

COURSE: II B.COM (CA)

SEMESTER: IV

SUBJECT: Corporate Accounting

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PREPARED BY: DR. S. Kalavathi

PHONE NO.: 9842579433

UNIT: 4

**SYLLABUS: AMALGAMATION, ABSORPTION AND EXTERNAL
RECONSTRUCTION**

Amalgamation:

When two or more existing companies combine together to form a new company, it is amalgamation. All the combining companies are liquidated. A new company is floated to take over their businesses.

Absorption:

When one existing company takes over the business of one or more existing companies, it is absorption. The companies whose business is taken over are liquidated. No new company is formed.

External Reconstruction:

When an existing company is liquidated and a new company is formed with the same shareholders to take over its

business, it is external reconstruction sick companies with accumulated losses usually undergo such reconstruction.

Methods of accounting for amalgamation:

There are two main methods of accounting for amalgamation:

- a) The pooling of interests method and
- b) The purchases method

Purchase Consideration:

In case of amalgamation, purchase consideration is the agreed amount which transferee company pays to the transferor company in exchange of the ownership of the transferor company.

Methods of purchase consideration:

1. lumb sum method
2. net worth method
3. net payment method
4. intrinsic value method(shares exchange method)

SUM NO: 1

Raman Ltd., agrees to purchase the business of Krishnan Ltd., on the following terms:

a) For each of the 10,000 shares of Rs 10 each in Krishnan Ltd to shares in Raman Ltd of RS 10 each will be issued at an agreed value of Rs. 12 per share. In addition, Rs. 4 per share cash also will be paid.

b) 8% Debentures worth Rs. 80,000 will be issued to settle the Rs. 60,000. 9% Debentures in Krishnan Ltd.

c) Rs. 10,000 will be paid towards expenses of winding up.

Calculate the purchase consideration.

SUM NO: 2

The following is the balance sheet of Suma Ltd., which is absorbed by Kusum Ltd.

Liabilities	Rs	Assets	Rs
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Equity Share Capital(Rs.10 each)	6,00,000	Fixed Assets:	
Pref. Share Capital(Rs.100 each)	2,00,000	Machinery	3,40,000
Current liabilities	1,00,000	Buildings	1,60,000
10% Debentures	3,00,000	Current Assets:	
		Stock	4,00,000
		Debtors	2,00,000
		Profit & loss A/c	1,00,000
	12,00,000		12,00,000

Kusum Ltd., takes over Suma Ltd., on the following terms:

1. Take the fixed assets at 10% depreciation, stock at Rs.3,00,000 and debtors After a provision of 25%.
2. Debentures are to be settled by issuing them 9% debentures in kusum Ltd. Current liabilities will be taken over at book values.
3. The consideration will be discharged by issue of 10,000 equity shares of Rs.10 each in kusum Ltd. At an agreed value of Rs.15 per share and the Balance in cash.
4. Expenses of liquidation of Rs.20,000 will be reimbursed by Kusum Ltd.

You are required to give (a) journal entries to close the books of Suma Ltd. (b) journal entries to close the books of Suma Ltd.

(b) Journal entries to record the acquisition assuming it is in the nature of purchase.

SUM NO : 3

Spring Field Ltd. is absorbed by Sports Field Ltd., the consideration being:

- 1) The taking over of the trade liabilities of Rs. 40,000;
- 2) The payment of cost of absorption of Rs. 15,000;
- 3) The repayment of 'B' debentures of Spring Field Ltd. Of Rs. 2,00,000 at par;
- 4) The discharge of 'A' debentures of Rs. 3,00,000 in the Vendor Co. at a Premium of 10% by the issue of 8% debentures in Sports Field Ltd. at par;
- 5) A payment of Rs. 20 per share in cash and the exchange of 4 fully paid Rs. 10 shares in Sports Field Ltd. at a market price of Rs. 15 per share for Every Rs. 50 share in Spring Field Ltd. which were 40,000 in number.

You are required to find out the purchase consideration.

SUM NO : 4

Ram & Co Ltd. is absorbed by Krishnan & Co Ltd. the consideration being

- 1) Assumption of the liabilities,
- 2) The discharge of the debentures at a premium of 7.5% by issue of 7.5% debentures in Krishnan & Co Ltd.
- 3) 12 shares of Rs. 20 each in the Krishnan & Co Ltd. at an agreed value of Rs. 25 per share for every share in Ram & Co Ltd.
- 4) The liquidation expenses of Rs. 8,000 to be borne by Ram & Co Ltd. Show the necessary journal entries in the books of both the companies.

SUM NO: 5

On 31 st 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 31 st March 1999

Liabilities	Thick Ltd(Rs.)	Thin Ltd(Rs.)	Assets	Thick Ltd(Rs.)	Thin Ltd(Rs.)
Share Capital:			Goodwill	2,00,000	60,000
Authorized	15,00,000	5,00,000	Plant &	4,12,000	1,00,000
Issued &			Machinery	80,000	30,000
Subscribed	9,00,000	2,00,000	Furniture	2,65,000	60,000
Eq. Shares of			Stock in trade		
Rs.10 each fully				2,21,200	46,000
paid	1,80,000	50,000	Sundry Debtors	–	700
General Reserve	20,502	12,900	Prepaid	–	6,000
Profit & loss A/c			Insurance		
Workmen's	12,000	9,000	Income Tax		
Compensation			refund	869	359
Fund	58,567	30,456	Claim	14,000	8,300
Sundry		4,000			
Creditors	10,200		Cash in hand		
Staff Provident	12,300	5,000	Cash in hand		
Fund					
Provision for Tax					
	11,93,569	3,11,356		11,93,569	3,11,356

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

- I. Prepare realization 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 if Thick Ltd., after the amalgamation in the nature of merger.

SUM NO: 6

The following are the abridged balance sheets if P Ltd, as on 31st March,1999.

Liabilities	P Ltd (in Rs. 000)	S Ltd (in Rs. 000)	Assets	P Ltd (in Rs. 000)	S Ltd (in Rs. 000)
Equity Share capital of Rs. 10 each	8,000	3,000	Fixed Assets	11,000	4,730
10% Preference Share capital of Rs.100 each	–	1,000	Current assets	4,000	1,970
General Reserve	4,610	980			
Statutory Reserve	390	125			
Profit and Loss A/C	563	355			
12% Debentures	–	250			
Current Liabilities	1,437	990			
	15,00	6,700		15,000	6,700

On 1st April, 1999. P Ltd. takes over S Ltd. on the following terms:

- I. P Ltd. will issue 3,50,000 equity shares of Rs.10 each at par to the equity shareholders of S Ltd.
- II. P Ltd. will issue 11,000 10% Preference share of Rs.100 each at par to the Preferences shareholders if S Ltd.
- III. The debentures of S Ltd. will be converted into an equal number of 12.5% debentures of the same denomination.

You are informed that the statutory reserves if S Ltd, are to be maintained for two more years. You are required to show the balance sheet of P Ltd. immediately after the above mentioned scheme if amalgamation has been implemented assuming that:

- a) The amalgamation is in the nature of merger, and
- b) The amalgamation is in the nature of purchase.

SUM NO: 7

The following is the Balance Sheet of X Ltd. as on 31.3.1996

Liabilities	Rs.	Assets	Rs.
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Share capital 2,00,000 shares Rs. 10 each	20,00,000	Land & Buildings	10,00,000
General reserve	2,50,000	Plant & Machinery	15,00,000
Dividend equalization reserve	2,00,000	Furniture	25,000
Profit & Loss A/C	51,000	Stock	6,00,000
12% Debentures	10,00,000	Work-in- progress	3,00,000
Sundry Creditors	3,00,000	Sundry debtors	2,50,000
		Cash at Bank	1,26,000
	38,01,000		38,01,000

The company was absorbed by A Ltd, on the above date. The consideration for the absorption is the discharge of the debentures at a premium of 5% taking over the liability in respect of sundry creditors and a payment of Rs. 7 in cash and one share of Rs. 5 in A Ltd. at the market value of Rs. 8 per share for every share in X Ltd. The cost of liquidation of R a premium of 5% taking over the liability in respect of sundry creditors and a payment of Rs. 7 in cash and one share of Rs. 5 in A Ltd. at the market value of Rs. 8 per share for every share in X Ltd. The cost of liquidation of Rs. 15,000 is to be met by the purchasing company.

Close the books of X Ltd., and pass journal entries in the books of A Ltd.

SUM NO: 8

The following is the Balance Sheet of X Co. Ltd. as on 30th June 1990.

Liabilities	Rs.	Assets	Rs.
Share capital: 2,000 shares of Rs. 100 each Reserves 5% debentures Loan from A (a director) Sundry creditors	2,00,000 20,000 1,00,000 40,000 80,000	Goodwill Land & Building Plant & Machinery Stock Sundry debtors Cash at bank Discount on debentures	35,000 85,000 1,60,000 55,000 65,000 34,000 6,000
	4,40,000		4,40,000

The business of the company is taken over by Y Co. Ltd. as on that date on the following terms:

- I. 'Y' Co. to take over all assets except cash, to value the assets at book values less 10% except goodwill which is to be valued at 4 years purchase of the excess of average (5years) profits over 8% of the combined amount of share capital and reserves.
- II. Y. Co. Ltd. to take over trade liabilities at a discount of 5%.
- III. The purchase consideration was to be discharged in cash to the extent of Rs.1,50,000 and the balance in fully paid equity shares of Rs. 10 each valued at Rs. 12.50 per share. The average of the 5 years profits was Rs. 30,100. The expenses

of absorption, Rs. 4,000 were paid by X Co. Ltd. but afterwards reimbursed by Y. Co. Ltd.

Pass journal entries in the books of X Co. Ltd. to close the above transactions.

SUM NO : 9

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	4,00,000	Land & Building	1,20,000
Creditors	3,00,000	Plant & Machinery	1,30,000
		Stock	70,000
		Debitors	1,20,000
		Cash	500
		Preliminary expenses	5000
		Profit & Loss A/C	54,500
	7,00,000		7,00,000

The following scheme of reconstruction was arranged:

- 1) The company to go into liquidation and a new company, Lucky Ltd. with an authorized 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) percent of their claim in cash or (b) 6 percent 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. 6000 to be paid by Hard Luck Ltd. from cash made available by the new company.

Liabilities	P. Ltd (in Rs. 000)	S. Ltd (in Rs. 000)	Assets	P. Ltd (in Rs. 000)	S. Ltd (in Rs. 000)

Equity Share capital Of Rs. 10 each	8,000	3,000	Fixed Assets	11,000	4,730
10% Preference Share	—	1,000	Current Assets	4,000	1,970
Capital of Rs. 100 each	4,160	980			
General Reserve	390	125			
Satutory Reserve	563	355			
Profit and Loss A/c	—	250			
12% Debentures	1,437	990			
Current Liabilities	15,000	6,700		15,000	6,700

SUM NO: 10

M Ltd . and N Ltd . agreed to amalgamate on the basis of the following balance sheets as on 31.3.97.

Liabilities	M	N	Assets	M	N
Share capital , 25 each	75000	50000	Goodwill	30000	-
P & L A/c	7500	2500	Fixed assets	31500	38800
Creditors	3500	3500	Stock	15000	12000
Depreciation	-	2500	Debtors	8000	5200
			Bank	1500	2500
	86000	58500		86000	58500

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.200000 divided into 10000 equity shares of Rs.10 each and 10000 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.

SUM NO: 11

Alpha Ltd. and Beta Ltd. were 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:

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

other Information:

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.

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 shares 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's

SUM NO: 12

The books of S Ltd. contained the following balances as on May 31. 1994

	Debit Rs.	Credit Rs.
Equity share capital (Rs. 10 each)		12,00,000
Creditors	12,00,000	14,00,000
Patents & Trade marks	4,00,000	
Plant & Machinery	3,00,000	
Stock	5,00,000	
Debtors	12,500	
Cash	72,500	
Preliminary expenses	1,15,000	
Profit & Loss A/c	26,00,000	26,00,000

The Patents and trade marks are considerably over valued. The company is also not in a position to raise any further capital. The following scheme of reconstruction has, therefore been framed.

- I. The company will go into voluntary liquidation. A new company S.S. Ltd. will be formed with an authorized capital of Rs. 20,00,000 to take over the assets.
- II. Liability will be discharged by the new company to the creditors by payment of 25 paise in a rupee in cash and 50 paise in a rupee by issue of 9% debentures.

SUM NO 13

Kala Ltd's balance sheet showed the following position on 31st march 1995.

Liabilities	Rs	Assets	Rs
1000 equity shares of Rs.100 each	1000000	fixed assets	800000
Capital reserve	200000	Current assets	400000
Bank loan	200000	Cash at bank	200000
Trade creditors	300000	Profit&loss A/c	300000
	1700000		1700000

Mala Ltd. Was incorporated to take the fixed assets and 60% of the current assets at an agreed value of Rs.900000 to be paid as to Rs.740000 in equity shares of Rs.10 each and the balance in 9% debentures. The debentures were accepted by bank in settlement of loan. Remaining current assets realised Rs.90000. after meeting Rs.20000 expenses of liquidation, all the remaining cash was paid to the creditors in full settlement. Give journal entries in the books of both the companies and prepare the initial balance sheet of mala Ltd., if the amalgamation is in the nature of purchase.

SUM NO:14

'X' Ltd and 'Y' Ltd. Agree to amalgamate as from 31st December 1993 on which date their respective balance sheets were as follows:

Liabilities	X	Y	Assets	X	Y
Share capital, Rs.1 each	80000	25000	Cash in hand	100	50
Creditors	3000	1000	Cash at bank	3400	450
Reserves	7500	4000	Debtors	22500	6000
Profit & loss A/c	2500	1000	Plant	12000	4500
			Stock	15000	7000
			Premises	30000	10000
			Patents	10000	3000
	93000	31000		93000	31000

Draw up the balance sheet of the new company 'XY' Ltd . which was incorporated to take over the amalgamated concerns and state the number of shares in the new company which will be allotted to the shareholders of the old companies. (assume the same face value)

Books referred by

T.S. Reddy moorthy