Department of Commerce (CA)

I M. Com(CA) - II Semester - Sub. Code:- 18MCC21C

Advanced Corporate Accounting

Book Ref. - Corporate Accounting - Reddy & Murthy

UNIT - I

Amalgamation, Absorption - External Reconstruction - Internal Reconstruction

Amalgamation :-

When two or more Companies (existing) combine together to form a new company.

Absorption :-

When one existing Company takes over the business of one or more existing companies.

Reconstruction :-

It refers to reorganisation of the capital structure of a company. It has two types :- i) Internal
ii) External.

Prepared by Dr. P. SRIDEVI
Asst. Prof. of Commerce (CA)
GIAC, CBE-18
98940-25186

Internal Reconstruction :-

The capital of a company is reorganised to enable it to make a fresh beginning, after eliminating accumulated losses.

External Reconstruction :-

A new company is formed to take over the business of an existing company which will be liquidated

Steps to be followed for Amalgamation Absorption and External Reconstruction

1 Calculation of Purchase consideration
2 Journal Entries in vendor company
3 Preparation of Ledger A/c in vendor Co.,
4 Journal Entries in Purchasing Co.,

Meaning of Purchase Consideration

It is the amount paid / settled by the purchasing Co., to the vendor Co., in the form of cash / Equity Shares / Pref. Shares / Debentures

Methods of Purchase Consideration

1. Lumpsum Method
2. Net Asset Method
3. Net Payment Method
4. Intrinsic Value Method

Problem No. 1

X and Y Ltd., agree to amalgamate as from 31st Mar 2020 on which date their respective Balance sheets were as follows:-

Liabilities	X Rs.	Y Rs.	Assets	X Rs.	Y Rs.
Share Capital (Shares of Re.1 each)	80000	25000	Cash	100	50
			Cash at Bank	3400	450
Creditors	3000	1000	Debtors	22500	6000
Reserves	7500	4000	Plant	12000	4500
P&L A/c	2500	1000	Stock	15000	7000
			Premises	30000	10000
			Patents	10000	3000
	93000	31000		93000	31000

Prepare a new Balance Sheet of XY Ltd. which was incorporated to take over the amalgamated concerns and state the no. of shares in the new Co., which will be allotted to the shareholders of the old companies

Problem No. 2

Amar Ltd., and Samar Ltd are going to doing same type of business.

Liabilities	Amar Ltd Rs.	Samar Ltd. Rs.	Assets	Amar Ltd Rs.	Samar Ltd. Rs.
Share Capital @ Rs. 10 each	800000	600,000	Goodwill	–	120000
P&L	140000	–	Fixed Assets	600000	240000
creditors	80000	240000	Current Assets	420000	280000
			P&L. A/c	–	2,00,000
	10,20,000	8,40,000		10,20,000	8,40,000

Amar Ltd., agreed to takeover the business of Samar Ltd., as on the date of the Balance Sheets. After due negotiations, it was determined that the shares of Amar Ltd, are worth Rs. 12 each and the shares of Samar Ltd., are worth Rs. 5 each. Pass journal entries in the books of Amar Ltd and draw up its Balance Sheet after taking over the process.

Prob. NO. 3.

XYZ Co., Ltd., resolved to reduce its capital to 50000 fully paid Rs. 5 shares and to eliminate share premium account.

Liabilities	Rs.	Assets	Rs.
Share capital:-		Goodwill	1,00,000
50000 fully paid Shares of Rs. 10 each	5,00,000	Land & Building	1,62,000
		Plant & Machinery	2,07000
		Stock	92000
Securities Premium	50000	Debtors	74000
creditors	62000	Profit & Loss a/c	50000
Bank Overdraft	73000		
	6,85000		6,85,000

It was resolved to apply the sum available under the scheme:-

i) To write off the goodwill a/c.
ii) To write off the debit balance of the P&L. a/c.
iii) To reduce the book values of the assets by Land & Buildings - Rs. 42000
Plant & Machinery - Rs. 67000
Stock - Rs. 33600
iv) To provide a bad debts reserve of 10% of the book value of debtors.

Show the journal entries and prepare Revised Balance Sheet.

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