

Chapter: Amalgamation, Absorption and External Reconstruction AS 14

1. Shubha Ltd. absorbed Sushma Ltd. with effect from 1st April, 2018 when their Balance sheets as on 31-03-2018 were as under:

Liabilities	Shubha Ltd.	Sushma Ltd.	Assets	Shubha Ltd.	Sushma Ltd.
Share Capital:			Fixed Assets:		
11% Preference Shares of Rs. 100 each	2,00,000	2,00,000	Land & Building	2,20,000	1,40,000
Equity shares of Rs. 100 each	5,00,000	2,00,000	Plant & Machinery	4,20,000	2,60,000
Reserves & Surplus:			Current Assets, Loans & Advances		
Revaluation Reserves	20,000	-	Stock	2,90,000	1,60,000
Export Profit Reserves	40,000	20,000	Sundry Debtors	1,20,000	1,40,000
General Reserve	2,00,000	60,000	Bills Receivable	-	90,000
Secured Loans:			Bank	20,000	10,000
10% Debentures of Rs. 100	-	1,20,000			
15% Debentures of Rs. 100	80,000	-			
Current Liabilities and Provisions:					
Sundry Creditors	1,60,000	2,00,000			
	12,00,000	8,00,000		12,00,000	8,00,000

Terms of Amalgamation:

- (a) Shubha Ltd. will issue Eight equity shares for Five equity shares in Sushma Ltd.
- (b) 11% Preference shareholders of Sushma Ltd. will be issued equal number of Equity shares in Shubha Ltd. (c) 10% Debenture holders of Sushma Ltd. are discharged by Shubha Ltd. by issuing equal number of its 15% Debentures of Rs.100 each.
- (d) All the Assets and Liabilities of Sushma Ltd. are taken over at book values except the following:
 - (I) Fixed Assets at 10% more than book values. (II) Stock at Rs. 1,44,000. (III) Debtors at Rs. 1,25,000. (iv) Bills Receivable at Rs. 81,000.

You are required to:

- (1) Compute purchase consideration (ii) Prepare Ledger Accounts to close the books of Accounts of Sushma Ltd. (iii) Pass! journal entries and prepare Balance-sheet after Amalgamation in the books of Shubha Lid, applying Purchase Method

2. Following is the Balance Sheet of Prakash Ltd. as on 31st March, 2019

Liabilities	Rs.	Assets	Rs.
Equity Shares of 10 each fully paid up	4,00,000	Land and Building	3,85,000
Capital Reserve	25,000	Furniture and fittings	80,000
Profit & Loss Account	75,000	Stock	40,000
Export Profit Reserve	60,000	Sundry receivables	75,000
Revaluation reserve	1,50,000	Cash and Bank Balance	2,20,000
Sundry Payables	90,000		
Total	8,00,000	Total	8,00,000

On the above date, Akash Ltd. is formed to takeover the business of Prakash Ltd. (including Cash and Bank Balance), on the following terms and conditions:

- (a) Stock is taken over at 75% of its book value.
 (b) Furniture and fittings are taken over at 70,000.
 (c) Sundry receivables are taken over, subject to reserves for bad debts of 5,000.
 (d) Land and Building is taken over by Akash Ltd. at 10,00,000.
 (e) Statutory reserve is required to be maintained for 1 more year.
 (f) Goodwill is valued and taken over at 250% of the book value of furniture and fittings
 (g) 90% Purchase consideration is settled by issuing equity shares in Akash Ltd., of 10 each at 15 each, to the equity shareholders of Prakash Lid. 10% of the Purchase consideration is settled in cash.
 (h) Akash Ltd. issued, 12%, 40,000 preference shares of 10 each at 9 each fully paid up. All these preference shares were fully subscribed for by public and issued accordingly by the company.

You are required to:

- i. Calculate Purchase Consideration (ii) Prepare Balance Sheet of Akash Ltd. after amalgamation.

3. Following is the Balance Sheet of River Limited as on March 2018 :

Liabilities	Rs.	Assets	Rs.
Preference Shares (20,000 of 10 each)	2,00,000	Patent Rights	1,00,000
Equity Share (30,000 Shares of 10 each)	3,00,000	Plant & Machinery	2,25,000
Profit & Loss Account	52,000	Investments	3,90,000
General Reserve	75,000	Stock	1,15,000
11% Debentures	1,45,000	Sundry Debtors	1,10,000
Statutory Reserves	1,25,000	Cash at Bank	57,000
Sundry Creditors	85,000	Preliminary Expenses	10,000
Bills Payable	25,000		
Total	10,07,000	Total	10,07,000

On the above date Ocean Limited is formed to absorb River Limited on the following terms and conditions:

- Absorption expenses of ₹ 5,000 are paid by Ocean Limited.
- Ocean Limited to take over all the Assets and Liabilities at River Ltd at Book value except Plant & Machinery of ₹ 2,10,000
- 6% Preference shareholders of River Limited are to be settled at 5% premium by issue of 7% Preference Shares of 10 each in Ocean Limited
- Equity Shareholders of River Limited to be issued equal number of Equity shares in Ocean Limited of 10 each at 5% premium.

You are required to:

- (1) Compute Purchase Consideration payable by Ocean Limited to River Limited.**
- (2) Pass necessary Journal Entries in the books of River Limited.**

4. Tom Ltd. agreed to acquire business of Jerry Ltd as on 31-03-2018. The summarized Balance Sheet of Jerry Ltd as on 31-03 2018 was as follows:

Liabilities	Rs.
12,000, Equity Share of Rs 10 each fully paid	1,20,000
General Reserve	34,000
Profit & loss Account	22,000
6% Debentures	20,000
Creditors	4,000
Total	2,00,000
Assets	Rs.
Goodwill	20,000
Building	60,000
Machinery	68,000
Closing Stock	33,600
Debtors	7,200
ICICI Bank Account	11,200
Total	2,00,000

The consideration payable was as follows:

- (a) Cash payment equal to ₹2.50 per share in Jerry Ltd.
- (b) Issue of 18,000 Equity sharers of ₹10 each of Tom Ltd having and agreed value of ₹15 per share.
- (c) Issue of such an amount of fully paid 9%. Debentures of Tom Ltd at ₹96, each as is sufficient to discharge 6% Debentures of Jerry Ltd. at 20% premium
- (d) While calculating the consideration the assets were revalued as follows Building and Machinery ₹28,400 and Debtors to be subject to 5% provision for Discount.
- (e) Liquidation expenses agreed to be paid by Jerry Ltd was ₹1,000.

Prepare

- i. Statement of Purchase consideration.
- ii. Necessary ledger accounts a close the books of Jerry Ltd.
- iii. Opening Journal entries in the books of Tom Ltd.

5. X Ltd and Y Ltd agreed to amalgamate for a new company Z Ltd Summarized Balance sheet of X Ltd & Y Ltd on the date of amalgamation are as follows:

Summarized Balance Sheet as on 31/03/2019

Liabilities	X Ltd	Y Ltd	Assets	X Ltd	Y Ltd
Equity Share of Rs. 100 each	2,00,000	2,40,000	Plant & Machinery	60,000	80,000
General Reserve	30,000	37,000	Stock	40,000	40,000
Creditors	28,000	34,000	Debtors	60,000	60,000
Profit & Loss Account	16,000	20,000	Building	1,00,000	1,20,000
			Cash & Bank Bal.	14,000	31,000
Total	2,74,000	3,31,000	Total	2,74,000	3,31,000

Z Ltd takes over the assets and liabilities of both the companies at book value except building which is taken over from X Ltd at Rs. 2,00,000 and from Y Ltd at ₹ 1,80,000.

Z Ltd purchase consideration by allotting fully paid shares at Rs. 100 each at par.

Prepare statement of Purchase Consideration. Give Opening Journal entries in the books of Z Ltd Narration not required.

6. The following is the summarized Balance Sheet of Vishal Ltd as on 31st March, 2020.

Liabilities	Rs.	Assets	Rs.
Issued and paid-up capital		Intangible Assets	1,00,000
Equity Share capital (Rs. 10 each)	10,00,000	Fixed Assets	8,40,000
Statutory Reserve (to be maintain 3 more years)	20,000	Current Assets	2,20,000
10% Debentures	2,00,000	Profit & Loss A/c (Dr)	1,60,000
Creditors	1,00,000		
	13,20,000		13,20,000

Vaman Ltd, agreed to take over Vishal Ltd, on the following terms:

- (a) Vaman Ltd. Agreed to take over all the assets and Liabilities. (Intangible assets are not taken over)
- (b) The fixed and current assets of Vishal due to be considered to be worth Rs. 8,00,000 and Rs. 2,00,000 respectively
- (c) The Purchase consideration is to be paid one quarter in cash and the balance in equity shares which are issued at the market price.
- (d) Liquidation expenses amounted to Rs. 600 agreed to be paid by Vishal Ltd.
- (e) Market value per share of Vaman Ltd, is Rs. 12.
- (f) Debentures of Vishal Ltd were taken over and paid by Vaman Ltd.
- (g) The amalgamation is in nature of purchase.

You are required to prepare:

- i. **Statement of Purchase Consideration.**
- ii. **Necessary Ledger accounts in the books of Vishal Ltd.**

7. Following is Summarized Balance Sheet of Kartik Ltd as on 31st March 2019.

Liabilities	Rs.	Assets	Rs.
Equity Share Capital(10 Rs. Each)	10,00,000	Intangible Assets	1,00,000
General Reserve	20,000	Tangible Fixed Assets	8,40,000
Debentures	2,00,000	Current Assets	2,20,000
Creditors	1,00,000	Profit & Loss A/c(Dr. Bal)	1,60,000
	13,20,000		13,20,000

On the above date, Ganesh Ltd agreed to take over the business of Kartik Ltd on the following term.

- (1) The intangible assets , tangible and fixed assets & current assets of Kartik Ltd. The liabilities are taken over at ₹ 10,00,000 including debentures, are taken over at book value.
- (2) The purchase price is to be paid one-quarter in cash and the balance in equity shares of Rs 10 each at par.
- (3) Liquidation expenses amounted to ₹ 5,600. agreed to be paid by Kartik.
- (4) The takeover is in the nature of purchase.

You are required to:

- (a) Calculate Purchase Consideration &
- (b) Prepare necessary Lodger accounts to close the books at Kartik

8. Ram Ltd, took over the business of Ravan Ltd, as on 1st April 2015 at book value. Following is the summarized. Balance Sheet of Ravan Ltd. as on 31/03/2019.

Liabilities	Rs.	Assets	Rs.
40,000 Equity Share Capital (10 ₹ Each)	4,00,000	Plant & Machinery	2,50,000
Reserve & Surplus	3,00,000	Furniture & Fixtures	2,25,000
Creditors	50,000	Investments	1,00,000
Bills Payable	50,000	Stock	50,000
		Debtors	1,00,000
		Cash & Bank Balance	25,000
		Preliminary Expenses	50,000
	8,00,000		8,00,000

Ram Ltd, issued one equity share of Rs. 107- each at a premium of Rs.2 per share for every share in Ravan Ltd.

Calculate Purchase Consideration & also prepare Balance sheet of Ram Ltd after acquisition is in the nature of Purchase.

9. The Summarized Balance Sheets of 'A' Ltd and 'B' Lid as on 31/3/2018 were as follows:

Liabilities	A Ltd	B Ltd.	Assets	A Ltd	B Ltd.
Equity Share Capital (10 Rs. Each)	8,00,000	6,00,000	Land & Building	6,00,000	4,80,000
General Reserve	5,80,000	1,00,000	Plant & Machinery	1,20,000	80,000
Creditors	4,20,000	2,60,000	Motor Vehicle	60,000	40,000
6% Debentures (100 Rs. Each)	-	2,40,000	Debtors	4,00,000	1,60,000
			Inventories	4,60,000	3,60,000
			Cash & Bank Balance	1,60,000	80,000
	18,00,000	12,00,000		18,00,000	12,00,000

Additional Information:

A Lid and B Ltd amalgamate their business. They form 'AB' Lid to takeover Assets and Liabilities of both the Companies on the following basis:

Assets and Liabilities are taken over at Book value, with the following exceptions:

(a) Goodwill of 'A' Ltd and 'B' Ltd, to be valued at Rs. 2,80,000 and Rs. 80,000 respectively.

- (b) Plant and Machinery of 'A' Ltd. to be valued at Rs. 2,00,000.
- (c) Debentures of 'B' Ltd are to be discharged at a premium of 5% by issue of 6% Debentures of Rs. 100/- each of AB' Ltd at par.
- d) Entire Purchase Consideration is discharged by Issuing Equity shares of "AB' Ltd of Rs. 10 each at par.

You are required to: Calculate Purchase Consideration.

Prepared Journal in the books of AB Ltd. and Balance sheet after Amalgamation

10. Sunil Ltd. agreed to take over the business of Anil Ltd. as on 31st March 2018. Following are the Balance Sheets of Anil Ltd. a Sunil Ltd. as on 31st March, 2018.

Liabilities	Anil Ltd	Sunil Ltd.	Assets	Anil Ltd	Sunil Ltd.
Equity Share of Rs. 10 each	9,00,000	13,00,000	Fixed Assets	5,95,000	8,50,000
Profit & Loss A/c	32,000	1,75,000	Sundry Debtors	2,00,000	3,40,000
Export Profit Reserve	20,000	30,000	Stock	2,40,000	4,90,000
8% Debentures	1,50,000	2,00,000	Bank Balance	1,57,000	1,50,000
Sundry Creditors	90,000	1,25,000			
Total	11,92,000	18,30,000	Total	11,92,000	18,30,000

Following are the terms and conditions:

- (1) Sunil Ltd. issued 1,00,000 equity shares of Rs 10 each at a premium of 10% for the equity shareholders of Anil Ltd. and a paid them cash of 5 for every 3 shares held.
- (2) All the assets and liabilities of Anil Ltd. are taken over at book value except. Fixed assets revalued at 6,70,000 and Sundry Debtors subject to 5% provision for Bad Debts.
- (3) Cost of absorption amounting to 5,000/- was paid by Anil Ltd.
- (4) The Debentures of Anil Ltd. to be converted into equivalent number of 8% debenture of Sunil Ltd.

Your are required to:

- (1) Calculate purchase consideration.
- (2) Prepare Ledger Accounts to close the books of Accounts of Anil Ltd.

11. Balance Sheet of Sameer Ltd. as on 31st March 2018 is as follows:

Liabilities	Rs.	Assets	Rs.
Equity Share of Rs. 100 each	4,00,000	Machinery	4,90,000
Profit & Loss A/c	70,000	Debtors	70,000
General Reserve	60,000	Stock	80,000
10% Debentures	1,00,000	Bank	20,000
Creditors	30,000		
Total	6,60,000	Total	6,60,000

Mala Ltd. took over all the assets and liabilities at book value except machinery valued at 10% above book value and stock at Rs. 60,000.

Purchase consideration is to be satisfied by issue of 5,000 equity shares of 100 each and balance is paid in cash.

Calculate purchase consideration.

12. Following is the extracted information of Adarsh Ltd. as on 31st March, 2018:

10,000 equity shares of 100 each	10,00,000
5,000 12% Preference shares	<u>5,00,000</u>
Total Share Capital	15,00,000

Sandip Ltd. took over the business of Adarsh Ltd as on 31st March, 2018 on following terms and conditions.

(1) Preference shareholders of Adarsh Ltd. have been issued 6,000 15% preference shares of ₹100 each at 8% premium.

(2) Sandip Ltd issued 4 equity shares of Rs. 100 each at 110 for every 5 equity shares held by Adarsh Ltd and also paid cash Rs. 10 per share for each held.

(3) Adarsh Ltd. incurred cost of liquidation Rs. 10,000.

Calculate purchase consideration and write journal entry in the books of Sandip Ltd. for discharge of P. C.