditors	72,500
and the second section of the section o		By Reconstruction Expenses	6,000
and the state of t	The state of the s	By Balance c/d	1,12,000
1 21 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1 1	2,00,500	A SA STATE OF THE SAME OF THE	2,00,500

Alteration of Share Capital and Internal Reconstruction

Illustration 6 (Surplus in Capital Reduction Account)

18 Company Ltd. passed resolve: ABC Company Ltd. passed resolution and got Court permission for the ABC COLL AND COURT Permission for the reduction of its share capital by Rs. 5,00,000 for the purposes mentioned as under: To write off the debit balances of P & LA/c of Rs. 2,10,000.

To reduce the value of Plant & Machinery by Rs. 90,000 and goodwill by

Rs. 40,000.

To reduce the value of investments by Rs. 80,000.

(iii) The reduction was made by converting 50,000 preference shares of Rs. 20 each fully paid to the same number of preference shares of Rs. 15 each fully paid and by converting 50,000 equity shares of Rs. 20 each on which Rs. 15 is paid up into 50,000 equity shares of Rs. 10 each fully paid up.

Pass journal entries to record the share capital reduction.

[Periyar, B.Com, Ap. 2006; Bharathiar, B.Com., Ap. 2005] [Madras, B.Com., (G & AF); Nov. 2011; Ap. 2010, B.Com., (AF) Nov. 2009; B.Com (PZ3A) and (SY3B) Nov. 2010; Ap. 2008; B.Com (ICE) Oct. 2007; M.Com (ICE) Oct. 2006; B.Com., (PZG) Nov. 2005; Oct. 2004]

Solution:

Books of ABC Ltd.

Journal entries

Date	Particulars	L.F.	Dr.	Cr.
(1) J	Action 19 to the second second		Rs.	Rs.
	Preference Share Capital A/c (Rs. 20) Dr		10,00,000	
	To Preference Share Capital A/c (Rs. 15)	a de la constante de la consta	A STATE OF THE PARTY OF THE PAR	7,50,000
plust' .	To Capital Reduction A/c	arin di	aprilation of the state of	2,50,000
	[Being conversion of 50,000 shares of Rs. 20 each			. Aller 1081
	fully paid into shares of Rs. 15 each fully paid and			
	the balance transferred to capital reduction A/c]	- 1 A E		
	Equity share capital (partly paid) A/c Dr		7,50,000	
	To Equity Share Capital (fully paid) A/c			5,00,000
	To Capital Reduction A/c		200	2,50,000
	Being conversion of partly paid shares into fully paid	20 4	i garak of Samma	
	shares and balance transferred to capital reduction A/c			
	Capital Reduction A/c Dr		5,00,000	
	To Profit & Loss A/c			2,10,000
	To Plant & Machinery A/c			90,000
	To Goodwill A/c		H. Walls	40,000
	To Investments A/c		Amores	80,000
	To Capital Reserve A/c (Balancing figure)		har towned	80,000
	[Being losses written off, assets written down and	i don	. 12. 31.	T
	balance of capital reduction transferred to capital	(lat	C - CTT	* Y

9.15

ustration 7
The following scheme of reconstruction has been approved for Divya Ltd. he following scheme of reconsultations of their present holding of 60,000.

The shareholders to receive in lieu of their present holding of 60,000. Illustration 7

shares of Rs. 10 each fully paid the following: snares of KS. 10 each raily paid.

(i) Fully paid new equity shares equal to 1/3 rd of their holding.

(i) Fully paid new equity snares equity paid, to the extent of 1/5th of the above (ii) 8% preference shares fully paid, to the extent of 1/5th of the above

new equity shares.

(III) Rs. 60,000 870 secured decontrary.

2. The debentureholders' total claim of Rs. 75,000 to be reduced to Rs. 25,000. This will be satisfied by the issue of 2,500 8% preference shares of Rs. 10 3. An issue of Rs. 50,000 6% first debentures was made and allotted, payment

for the same having been received in cash.

The goodwill which stood at Rs. 3,00,000 was written down to Rs. 50,000. Plant & Machinery which stood at Rs. 1,00,000 was written down to Rs. 75,000.

The freehold premises which stood at Rs. 1,75,000 was written down by

Give journal entries in the books of Divya Ltd. for the above reconstruction [Mysore, B.Com.] scheme.

Solution:

Books of Divya Ltd. Journal entries

Date	Particulars	L. F.	Dr.	Cr.
the an	Equity share capital (Rs. 10) A/c To Equity Share Capital (new) (Rs. 10) A/c To 8% Preference Share Capital A/c (2,00,000 × 1/5) To 8% Secured Debentures A/c To Capital Reduction A/c For issue of Rs. 2,00,000 equity shares, Rs. 40,000 % pref. shares, Rs. 60,000 8% debentures in lieu of eir present held capital and transferring balance nount of old share capital to capital	is of the control of	Rs. 6,00,000	Rs. 2,00,000 40,000 60,000 3,00,000
[Fo	bentures A/c To 8% Preference Share Capital A/c To Capital Reduction A/c Treducing the claim of debenture holders to [25,000] and transferring balance amount to capital action A/c]	wie a W ale Dirpo	75,000	25,000 50,000

Capital Reduction A/c Dr	R I I	3,50,000	
To Goodwill A/c		tris in the season	2,50,000
To Plant & Machinery A/c			25,000
To Freehold Premises A/c		1011 Table	75,000
[For reducing the value of various assets		and the second second	and the second second
as per the capital reduction scheme]			
Bank A/c Dr	F 19.14	50,000	
To 6% first debentures A/c		Market Comment	50,000
[For new issue of debentures]			

Illustration 12 (Pro-rata write off of assets)
The Balance sheet of Nipun Ltd. on 31st March 1996 was as follows:

IIIC But			
Liabiliti es	Rs.	Assets	Rs.
8% preference shares of Rs. 10 each	50,000	Goodwill	90,000
8% presciones shares of Rs. 10 each Equity shares of Rs. 10	2,50,000	Land & Buildings	1,40,000
General reserve	20,000	Machinery	37,500
6% Debentures (Rs. 100 each)	20,000	Furniture	15,000
Bank overdraft	28,500	Preliminary expenses	1,000
Creditors	40,000	Profit & Loss A/c	1,25,000
Cloure	4,08,500	ur graera le localita	4,08,500
		* * * * * * * * * * * * * * * * * * *	

The capital reduction scheme, approved by the Court is as under:

(i) Holders of 6% debentures of Rs. 100 are to be given 8% debentures of Rs. 50 and preference shares of Rs. 10 each of equal amount, for the remaining amount of Rs. 5

(ii) The value of all preference shares including the preference shares given to debentures as shown above, is to be reduced to Rs. 6 and dividend rate is to be increased upto 9%.

(iii) The value of equity shares is to be reduced to Rs. 2 each.

(iv) The existing equity shareholders are to purchase additional equity shares of Rs. 1,00,000 for cash to pay off the bank overdraft.

(v) All fictitious and intangible assets are to be written off and Machinery and furniture are to be written off in proportion of book values, with the help of general reserve and capital reduction A/c.

Pass necessary journal entries in the books of the company to record the above transactions. Prepare the company's balance sheet after such changes.

[Madras, B.Com., B.Com(CS) Ap. 2009; 2nd M.Com (ICE) Oct. 2000; B.Com. Oct. 1999; Gujarat B.Com 9.27

Solution:

Books of Nipun Ltd.

Journal entries

The state of the	Particulars	The same of the same	L.F.	Dr.	Cr.
Da	ate Auros A/c	Dr	i oktij	Rs. 20,000	D
31.3.9	6 6% Debentures A/c To 8% Debentures A/c To 8% Preference Share Capital A/c [For giving 8% debentures and 1,000 8% preshares of Rs. 10 each to debentureholders	reference	aldig erose i	inte inteni	10,000
9 ,,	for their claims] 8% Preference Share Capital A/c To 9% Preference Share Capital A/c To Capital Reduction A/c	Dr	oat au	60,000	36,000
	[For converting 8% preference shares of Rs. into shares of Rs. 6 each and transferring the to capital reduction]	10 each balance	5576	121 no	24,000
31.3.96	Equity Share Capital A/c	Dr	2,	00,000	Dr. 3
\$ () \ ()	To Capital Reduction A/c [For reducing equity shares of Rs.10 into Rs.	2 each]	sall	०० गर्ने ० गर्ने	2,00,000
The same	Bank A/c	Dr	11.0	00,000	ist mod
•	To Equity Share Capital A/c [For issue of 50,000 equity shares of Rs. 2 each to existing equity shareholders]	0 99 941		es un Haubts Pa	1,00,000
89201	Bank overdraft A/c To Bank A/c For repayment of Bank O/D]	Dr	2	8,500	28,500
	Capital Reduction A/c	TIC CEEL	and !	Utabili	
	To Goodwill A/c	Dr Dr		,000	(11)
tide v lui	To Preliminary expenses A/c To P& L A/c	rone il en Qui belene Vitalie re	nuu s Note Sala	debet Totel	90,000 1,000
	Starcholine of the country design	din so		.1,	25,000
	To Machinery A/c $\left(28,000 \times \frac{37.5}{52.5}\right)$	n Day Sar	ediso	And The	20,000
re-	To Furniture A/c $\left(28,000 \times \frac{15}{52.5}\right)$	Of the least	ngio Ngia	Total s	8,000
dow	r writing off the various losses and writing on assets as per capital reduction scheme?		wedh. Luk Yarda	7911 (746) 1901 (1903) 1824 (1903)	OUE

to Accounts: The capital: Issued and paid up capital 75,000 Equity shares of Rs.2 each	Rs.
75,000 Equity 6,000, 9% pref.shares of Rs.6 each	1,50,000 36,000
dente torna	1,86,000
g term liabilities: 8% Debentures (Rs.50)	10,000
de payables: Creditors	40,000
Land and buildings	1,40,00
Machinery Furniture	17,500 7,00
te 'es autre in te be excipançed fige filte jan i se e estadoria	1,64,50

Balance sheet of Nipun Ltd. as on 31.3.1996 (and reduced)

coults share in the radianced to Ke. 21.50	Note No.	Rs.
I. Equity and Liabilities:	who all	1) 5 (A)).
(i) Shareholders' funds:	it each.	
Share capital Share capital	ide in the	1,86,000
Reserves and surplus	TE DE TO	3°C.1
(" Name assembly bighilities"	- i.i.	end
Long term borrowings	2 2 2	10,000
(iii) Current liabilities		1 Gottalibe
Trade payables	3	40,000
Total (i) + (ii) + (iii)		2,36,000
II. Assets:	The constitution of excepts the entire particular particular constitution of the const	A State
(i) Non- current assets: Tangible assets Intangible assets	aion :4 eci essoni	1,64,500
(ii) Current assets:	L. J. AT	71,500
Cash Total (i) + (ii)		2,36,000