

# **Amalgamation, Absorption and External Reconstruction**

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Alpha and Beta amalgamated on 1st April 2001. A New company Gamma Ltd. was formed to takeover the business of the existing companies. The Balance sheets of Alpha Ltd. and Beta Ltd. as on 31st March 2001 are given below:

Liabilities	Alpha Ltd.	Beta Ltd.	Assets	(Rs. in Lakhs)	
				Alpha Ltd.	Beta Ltd.
Share capital			Fixed Assets	1,200	1,000
Equity shares of Rs. 100 each	1,000	800	Current Assets,		
15% Pref. Shares of Rs. 100 each			Loans and Advances	880	565
Reserves and Surplus :					
Revaluation Reserve	400	300			
General Reserve	100	80			
P&L A/c	200	150			
Secured Loan :	80	60			
12% Debentures of Rs. 100 each	96	80			
Current Liabilities & Provisions	204	95			
	<u>2,080</u>	<u>1,565</u>		<u>2,080</u>	<u>1,565</u>

**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.
- (iii) 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 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:**

	Rs. in lakh
<b>1. Share capital:</b>	
Issued and paid up capital	
Equity shares of Rs.100 each	2,300
15% pref.shares of Rs.100 each	700
	3,000
<b>2. Reserves and Surplus:</b>	
Revaluation reserve (100 + 80)	180
General reserve (W.N 3)	-
Profit & loss a/c (W.N 3)	34
	214
<b>3. Long term borrowings:</b>	
16% Debentures of Rs.100 each (W.N 2)	132
<b>4. Tangible assets:</b>	
Fixed assets (1,200 + 1,000)	2,200

**Balance sheet of Gamma Ltd. as on 1.4.2001**

	Note No.	Rs. in lakh
<b>I. Equity and Liabilities:</b>		
(i) Shareholders' funds:		
Share capital	1	3,000
Reserves and surplus	2	214
(ii) Non- current liabilities:		
Long term borrowings	3	132
(iii) Current liabilities ( 204 + 95)		299
Total (i) + (ii) + (iii)		3,645
<b>II. Assets:</b>		
(i) Non- current assets:		
Tangible assets		2,200
Intangible assets		-
(ii) Current assets: ( 880 + 565)		1,445
Total (i) + (ii)		3,645

Working Note 1

### Purchase Consideration

	Rs. in Lakhs		
	Alpha Ltd.	Beta Ltd.	Total
Equity shares for shareholders of Alpha Ltd. (1,000 × 1.5)	1,500	—	1,500
Equity shares for shareholders of Beta Ltd. (800 × 1)	—	800	800
Preference shares for shareholders of Alpha Ltd. & Beta Ltd.	400	300	700
Purchase consideration Share Capital of Transferor Co.,s Alpha & Beta	1,400	1,100	2,500
Excess of Purchase consideration over share capital			500

Working Note 2

### Settlement of Debentures of Transferor Companies

	Rs. in Lakhs		
	Alpha	Beta	Total
Value of Debentures issued by Gamma Ltd.	$96 \times \frac{12}{16} = 72$	$80 \times \frac{12}{16} = 60$	132
Face Value of Debentures of Transferor Co.,s	96	80	176
Excess of Face Value of Debentures settled over value of debentures issued.	(24)	(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

	Rs. in Lakhs	
	General Reserve	P&L A/c
Alpha Ltd.	200	80
Beta Ltd.	150	60
	350	140



*Less* : Excess Payment to be adjusted

350

106

Balance to be shown in Balance sheet

-

34

Excess payment of purchase consid...

**Illustration**

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

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

Liabilities	Thick Ltd.	Thin Ltd.	Assets	Thick Ltd.	Thin Ltd.
	(Rs.)	(Rs.)		(Rs.)	(Rs.)
Share Capital :			Goodwill	2,00,000	60,000
Authorised	15,00,000	5,00,000	Plant &		
Issued & Subscribed			Machinery	4,12,000	1,00,000
Eq. Shares of Rs. 10			Furniture	80,000	30,000
each fully paid	9,00,000	2,00,000	Stock in trade	2,65,500	60,000
General Reserve	1,80,000	50,000	Sundry Debtors	2,21,200	46,000
Profit & Loss A/c	20,502	12,900	Prepaid Insurance	-	700
Workmen's			Income Tax refund	-	6,000
compensation Fund	12,000	9,000	claim		
Sundry Creditors	58,567	30,456	Cash in hand	869	356
Staff Provident Fund	10,200	4,000	Cash at Bank	14,000	8,300
Provision for Tax	12,300	5,000			
	<u>11,93,569</u>	<u>3,11,356</u>		<u>11,93,569</u>	<u>3,11,356</u>

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 of Thin Ltd.
- (ii) Pass the necessary journal entries in the books of Thick Ltd., and
- (iii) 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	Rs.
31-3-99		31-3-99	
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 Ltd. (Purchase price)	5,000
To Sundry Debtors	46,000		4,00,000
To Prepaid Insurance	700		
To I.T. Refund claim	6,000		
To Cash in hand	356		
To Cash at bank	8,300		
To Equity shareholders	1,28,100		
	<u>4,39,456</u>		<u>4,39,456</u>

Equity Shareholders A/c

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

Amalgamation Expenses are not recorded in the selling Company's books because the purchasing company pays them and it is payable to the amount



**Solution :**

**In the books of Thin Ltd. (Selling Co.)**

**Realisation A/c**

<i>Particulars</i>	<i>Rs.</i>	<i>Particulars</i>	<i>Rs.</i>
31-3-99		31-3-99	
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 Ltd. (Purchase price)	5,000
To Sundry Debtors	46,000		4,00,000
To Prepaid Insurance	700		
To I.T. Refund claim	6,000		
To Cash in hand	356		
To Cash at bank	8,300		
To Equity shareholders	1,28,100		
	<u>4,39,456</u>		<u>4,39,456</u>

**Equity Shareholders A/c**

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

**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.



**Books of Thick Ltd. (Purchasing Company)**  
**Journal Entries**

Date	Particulars	L.F.	Debit Rs.	Credit Rs.
1993 March 31	Business Purchase A/c To Liquidator of Thin Ltd. [Being purchase consideration payable as per agreement]	Dr	4,00,000	4,00,000
"	Goodwill A/c	Dr	60,000	
"	Plant & Machinery A/c	Dr	1,00,000	
"	Furniture A/c	Dr	30,000	
"	Stock A/c	Dr	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	
"	To Workmen's Compensation Fund A/c			9,000
"	To Sundry Creditors			30,456
"	To Staff Provident Fund			4,000
"	To Provision for Taxation			5,000
"	To Business Purchase A/c			4,00,000
"	[Being assets & liabilities takeover and excess of purchase price over share capital of Thin Ltd. adjusted in General Reserve, after adjusting 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]			



Liquidator of Thin Ltd. A/c	Dr	4,00,000	
To Equity Share Capital A/c			4,00,000
[Being purchase price paid in the form of 40,000 equity shares of Rs. 10 each at par]			
General Reserve A/c	Dr	1,000	
To Bank A/c			1,000
[Being Amalgamation expenses paid]			

**Working Note 1**

Amount to be adjusted in general reserve of Thick Ltd. (Purchasing Co.,)

	Rs.	Rs.
Purchase consideration payable to shareholders of Thin Ltd.		4,00,000
Less : Paid up capital of Thin Ltd.		2,00,000
		<hr/>
		2,00,000
Less : General Reserve of Thin Ltd.	50,000	
P&L A/c of Thin Ltd.,	12,900	
	<hr/>	
		62,900
Amount to be debited to General Reserve of Thick Ltd.		<hr/>
		1,37,100

**Working Note 2**

Thick Limited's general reserve to be shown in balance sheet

	Rs.
Thick Ltd.'s general reserve (given)	1,80,000
Less : Amount debited towards excess of purchase price over share capital of Thin Ltd.,	1,37,100
	<hr/>
Less : Amount debited towards amalgamation expenses	42,900
	1,000
General Reserve of Thick Ltd., after amalgamation	<hr/>
	41,900



	Rs.
<b>1. Share capital:</b>	
<b>Authorized capital:</b>	
1,50,000 shares of Rs.10 each	
<b>Issued, subscribed and paid up capital:</b>	15,00,000
1,30,000 shares of Rs.10 each	
<b>2. Reserves and Surplus:</b>	13,00,000
General reserve (W.N 2)	41,900
Profit & loss a/c	20,502
Workmen compensation fund	21,000
	83,402
<b>3. Trade payables:</b>	
Sundry creditors	89,023
<b>4. Short term provisions:</b>	
Provision for taxation	17,300
Staff provident fund	14,200
	31,500
<b>5. Tangible assets:</b>	
Plant & Machinery	5,12,000
Furniture	1,10,000
	6,22,000
<b>6. Intangible assets:</b>	2,60,000
Goodwill	
<b>7. Short term loans and advances:</b>	700
Prepaid insurance	6,000
Income tax refund claim	6,700

## Balance sheet of Thick Ltd. as on 31.3.1999

	Note No.	Rs. in lakh
<b>I. Equity and Liabilities:</b>		
(i) Shareholders' funds:		
Share capital	1	13,00,000
Reserves and surplus	2	83,402
(ii) Non-current liabilities:		
Long term borrowings		
(iii) Current liabilities :		
Trade payables	3	89,023
Short term provisions	4	31,500
Total (i) + (ii) + (iii)		15,03,925
<b>II. Assets:</b>		
(i) Non-current assets:		
Tangible assets	5	6,22,000
Intangible assets	6	2,60,000
(ii) Current assets:		
Stock		3,25,500
Trade receivables ( debtors)		2,67,200
Cash in hand		1,225
Cash at bank		21,300
Short term loans and advances	7	6,700
Total (i) + (ii)		15,03,925



## Amalgamation – Net assets method

1,26,000

### Illustration 9

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

Liabilities Rs.	M		N	
	Rs.	Rs.	Rs.	Rs.
Share capital Rs. 25 each	75,000	50,000	Goodwill	30,000
P & L A/c	7,500	2,500	Fixed assets	31,500
Creditors	3,500	3,500	Stock	15,000
Depreciation fund	—	2,500	Debtors	8,000
			Bank	1,500
	<u>86,000</u>	<u>58,500</u>		<u>86,000</u>
				<u>58,500</u>

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

[Periyar, B.Com., Ap. 2005; Bharathiar, B.Com., Ap. 2005; Nov. 2004] [Madras, B.Com.(AF) Ap. 2009; 1st M.Com., Ap. 2008; B.Com., Nov. 2007 (10 Times)]

**Solution:**

**Statement showing purchase consideration (net assets)**

Particulars	M Ltd.		N Ltd.	
	Rs.	Rs.	Rs.	Rs.
Sundry assets taken over		86,000		58,500
<i>Less: Liabilities:</i>				
Creditors	3,500	3,500	3,500	
Depreciation fund	—		2,500	6,000
		<u>82,500</u>		<u>52,500</u>
Purchase consideration				
<i>Less: Equity shares issued</i>				
equally $\left(\frac{1,00,000}{2}\right)$		50,000		50,000
Value of preference shares issued		<u>32,500</u>		<u>2,500</u>

**Books of P Ltd. (Transferee company)**

**Journal entries**

Date	Particulars	L.F.	Dr	Cr
			Rs.	Rs.
31.3.97	Business purchase A/c	Dr	1,35,000	
	To Liquidator of M Ltd.			82,500
	To Liquidator of N Ltd.			52,500
	[Being purchase price payable to the vendor companies]			
"	Fixed assets A/c	Dr	70,300	
	Stock A/c	Dr	27,000	
	Debtors A/c	Dr	13,200	
	Bank A/c	Dr	4,000	
	Goodwill A/c	Dr	30,000	
	To Creditors A/c			7,000
	To Depreciation fund A/c			2,500
	To Business purchase A/c			1,35,000
	[Being assets and liability taken over from M Ltd. and N Ltd. and goodwill thereon]			
"	Liquidator of M Ltd. A/c	Dr	82,500	
	To Equity share capital A/c			50,000
	To 9% preference share capital A/c			32,500
	[Being payment of purchase price]			
"	Liquidator of N Ltd. A/c	Dr	52,500	
	To Equity share capital A/c			50,000
	To 9% preference share capital A/c			2,500
	[Being payment of purchase price]			



1. Share capital:

Authorized capital:

10,000 Equity shares of Rs.10 each

10,000 9% Pref.,shares of Rs.10 each

Issued and paid up capital:

10,000 Equity shares of Rs.10 each

3,500 9% Pref.,shares of Rs.10 each

(all the above shares were issued for consideration other than cash to vendors)

2. Trade payables:

Creditors

3. Tangible assets:

Other fixed assets (70,300 – 2,500)

4. Intangible assets:

Goodwill

Rs.

1,00,000

1,00,000

1,00,000

35,000

1,35,000

7,000

67,800

30,000

**Balance sheet of P Ltd. as on 31.3.1997**

	Note No.	Rs.
<b>I. Equity and Liabilities:</b>		
(i) Shareholders' funds:		
Share capital	1	1,35,000
Reserves and surplus		
(ii) Non- current liabilities:		
Long term borrowings		
(iii) Current liabilities :		
Trade payables	2	7,000
Total (i) + (ii) + (iii)		1,42,000
<b>II. Assets:</b>		
(i) Non- current assets:		
Tangible assets	3	67,800
Intangible assets	4	30,000
(ii) Current assets:		
Stock		27,000
Trade receivables (debtors)		13,200
Bank		4,000
Total (i) + (ii)		1,42,000



## Illustration 13

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

Liabilities		Assets	
	Rs.		Rs.
2,000 shares of Rs. 10 each fully paid	20,000	Goodwill	4,000
Profit & Loss A/c	7,000	Fixed assets	16,500
Debtors	10,000	Current assets	19,500
Creditors	3,000		
	<u>40,000</u>		<u>40,000</u>

R Limited agreed 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 debtors 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**

Date	Particulars	L.F.	Dr	Cr
			Rs.	Rs.
31.12.80	Realisation A/c <span style="float:right">Dr</span>		39,000	
	To Goodwill			4,000
	To Fixed assets			16,500
	To Current assets (19,500 – 1,000)			18,500
	[Being transfer of assets to realisation except cash of Rs. 1,000]			
"	Creditors A/c <span style="float:right">Dr</span>		3,000	
	To Realisation A/c			3,000
	[Being transfer of liability taken over]			
	R Ltd. A/c <span style="float:right">Dr</span>		35,500	
	To Realisation A/c			35,500
	[Being purchase price receivable]			
"	Bank A/c <span style="float:right">Dr</span>		5,500	
	Shares in R Ltd. A/c <span style="float:right">Dr</span>		30,000	
	To R Ltd. A/c			35,500
	[Being purchase price received]			



10.72

		Dr	4,000	
"	Bank A/c To Realisation A/c [Being fixed asset not taken over realised]			4,000
"	Realisation A/c Debentures A/c To Bank A/c [Being payment of expenses and discharge of debentures]	Dr Dr	400 10,000	10,400
"	Share capital A/c Profit & Loss A/c To Shareholders A/c [Being transfer of capital and accumulated profit]	Dr Dr	20,000 7,000	27,000
"	Realisation A/c To Shareholders A/c [Being profit on realisation]	Dr	3,100	3,100
"	Shareholders A/c To Bank A/c To Shares in R Ltd. A/c [Being final payment to the shareholders]	Dr	30,100	100 30,000

**Books of R Ltd. (Transferee company)**

**Journal Entries**

Date	Particulars	L.F.	Dr	Cr
			Rs.	Rs.
31.12.80	Business purchase A/c To Liquidator of K Ltd. A/c [Being purchase price payable]	Dr	35,500	35,500
"	Fixed assets A/c Current assets A/c Goodwill A/c To Creditors A/c To Business purchase A/c [Being assets and liabilities taken over and goodwill thereon]	Dr Dr Dr	13,750 20,350 4,400	3,000 35,500
"	Liquidator of K Ltd A/c To Bank A/c To Share capital A/c (2,000 × 10) To Securities premium A/c (2,000 × 5) [Being payment of purchase price in the form of cash and shares]	Dr	35,500	5,500 20,000 10,000



**Amalgamation**  
**Working notes:**  
**Purchase consideration (net assets method)**

Goodwill (4,000 + 400)	Rs. 4,400
Fixed assets (16,500 - 4,000 + 1,250)	13,750
Current assets (19,500 - 1,000 + 1,850)	20,350
Gross assets taken	<u>38,500</u>
Less: Creditors	3,000
Net assets or Purchase consideration	<u>35,500</u>
Shares to be given (2,000 × 15)	30,000
Cash to be given (bal. fig)	5,500
	<u>35,500</u>

**Realisation A/c**

	Rs.		Rs.
to Sundry assets	39,000	By Creditors	3,000
to Bank (expenses)	400	By R Ltd. (Purchase price)	35,500
to Shareholders (profit) (bal. fig)	3,100	By Bank (fixed assets)	4,000
	<u>42,500</u>		<u>42,500</u>

**Bank A/c**

	Rs.		Rs.
to Balance b/d (part of current assets)	1,000	By Realisation (Expenses)	400
to Realisation (Fixed Assets)	4,000	By Debentures	10,000
to R Ltd.	5,500	By Shareholders (Bal. Fig.)	100
	<u>10,500</u>		<u>10,500</u>

**Shareholders A/c**

	Rs.		Rs.
to Bank	100	By Share capital	20,000
to Shares in R Ltd.	30,000	By P & L A/c	7,000
	<u>30,100</u>	By Realisation (Profit)	3,100
			<u>30,100</u>



## External reconstruction – Net payment method

### Illustration 21

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

### Balance Sheet

<i>Liabilities</i>		<i>Rs.</i>	<i>Assets</i>		<i>Rs.</i>
40,000 shares of Rs. 10 each fully			Land & Building		3,20,000
	paid	4,00,000	Plant & Machinery		1,30,000
Creditors		3,00,000	Stock		70,000
			Debtors		1,20,000
			Cash		500
			Preliminary expenses		5,000
			Profit & Loss A/c		54,500
		<u>7,00,000</u>			<u>7,00,000</u>

The following scheme of reconstruction was arranged:

- (1) The company to go into liquidation and a new company, Lucky Ltd. with an authorised capital of Rs. 8,00,000 to be formed to take over the assets and liabilities.
- (2) Preferential creditors of Rs. 10,000 included in the above Balance Sheet are to be paid in full.
- (3) Unsecured creditors to receive either (a) 50 per cent of their claim in cash or (b) 6 per cent debentures in the new company, equivalent to their claims at par.
- (4) 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.
- (5) 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.
<b>1. Share capital:</b>	
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
<b>2. Long term borrowings:</b>	
6% Debentures	1,45,000
<b>3. Tangible assets:</b>	
Land & buildings	1,13,000
Plant & machinery	1,30,000
	2,43,000



	Note No.	Rs.
<b>I. Equity and Liabilities:</b>		
(i) Shareholders' funds:		
Share capital	1	4,00,000
Reserves and surplus		-
(ii) Non-current liabilities:		
Long term borrowings	2	1,45,000
(iii) Current liabilities :		
Trade payables		
Total (i) + (ii) + (iii)		5,45,000
<b>II. Assets:</b>		
(i) Non-current assets:		
Tangible assets	3	2,43,000
Intangible assets		
(ii) Current assets:		
Stock		70,000
Trade receivables ( debtors)		1,20,000
Cash and Bank		1,12,000
Total (i) + (ii)		5,45,000

**Working Note 1 :****Calculation of Purchase consideration**For Shareholders,  $40,000 \times 5 = \text{Rs. } 2,00,000$ 

In partly paid shares

**Working Note 2 :****Value of Land & Buildings**

Purchase consideration for shareholders		Rs.
Claims to be settled by Lucky Ltd., after taking over :		2,00,000
Preferential Creditors (Cash)		10,000
Unsecured Creditors (Cash) $2,90,000 \times \frac{50}{100} \times \frac{50}{100}$		72,500
Unsecured Creditors (Debentures)		1,45,000
Reconstruction expenses to be reimbursed		6,000
Total Payments to be made by Lucky Ltd.		4,33,500
Less : Plant & Machinery	1,30,000	

Stock	70,000	
Debtors	1,20,000	
Cash	500	
		3,20,500
Land & Building (Bal. Fig.)		1,13,000

1. 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

	Rs.		Rs.
Business purchase A/c	500	By Preferential Creditors	10,000
Share capital A/c	2,00,000	By Unsecured Creditors	72,500
		By Reconstruction Expenses	6,000
		By Balance c/d	1,12,000
	<u>2,00,500</u>		<u>2,00,500</u>



# **Alteration of Share Capital and Internal Reconstruction**

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**Illustration 6 (Surplus in Capital Reduction Account)**

ABC Company Ltd. passed resolution and got Court permission for the reduction of its share capital by Rs. 5,00,000 for the purposes mentioned as under:

- (i) To write off the debit balances of P & LA/c of Rs. 2,10,000.
- (ii) To reduce the value of Plant & Machinery by Rs. 90,000 and goodwill by Rs. 40,000.
- (iii) To reduce the value of investments by Rs. 80,000.

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. Rs.	Cr. Rs.
	Preference Share Capital A/c (Rs. 20) <span style="float: right;">Dr</span>		10,00,000	
	To Preference Share Capital A/c (Rs. 15)			7,50,000
	To Capital Reduction A/c			2,50,000
	[Being conversion of 50,000 shares of Rs. 20 each fully paid into shares of Rs. 15 each fully paid and the balance transferred to capital reduction A/c]			
	Equity share capital (partly paid) A/c <span style="float: right;">Dr</span>		7,50,000	
	To Equity Share Capital (fully paid) A/c			5,00,000
	To Capital Reduction A/c			2,50,000
	[Being conversion of partly paid shares into fully paid shares and balance transferred to capital reduction A/c]			
	Capital Reduction A/c <span style="float: right;">Dr</span>		5,00,000	
	To Profit & Loss A/c			2,10,000
	To Plant & Machinery A/c			90,000
	To Goodwill A/c			40,000
	To Investments A/c			80,000
	To Capital Reserve A/c (Balancing figure)			80,000
	[Being losses written off, assets written down and balance of capital reduction transferred to capital			



**Illustration 7**

- The following scheme of reconstruction has been approved for Divya Ltd.
- The shareholders to receive in lieu of their present holding of 60,000 shares of Rs. 10 each fully paid the following:
    - Fully paid new equity shares equal to  $\frac{1}{3}$ rd of their holding.
    - 8% preference shares fully paid, to the extent of  $\frac{1}{5}$ th of the above new equity shares.
    - Rs. 60,000 8% secured debentures.
  - 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 each fully paid.
  - 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 Rs. 75,000.

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

**Solution:**

Books of Divya Ltd.  
Journal entries

Date	Particulars	L. F.	Dr. Rs.	Cr. Rs.
	Equity share capital (Rs. 10) A/c <span style="float: right;">Dr</span>		6,00,000	
	To Equity Share Capital (new) (Rs. 10) A/c			2,00,000
	To 8% Preference Share Capital A/c			40,000
	$\left(2,00,000 \times \frac{1}{5}\right)$			
	To 8% Secured Debentures A/c			60,000
	To Capital Reduction A/c			3,00,000
	[For issue of Rs. 2,00,000 equity shares, Rs. 40,000 8% pref. shares, Rs. 60,000 8% debentures in lieu of their present held capital and transferring balance amount of old share capital to capital reduction A/c]			
	Debentures A/c <span style="float: right;">Dr</span>		75,000	
	To 8% Preference Share Capital A/c			25,000
	To Capital Reduction A/c			50,000
	[For reducing the claim of debenture holders to Rs. 25,000 and transferring balance amount to capital reduction A/c]			

Capital Reduction A/c	Dr	3,50,000	
To Goodwill A/c			2,50,000
To Plant & Machinery A/c			25,000
To Freehold Premises A/c			75,000
[For reducing the value of various assets as per the capital reduction scheme]			
Bank A/c	Dr	50,000	
To 6% first debentures A/c			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:

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
8% preference shares of Rs. 10 each	50,000	Goodwill	90,000
Equity shares of Rs. 10 each	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
	<u>4,08,500</u>		<u>4,08,500</u>

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]



## Books of Nipun Ltd. Journal entries

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
31.3.96	6% Debentures A/c <span style="float: right;">Dr</span> To 8% Debentures A/c To 8% Preference Share Capital A/c [For giving 8% debentures and 1,000 8% preference shares of Rs. 10 each to debentureholders for their claims]		20,000	10,000 10,000
"	8% Preference Share Capital A/c <span style="float: right;">Dr</span> To 9% Preference Share Capital A/c To Capital Reduction A/c [For converting 8% preference shares of Rs. 10 each into shares of Rs. 6 each and transferring the balance to capital reduction]		60,000	36,000 24,000
31.3.96	Equity Share Capital A/c <span style="float: right;">Dr</span> To Capital Reduction A/c [For reducing equity shares of Rs.10 into Rs.2 each]		2,00,000	2,00,000
"	Bank A/c <span style="float: right;">Dr</span> To Equity Share Capital A/c [For issue of 50,000 equity shares of Rs. 2 each to existing equity shareholders]		1,00,000	1,00,000
"	Bank overdraft A/c <span style="float: right;">Dr</span> To Bank A/c [For repayment of Bank O/D]		28,500	28,500
"	Capital Reduction A/c <span style="float: right;">Dr</span> General Reserve A/c <span style="float: right;">Dr</span> To Goodwill A/c To Preliminary expenses A/c To P& L A/c To Machinery A/c $\left(28,000 \times \frac{37.5}{52.5}\right)$ To Furniture A/c $\left(28,000 \times \frac{15}{52.5}\right)$ [For writing off the various losses and writing down assets as per capital reduction scheme]		2,24,000 20,000	90,000 1,000 1,25,000 20,000 8,000



## Notes to Accounts:

	Rs.
<b>1. Share capital:</b>	
Issued and paid up capital	
75,000 Equity shares of Rs.2 each	1,50,000
6,000, 9% pref.shares of Rs.6 each	36,000
	1,86,000
<b>2. Long term liabilities:</b>	
8% Debentures (Rs.50)	10,000
<b>3. Trade payables:</b>	
Creditors	40,000
<b>4. Tangible assets:</b>	
Land and buildings	1,40,000
Machinery	17,500
Furniture	7,000
	1,64,500

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

	Note No.	Rs.
<b>I. Equity and Liabilities:</b>		
(i) Shareholders' funds:		
Share capital	1	1,86,000
Reserves and surplus		
(ii) Non- current liabilities:		
Long term borrowings	2	10,000
(iii) Current liabilities		
Trade payables	3	40,000
Total (i) + (ii) + (iii)		2,36,000
<b>II. Assets:</b>		
(i) Non- current assets:		
Tangible assets	4	1,64,500
Intangible assets		
(ii) Current assets:		
Cash		71,500
Total (i) + (ii)		2,36,000