

Illustration 8 (Absorption : Amalgamation in the Nature of the Merger)

The Balance Sheets of W Ltd. and S Ltd. as at 31st March, 2017 were as follows:

Particulars	Note No.	W Ltd. (₹)	S Ltd. (₹)
I EQUITY AND LIABILITIES			
1. Shareholder's Funds			
(a) Share Capital			
Equity Share Capital (shares of ₹ 10 each)		30,00,000	15,00,000
(b) Reserve and Surplus			
General Reserve		40,000	3,60,000
2. Current Liabilities			
(a) Trade Payables (Creditors)		2,00,000	90,000
Total		32,40,000	19,50,000
II ASSETS			
1. Non-Current Assets			
(a) Fixed Assets (Tangible)			
Land and Building		15,00,000	9,00,000
Plant and Machinery		9,00,000	6,00,000
2. Current Assets			
(a) Inventories (Stock-in-trade)		2,80,000	1,95,000
(b) Trade Receivables (Debtors)		3,60,000	1,50,000
(c) Cash and Cash Equivalents (Bank)		2,00,000	1,05,000
Total		32,40,000	19,50,000

W. Ltd. agreed to absorb the business of S Ltd. on the following terms :

(i) W Ltd. would acquire all assets and liabilities of S Ltd. at book value.

(ii) W Ltd. agreed to issue six shares of ₹ 10 each for every five shares of S Ltd.

The expenses of absorption amounting to ₹ 30,000 were paid by W. Ltd.

Pass journal entries in the books of W Ltd. according to pooling of interests (merger) method and prepare its balance sheet after absorption.

Solution**Purchase Consideration**

$$\text{Equity Shares} : \frac{6}{5} \times 1,50,000 \times ₹ 10 = 18,00,000$$

In The Books of W LTD.**Journal Entries**

Date	Particulars	Debit ₹	Credit ₹
(i)	Business Purchase Account To Liquidators of S Ltd	Dr. 18,00,000	18,00,000

Illustration 9 (Amalgamation in the Nature of Purchase: Net Assets Method)

Following are the Balance Sheets of Rahul Ltd. and Mehul Ltd. as on 31st March, 2017:

	Particulars	Note No.	Rahul Ltd. (₹)	Mehul Ltd. (₹)
I	EQUITY AND LIABILITIES			
	1. Shareholder's Funds			
	(a) Share Capital			
	Equity Shares of ₹ 10 each, fully paid		5,00,000	3,00,000
	10% Preference Shares of ₹ 100 each, fully paid		—	2,00,000
	12% Preference Shares of ₹ 100 each, fully paid		3,00,000	—
	(b) Reserve and Surplus			
	General Reserve		1,00,000	1,21,000
	Surplus		50,000	40,000
	Statutory Reserve		20,000	10,000
	2. Non-Current Liabilities			
	(a) Long term borrowings (9% Debentures)		1,50,000	1,50,000
	3. Current Liabilities			
	(a) Trade Payables (Creditors)		1,00,000	59,000
	(b) Other current liabilities		60,000	40,000
	Total		12,80,000	9,20,000
II	ASSETS			
	1. Non-Current Assets			
	(a) Fixed Assets			
	(i) Tangible—			
	Building		3,00,000	4,00,000
	Machinery		1,00,000	90,000
	Furniture		20,000	10,000
	(ii) Intangible (Goodwill)		—	50,000
	(b) Non-Current Investments		2,00,000	50,000
	2. Current Assets			
	(a) Inventories (Stock-in-trade)		1,00,000	1,00,000
	(b) Trade Receivables (Debtors)		3,00,000	1,50,000
	(c) Cash and Cash Equivalents (Bank)		30,000	20,000
	(d) Other Current Assets		2,30,000	50,000
	Total		12,80,000	9,20,000

On the above date Rahul Ltd. takes over the business of Mehul Ltd. on the following terms and conditions:

- All fixed Assets (other than Goodwill) are to be taken over at 20% above book values and current assets (other than cash & bank balance) are valued at 15% below book values.
- Goodwill to be considered as worth ₹ 1,50,000.
- Equity Shareholders of Mehul Ltd. are to be issued, 8 Equity Shares of ₹ 10 each in Rahul Ltd. at ₹ 12 each, for every 5 Equity Shares in Mehul Ltd. Balance of Purchase Consideration to be paid in cash.

- (iv) 10% Preference Share holders of Mehul Ltd. are to be paid at 10% premium by issue of 12% Preference Shares of Rahul Ltd. at par.
- (v) Investments of Mehul Ltd. represent investments in own debentures of face value ₹ 50,000 purchased at par, which are to be cancelled before the company is taken over by Rahul Ltd.
- (vi) Investments of Rahul Ltd. include investments in 9% Debentures of Mehul Ltd. of face value ₹ 1,00,000 purchased at ₹ 95,000.
- (vii) Sundry Debtors of Rahul Ltd. include ₹ 5,000 due from Mehul Ltd.
- (viii) Statutory Reserves are to be maintained for two more years.

You are required to :

1. Compute Purchase Consideration.
2. Pass necessary Journal Entries in the books of Rahul Ltd.
3. Prepare Balance Sheet of Rahul Ltd. after amalgamation

Solution

Mehul Ltd. Purchase Consideration

	₹	₹
Assets Taken Over		
Goodwill	1,50,000	
Building	4,80,000	
Machinery	1,08,000	
Furniture	12,000	
Debtors	1,27,500	
Stock	85,000	
Other Current Assets	42,500	
Bank	20,000	
Less:		10,25,000
Liabilities taken over		
9% debentures [1,50,000 - 50,000 (own debentures)]	1,00,000	
Sundry Creditors	59,000	
Other Liabilities	40,000	(1,99,000)
		8,26,000

Settlement of Purchase Consideration