

CORPORATE ACCOUNTING

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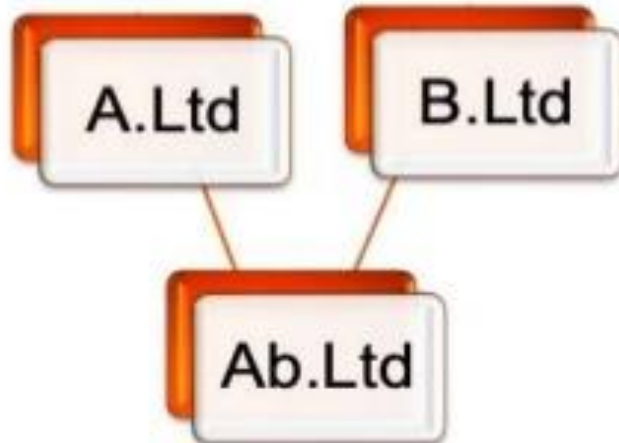
PUTHUR,SIRKALI-609108

UNIT-V

Amalgamation – purchase consideration- accounting treatment – pooling of interest method and purchase method, Absorption, external and internal reconstruction of companies.

Amalgamation,
Absorption,
Reconstruction

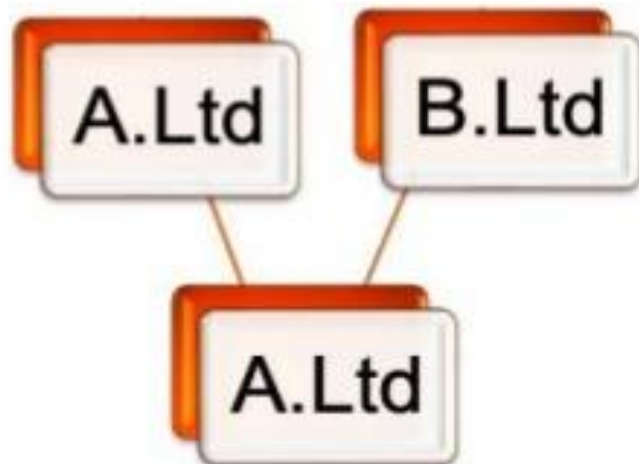
Amalgamation



- **One or more companies are liquidated**
- **One new company is formed**
- **The nature of business of both companies is similar**



Absorption



- **One or more companies are liquidated**
- **No new company is formed**
- **The nature of business of both companies is similar**
- **Generally larger company purchases the business of smaller company**

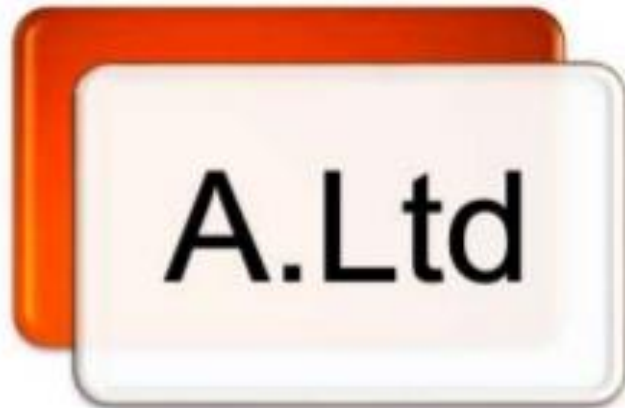
Reconstruction

There are two alternative of reconstruction

- **External reconstruction**
- **Internal reconstruction**

Internal Reconstruction

- **No companies are liquidated**
- **No new company is formed**



Difference between Amalgamation and Absorption

BASIS FOR COMPARISON	AMALGAMATION	ABSORPTION
Meaning	The process in which two or more than companies are wound up to form a new company, which acquires their business is known as Amalgamation.	The process in which one company takes over the other company is known as Absorption.
Act	Voluntary	Voluntary or hostile
Minimum number of companies involved	Three	Two
Creation of new company	Yes, a new company is formed	No, new company is not formed
Size of entities	The entities are of the same size.	The bigger the entity overpowers the smaller entity.
How many companies are liquidated?	Minimum 2 companies	Only one, i.e. the merged company

Pooling of Interest Vs Purchase Price Method

Basis of Difference	Pooling of Interest Method	Purchase Method
(1) Nature of Amalgamation	It is adapted in the case of amalgamation in the nature of merger.	It is adapted in the case of amalgamation in the nature of purchase.
(2) Incorporation of Profit and Reserves	Under this method, profits and reserves are incorporated with the financial statements of Transferee Company.	Under this method, profits and reserves are not incorporated with the financial statements of transferee company.
(3) Requirement of Amalgamation Adjustment A/c	Under this method, there is no requirement of this account.	Here, this account is required at the time of opening of statutory reserves.

AMALGAMATION ,ABSORPTION ,EXTERNAL RECONSTRUCTION `

- AMALGAMATION MEANS COMBINATION OF MERGER IT MAY BE IN ANY OF THE THREE TYPE
- AMALGAMATION
- ABSORPTION
- EXTRNAL RECONSTRUCTION

AMALGAMATION OF COMPANY (ARTICAL (14))

- THERE ARE TWO TYPES OF AMALGAMATION
THE NATURE OF MERGER
THE NATURE OF PURCHASE (LUM SUM)
THERE ARE FIVE CONDITION TO STAIFIED TO
BE NATURE MARGER
- (1) ALL THE ASSETS AND LIABILITIES OF THE
TRANSFEOR COMPANY AFTER
AMALGAMATION THE ASSETS AND LIABILTIES
OF PURCHER COMPANY

CONDITIONS

- SHARE HOLDER HOLDING NOT LESS THAN 90 % OF THE FACE VALUE OF THE QUITTY SHARE OF THE TRANSFER COMPANY BECOME THE EQUITY SHAREHOLDER OF THE TRANSFER COMPANY
- THE CONSIDERATION FOR THE AMALGAMATION RECEIVED BY THOSE SHARE HOLDER AGREE TO BE A NEW COMPANY SHAREHOLDER WHOLLY BY THE ISSUE OF EQUITY SHARES IN THE TRANSFER COMPANY EXCEPT THAT MAY BE PAID IN RESPECT OF ANY FRACTIONAL SHARE

PURCHASE CONSIDERATION IN EQUITY SHARE

- IT IS PRICE PAYABLE BY THE PURCHASING COMPANY TO THE TRANSFEROR COMPANY
- CALCULATION OF PURCHASE CONSIDERATION
- (1) LUMP-SUM PAYMENT METHOD
 - (2) NET ASSETS METHOD
 - (3) NET OR TOTAL PAYMENT METHOD

PURCHASE CONSIDERATION

- A TO Z LIMITED = FURNTIURE 10000
ALMIGRAH 5000
CHAIR 2000
BUILDING 200000
LAND 500000
TOTAL = 717000
LIABILITIES - 17000
NET PAY 7 LAKH

ILLUSTRATION

USE BOTH METHOD FOR PURCHASE AND MERGER



Calculate the purchase consideration-Net Payment

- **Seetha Ltd., agrees to purchase the business of Ravi Ltd., on the following terms.**
- **For each of the 10,000 shares of Rs. 10 each in Ravi Ltd. 2 shares in Seetha 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.**
- **8% Debentures worth Rs. 80,000 will be issued to settle the Rs. 60,000 9% debentures in Ravi Ltd.**
- **Rs. 10,000 will be paid towards expenses of winding up.**

Calculation of purchase consideration

	Rs.
Shares to be issued for shareholders of the selling Co., $10,000 \times 2 \times 12$	2,40,000
Cash to be paid for shareholders of the selling Co.. $10,000 \times 4$	40,000
Purchase consideration (Net Payment Method)	<hr/> 2,80.000 <hr/>

Following is the balance sheet of Sanjay Ltd. as on 31.03.2004

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Share capital		Fixed Assets	1625,000
8% Preference shares	3,75,000	investments	3,00,000
Of Rs. 100 each.		Current Assets	2,50,000
Equity shares of Rs. 10 each	7,50,000		
General Reserve	4,50,000		
7% Debentures	3,50,000		
Current Liabilities	2,50,000		
	21,75,000		21,75,000

NETASSET METHOD-PC

- **Romy Ltd. agreed to take over the business of Sanjay Ltd.**
- **Calculate purchase consideration under **Net assets method** on the basis of the following:**
- **Romy Ltd. agreed to discharge 7% debentures at a premium of 10% by issuing 9% debentures of Romy Ltd.**
- **Fixed assets are to be valued at 10% above book value, the investments at par, current assets at 10% discount and current liabilities at book value.**

NETASSET MEHOD-PC

(A) Net Assets Method :

Value of assets laken over :

Fixed Assets 16,25.000+1,62.500

17,87,500

Investments

3,00,000

Current Assets 2.50.000-25,000

2,25,000

Total Assets

23.12.500

Less: 5% Debentures (3,50,000 + 35,000)

3.85,000

Less : Current Liabilities

2.50.000

6,35,000

Purchase Consideration

16.77.500

Following is the balance sheet of Sanjay Ltd. as on 31.03.2004

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Share capital		Fixed Assets	1625,000
8% Preference shares	3,75,000	investments	3,00,000
Of Rs. 100 each.		Current Assets	2,50,000
Equity shares of Rs. 10 each	7,50,000		
General Reserve	4,50,000		
7% Debentures	3,50,000		
Current Liabilities	2,50,000		
	21,75,000		21,75,000

NETPAYMENT MEHOD-PC

- **Calculate purchase consideration under Net payments method on the basis of the following :**
- **Romy Ltd. agrees to discharge the 7% debentures at a premium of 10% by issuing 9% debentures of Romy Ltd.**
- **Preference shares are discharged at a premium of 10% by issuing 10% Preference shares of Rs. 100 each in Romy Ltd.**
- **For every 2 Equity shares in Sanjay Ltd. 3 Equity shares of Rs. 10 each in Romy Ltd. will be issued in addition to Cash payment of Rs. 3 per Equity share in Sanjay Ltd.**

NETPAYMENT MEHOD-PC

<i>Particulars</i>	<i>Cash</i>	<i>Preference shares in Purchasing Co.</i>	<i>Equity Shares in Purchasing Co.</i>	<i>Total</i>
	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>	<i>Rs.</i>
(!) For Preference shareholders:				
10% Preference shares in Purchasing Co. $3,75,000 \times 110/100$	--	4,12,500	--	4,12,500
(2) For Equity shareholders:				
Equity shares in Purchasing Co. $75,000 \times 10 \times 3/2$	--	--	11,25,000	11,25,000
Cash $75,000 \times 3$	2,25,000	--	--	2,25,000
Purchase Consideration	2,25,000	4,12,500	4,12,500	17,62,500

Following is the Balance Sheet of K Ltd. as on 31.12.2014

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

- **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.**
- **Calculate purchase consideration under (i) Net asset method
(ii) Net Payment method**

NETASSET MEHOD-PC

Goodwill (4,000 + 400)	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	38,500
<i>Less:</i> Creditors	3,000
Net assets or Purchase consideration	35,500

NETPAYMENT MEHOD-PC

Shares to be given (2,000 × 15)

30,000

Cash to be given (bal. fig)

5,000

35,000

Big Ltd. agreed to acquire the assets of small Ltd. except its investments, as on December 31,2016. Balance Sheet of Small Ltd. as on Dec. 31,2016

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Share capital (Rs. 10 each)	1,60,000	Goodwill	50,000
Reserves	43,000	Land & Buildings	80,000
8% Debentures	60,000	Plant	80,000
Provision for taxation	20,000	Investments	30,000
Creditors	37,000	Stock	40,000
		Debtors	20,000
		Bank	20,000
	3,20,000		3,20,000

NETPAYMENT MEHOD-PC

- **Big Ltd. will:**
- **Discharge the debentures at 8% premium by issue of 7% debentures in Big Ltd. at 10% Discount.**
- **Issue of 3 shares of Big Ltd. at a valuation of Rs. 11 for every two shares in Small Ltd.**
- **Pay Rs. 2 in cash for each share of Small Ltd. And**
- **Pay absorption expenses of Rs. 3,000**

NETPAYMENT MEHOD-PC

<i>Particulars</i>	<i>Cash</i>	<i>Shares</i>	<i>Total</i>
<i>For shareholders</i>			
Cash-16,000 × 2	32.000	---	32.000
Shares in Big Ltd. $\left(\frac{16,000}{2} \times 3\right) = 24,000 \times 11$	--	2.64.000	2.64.000
Purchase consideration	32,000	2,64,000	2,96,00

Following is the Balance Sheet of K Ltd. as on 31.12.2014

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

- **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.**
- **Calculate purchase consideration under (i) Net asset method (ii) Net Payment method**
- **You are required to give journal entries in the books of R Ltd.**

Additional Information

- **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.**

NETASSET MEHOD-PC

Goodwill (4,000 + 400)	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	38,500
<i>Less:</i> Creditors	3,000
Net assets or Purchase consideration	35,500

NETPAYMENT MEHOD-PC

Shares to be given (2,000 × 15)

30,000

Cash to be given (bal. fig)

5,500

35,500

Books of R Ltd(Purchasing Company)-Journal Entries

<i>Date</i>	<i>Particulars</i>	<i>L.F</i>	<i>Dr</i>	<i>Cr</i>
			Rs.	Rs.
31.12.2014	Business purchase A/c	Dr	35,500	
	To Liquidator of K Ltd. A/c			35,500
	[Being purchase price payable]			
" "	Fixed assets A/c	Dr	13,750	
	Current assets A/c	Dr	20,350	
	Goodwill A/c	Dr	4,400	
	To Creditors A/c			3,000
	To Business purchase A/c			35,500
	[Being assets and liabilities taken over and goodwill thereon]			
" "	Liquidator of K Ltd A/c	Dr	35,500	
	To Bank A/c			5,500
	To Share capital A/c (2,000 x 10)			20,000
	To Share premium A/c (2,000 x 5)			10,000
	[Being payment of purchase price in the form of cash and shares]			

Additional Information

- **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.**

Books of K Ltd(Selling Company)-Journal Entries

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Dr</i>	<i>Cr</i>
31.12.2014	Realisation A/c	Dr	Rs. 39,000	Rs.
	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]			
31.12.2014	Creditors A/c	Dr	3,000	
	To Realisation A/c			3,000
	[Being transfer of liability taken over]			
31.12.2014	R Ltd. A/c	Dr	35,500	
	To Realisation A/c			35,500
	[Being purchase price receivable]			

31.12.14	Bank A/c	Dr	5,500	
	Shares in R Ltd. A/c	Dr	30,000	
	To R Ltd. A/c			35,500
	[Being purchase price received]			
	Bank A/c (Fixed asset sold)	Dr	4,000	
	To Realisation A/c			4,000
	[Being fixed asset not taken over realised]			
"	Realisation A/c (Liquidation Exp)	Dr	400	
	Debentures A/c	Dr	10,000	
	To Bank A/c			10,400
	[Being payment of expenses and discharge of debentures]			
"	Share capital A/c	Dr	20,000	
	Profit & Loss A/c	Dr	7,000	
	To Shareholders A/c			27,000
	[Being transfer of capital and accumulated profit]			
"	Realisation A/c	Dr	3,100	
	To Shareholders A/c (Profit)			3,100
	[Being profit on realization]			
	Shareholders A/c	Dr	30,100	
	To Bank A/c			100
	To Shares in R Ltd. A/c			30,000
	[Being final payment to the shareholders]			

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
	42,500		42,500

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
	10,500		10,500

Shareholders A/c

	Rs.		Rs.
To Bank	100	By Share capital	20,000
To Shares in R Ltd.(bal.fig)	30,000	By P & L A/c	7,000
		By Realisation (Profit)	3,100
	30,100		30,100

Big Ltd. agreed to acquire the assets of small Ltd. except its investments, as on December 31,2016. Balance Sheet of Small Ltd. as on Dec. 31,2016

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Share capital (Rs. 10 each)	1,60,000	Goodwill	50,000
Reserves	43,000	Land & Buildings	80,000
8% Debentures	60,000	Plant	80,000
Provision for taxation	20,000	Investments	30,000
Creditors	37,000	Stock	40,000
		Debtors	20,000
		Bank	20,000
	3,20,000		3,20,000

NETPAYMENT MEHOD-PC

- **Big Ltd. will:**
- **Discharge the debentures at 8% premium by issue of 7% debentures in Big Ltd. at 10% Discount.**
- **Issue of 3 shares of Big Ltd. at a valuation of Rs. 11 for every two shares in Small Ltd.**
- **Pay Rs. 2 in cash for each share of Small Ltd. And**
- **Pay absorption expenses of Rs. 3,000**

Small Ltd. sells its investments for Rs. 32,000. 1/3 of the shares received from Big Ltd. are sold at Rs. 10.50 each. Tax liability was determined at Rs. 24,000. Before the absorption, small Ltd. declares and pays 10% dividend to its shareholders.

You are required to give the required journal entries and ledger accounts in the books of the vendor company.

NETPAYMENT MEHOD-PC

<i>Particulars</i>	<i>Cash</i>	<i>Shares</i>	<i>Total</i>
<i>For shareholders</i>			
Cash-16,000 × 2	32.000	---	32.000
Shares in Big Ltd. $\left(\frac{16,000}{2} \times 3\right) = 24,000 \times 11$	--	2.64.000	2.64.000
Purchase consideration	32,000	2,64,000	2,96,00

31.12.16	Realisation A/c	Dr	3,04,000	
	To Goodwill A/c			50,000
	To Land & Buildings A/c			80,000
” ”	To Plant A/c			80,000
	To Investments A/c			30,000
	To Stock A/c			40,000
” ”	To Debtors A/c			20,000
	To Bank A/c (20,000 - 16,000)			4,000
	[Being transfer of assets to realisation]			
	8% Debentures A/c	Dr	60,000	
” ”	To Realisation A/c			60,000
	[Being Transfer]			
	Big Ltd. A/c	Dr	2,96,000	
	To Realisation A/c			2,96,000
	[Being purchase consideration receivable as per agreement)			

31.12.16	Bank A/c	Dr	32,000	
	Shares in Big Ltd. A/c	Dr	2,64,000	
	To Big Ltd. A/c			2,96,000
” ”	[Being purchase price received in the form of cash and shares]			
	Bank A/c	Dr	32,000	
	To Realisation A/c			32,000
” ”	[Being realisation of investments which were not taken over]			
	Provision for taxation A/c	Dr	20,000	
	Realisation A/c	Dr	4,000	
	To Tax liability A/c			24,000
” ”	[Being tax liability determined and excess loss thereon;			
	Tax liability A/c	Dr	24,000	
	Creditors A/c	Dr	37,000	
	To Bank A/c			61,000
” ”	[Being payment of liabilities not taken over]			

31.12.16	Big Ltd. A/c	Dr		3,000	
	To Bank A/c				3,000
	[Being payment of expenses of absorption on behalf of Big Ltd.]				
	Bank A/c	Dr		3,000	
	To Big Ltd. A/c				3,000
	[Being reimbursement of Expenses by Big Ltd.]				
31.12.16	Bank A/c	Dr		84,000	
	Realisation A/c	Dr		4,000	
	To Shares in Big Ltd. A/c				88,000
	[Being sale of 1/3 of 24,000 i.e., 8,000 shares received from Big Ltd. at Rs. 10.50 each)				
” ”	Share capital A/c	Dr		1,60,000	
	Reserves A/c (43,000 - 16,000)	Dr		27,000	
	To Shareholders A/c				1,87,000
	[Being transfer of capital and reserves]				
	Realisation A/c	Dr		76,000	
	To Shareholders A/c				76,000
	[Being profit on realisation]				
” ”	Shareholders A/c	Dr		2,63,000	87,000
	To Bank A/c				1,76,000
	To Shares in Big Ltd. A/c				

Ledger Realisation A/c

	Rs.		Rs.
To Sundry Assets	3,04,000	By Bank (investments)	32,000
To Tax liability (24,000 - 20,000)	4,000	By Big Ltd.	2,96,000
To Shares in Big Ltd. (loss)	4,000	By 8% Debentures	60,000
To Shareholders A/c (profit)	76,000		
	3,88,000		3,88,000

Shares in Big Ltd. A/c

	Rs.		Rs.
To Big Ltd.	2,64,000	By Bank (sale)	84,000
		By Realisation (loss)	4,000
		By Shareholders	1,76,000
	2,64,000		2,64,000

Big Ltd. A/c

	Rs.		Rs.
To Realisation	2,96,000	By Bank	32,000
To Bank (Expenses)	3000	By Shares in Big Ltd.	2,64,000
		By Bank (For Expenses)	3000
	299000		299000

Shareholders A/c

	Rs.		Rs.
To Bank A/c	87,000	By Share capital A/c	1,60,000
To Shares in Big Ltd.	1,76,000	By Reserves (43,000 - 16,000)	27,000
		By Realisation A/c	76,000
	2,63,000		2,63,000

Bank A/c

	Rs.		Rs.
To Balance b/d	20,000	By Dividend A/c	16,000
		By Realisation (transfer)	4,000
	20,000		20,000
To Big Ltd.	32,000	By Big Ltd. (Expenses)	3,000
To Realisation (Investments)	32,000		
To Shares in Big Ltd.	84,000	By Tax liability	24,000
To Big Ltd. (Expenses)	3,000	By Creditors	37,000
		By Shareholders	87,000
	1,51,000		1,51,000

Kala Ltd.'s Balance Sheet showed the following position on 31st March 2005.

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
10,000 equity shares of Rs. 100 each	10,00,000	Fixed assets	8,00,000
Capital reserve	2,00,000	Current assets	4,00,000
Bank loan	2,00,000	Cash at bank	2,00,000
Trade creditors	3,00,000	Profit & Loss A/c	3,00,000
	17,00,000		17,00,000

Mala Ltd. was incorporated to take the fixed assets and 60% of the current assets at an agreed value of Rs. 9,00,000 to be paid as to Rs. 7,40,000 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. 90,000, After meeting Rs. 20,000 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.

Books of Mala Ltd. (purchasing company) Journal entries

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Dr</i>	<i>Cr</i>
			Rs.	Rs.
31.3.2005	Business purchase A/c Dr To Liquidator of Kala Ltd. [Being purchase price payable]		7,40,000	7,40,000
" "	Fixed assets A/c Dr Current assets A/c Dr		8,00,000 2,40,000	
" "	$\left(4,00,000 \times \frac{60}{100} \right)$ To Business purchase A/c To Bank Loan A/c To Capital reserve A/c (bal. fig) [Being assets and Liability taken over profit thereon]			7,40,000 1,60,000 1,40,000
" "	Bank Loan A/c Dr To 9% Debentures A/c [Being Debentures issued to settle Bank Loan]		1,60,000	1,60,000
" "	Liquidator of Kala Ltd. A/c Dr To 9% Debentures A/c To Share capital A/c [Being payment of purchase price in the form of shares and debentures]		9,00,000	1,60,000 7,40,000

REALISATION A/C

	Rs.		Rs.
To Fixed assets	8,00,000	By Mala Ltd.	7,40,000
To Current assets	4,00,000	By Bank (40% of current assets)	90,000
To Bank (expenses)	20,000	By Bank loan	2,00,000
		By Creditors (discount)	30,000
		By Shareholders (los')	1,60,000
	12,20,000		12,20,000

BANK A/C

	Rs.		Rs.
To Balance b/d	2,00,000	By Realisation (expenses)	20,000
To Realisation A/c	90,000	By Creditors (Bal. fig,	2,70,000
	2,90,000		2,90,000

Shareholders A/c

	Rs.		Rs.
To P & L A/c	3,00,000	By Share capital A/c	10,00,000
To Realisation A/c (loss)	1,60,000	By Capital reserve A/c	2,00,000
To Shares in Mala Ltd.	7,40,000		
	12,00,000		12,00,000

Books of Kala Ltd.(Selling Company)Journal entries

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Dr</i>	<i>Cr</i>
			Rs.	Rs.
31.3.05	Realisation A/c Dr To Fixed assets A/c To Current assets A/c [Being transfer of assets to realisation except cash at bank]		12,00,000	8,00,000 4,00,000
" "	Bank Loan A/c Dr To Realisation A/c [Being Transfer of Liability to be settled Transferee Co.] by		2,00,000	2,00,000
31.3.05	Mala Ltd. A/c Dr To Realisation A/c [Being purchase price receivable]		7,40,000	7,40,000
" "	Shares in Mala Ltd. A/c Dr To Mala Ltd. A/c [Being purchase price received in the form of shares]		7,40,000	7,40,000

” ”	Bank A/c	Dr	90,000	
	To Realisation A/c			90,000
	[Being amount realised for 40% of the current assets not taken over by Mala Ltd.]			
” ”	Realisation A/c	Dr	20,000	
	To Bank A/c			20,000
	[Being payment of liquidation expenses]			
	Trade creditors A/c	Dr	3,00,000	
	To Bank A/c			2,70,000
” ”	To Realisation A/c			30,000
	[Being settlement of creditors by payment of all the cash available]			
” ”	Equity share capital A/c	Dr	10,00,000	
” ”	Capital reserve A/c	Dr	2,00,000	
	To Equity shareholders A/c			12,00,000
	[Being transfer of capital and reserve]			
” ”	Equity shareholders A/c			
	To Profit & Loss A/c	Dr	3,00,000	
” ”	[Being transfer of accumulated loss] Shareholders A/C			3,00,000
	To Realisation A/c	Dr	1,60,000	
	[Being loss on realisation]			

Balance Sheet of Mala Ltd. as on 31st March 2005

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Share capital:		Fixed assets	8,00,000
74,000 share of Rs. 10 each fully paid	7,40,000	Current assets	2,40,000
(all the above shares were issued for consideration other than cash)			
Capital reserve	1,40,000		
9% debentures	1,60,000		
	10,40,000		10,40,000

**The books of S Ltd. contained the following balances as on
May 31.2004**

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

The Patents and trademarks 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 authorised 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.**
- (iii) 1,20,000 shares of Rs. 10 each (Rs. 5 per share paid) will be issued to the shareholders of S Ltd.; the balance Rs. 5 per share to be paid on allotment,**
- (iv) Expenses of liquidation amounting to Rs. 17,500 will be paid by S.S. Ltd. The scheme was approved by all concerned. You are required to:**
- (v) Close the ledger of S. Ltd.**
- (vi) Give entries to open the books of S.S. Ltd.**
- (vii) Prepare the opening balance sheet of S. S. Ltd.**

Books of 'S' Ltd. (Transferor company)

Ledger Realisation A/c

<i>Particulars</i>	<i>Rs.</i>	<i>Particulars</i>	<i>Rs.</i>
To Patents & Trademarks	12,00,000	By S. S. Ltd.	6,00,000
To Plant & Machinery	4,00,000	By Creditors	14,00,000
To Stock	3,00,000	By Shareholders (loss) (bal. fig)	4,12,500
To Debtors	5,00,000		
To Cash	12,500		
	24,12,500		24,12,500

Shareholders A/c

<i>Particulars</i>	<i>Rs.</i>	<i>Particulars</i>	<i>Rs.</i>
To Preliminary expenses	72,500	By Share capital A/c	12,00,000
To Profit & Loss A/c	1,15,000		
To Realisation A/c	4,12,500		
To Shares in S.S. Ltd.	6,00,000		
	12,00,000		12,00,000

BANK A/C

<i>Particulars</i>	<i>Rs.</i>	<i>Particulars</i>	<i>Rs.</i>
To S. S. Ltd. (Expenses)	17,500	By S.S. Ltd. (Expenses)	17,500
	17,500		17,500

S.S LTD

<i>Particulars</i>	<i>Rs.</i>	<i>Particulars</i>	<i>Rs.</i>
To Realisation A/c	6,00,000	By Shares in S. S. Ltd.	6,00,000
	6,00,000		6,00,000

CREDITORS A/c

<i>Particulars</i>	<i>Rs.</i>	<i>Particulars</i>	<i>Rs.</i>
To Realisation A/c (Transfer)	14,00,000	By Balance b/d	14,00,000
	14,00,000		14,00,000

SHARES IN S.S.LTD A/C

<i>Particulars</i>	<i>Rs.</i>	<i>Particulars</i>	<i>Rs.</i>
To S.S. Ltd. A/c	6,00,000	By Shareholders A/c	6,00,000
	6,00,000		6,00,000

Books of S. S. Ltd. (Transferee Company)

Journal entries

<i>Date</i>	<i>Particulars</i>	<i>L.F.</i>	<i>Dr</i>	<i>Cr</i>
			Rs.	Rs.
31.5.2004	Business purchase A/c Dr <div style="text-align: right;">To Liquidator of S Ltd. A/c</div> [Being purchase price payable as per agreement]		6,00,000	6,00,000
	Patents & Trademarks A/c Dr Machinery A/c Dr Stock A/c Dr Debtors A/c Dr		12,00,000 4,00,000 3,00,000 5,00,000	
" "	Cash A/c Dr <div style="text-align: right;">To Business purchase A/c</div> To Creditors (1400000X75/100) To Capital reserve A/c (bal. fig)		12,500	6,00,000 10,50,000
	[Being assets and liabilities taken over and capital profit thereon]			7,62,500

31.5.2004	Capital reserve A/c	Dr	7,62,500	
	To Bank (Expenses)			17,500
	To Patents & Trademarks A/c (Bal. Fig.)			7,45,000
	[Being capital profit utilized to write off patents and trademarks after providing for expenses]			
” ”	Liquidator of S.S. Ltd. A/c	Dr	6,00,000	
	To Equity share capital A/c (Rs. 5 paid)			6,00,000
	[Being payment of purchase price as per scheme of reconstruction]			
	Bank A/c		6,00,000	
	To Equity share capital A/c	Dr		6,00,000
” ”	[Being receipt of Rs. 5 per share on 60,000 equity shares as per the terms of reconstruction]			
	Creditors A/c	Dr	10,50,000	
	To Bank A/c			3,50,000
	To 9% Debentures A/c			7,00,000
	[Being Payment to Creditors]			

Balance Sheet of S.S. Ltd. as on 31st May 2004

<i>Liabilities</i>	<i>Rs.</i>	<i>Assets</i>	<i>Rs.</i>
Share capital:		Patents & Trademarks	
<i>Authorized: 2,00,000 shares</i>		(12,00,000-7,45,000)	4,55,000
of Rs. 10 each	20,00,000	Plant & Machinery	4,00,000
		Stock	
			3,00,000
Issued and paid up capital		Debtors	5,00,000
1,20,000 shares of Rs. 10 each		Cash	12,500
fully paid	12,00,000	Bank	2,32,500
9% Debentures	7,00,000	(6,00,000-3,67,500)	
	19,00,000		19,00,000

Calculation of Purchase Consideration

For Shareholders, Shares in S.S. Ltd.: $1,20,000 \times 5 = \text{Rs. } 6,00,000$