

५

एकई

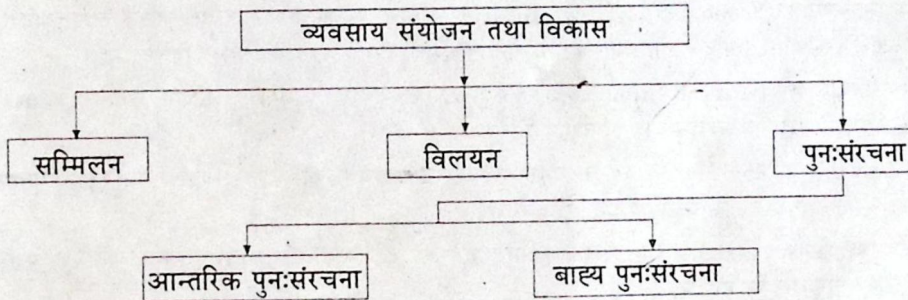
सम्मिलन, विलयन र पुनः संरचना Amalgamation, Absorption and Reconstruction

११५५००

सम्मिलन, विलयन र पुनःसंरचनाको धारणा

Concept of Amalgamation, Absorption and Reconstruction

छरिएर रहेका दुई वा दुईभन्दा बढी व्यवसायलाई एकीकृत गरी व्यवसायिक उत्पादकत्व बढाउने प्रयत्न गरिन्छ । दुई वा दुईभन्दा बढी व्यवसायमा लगाइएको प्रयत्नलाई एउटै वा सामूहिक नियन्त्रणमा ल्याउने प्रक्रियालाई व्यवसाय समायोजन भनिन्छ । प्रायः जसो समान प्रकृतिका व्यवसायहरू आफ्नो उत्पादकत्व बढाउन समायोजित हुन्छन् । जसबाट बजारमा प्रतिस्पर्धामा कमी आई व्यवसायिक सफलता वृद्धि हुन्छ । व्यवसायको समायोजन सम्मिलन र विलयन गरी गर्न सकिन्छ ।

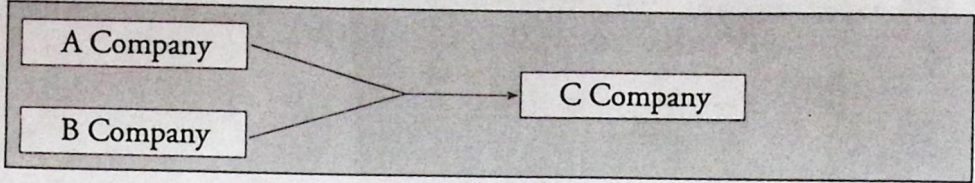


सम्मिलन (Amalgamation (Nature of Merger))

दुई वा दुई भन्दा बढी समान प्रकृतिका व्यवसायहरू विघटन गरी नयाँ कम्पनीको स्थापना गर्ने प्रक्रियालाई सम्मिलन भनिन्छ । विघटित व्यवसायहरूको कानुनी अस्तित्व नयाँ व्यवसाय स्थापना हुनासाथ समाप्त हुन्छ । समग्रमा लगानीमा वृद्धि गरी व्यवसायिक उत्पादकत्व बढाउनको निमित्त व्यवसायहरूबीच सम्मिलन गरिन्छ । व्यावसायको सम्मिलनबाट व्यवसायिक प्रतिस्पर्धा कम हुन्छ । व्यवसाय सम्मिलन गर्दा सम्मिलन हुने कम्पनीलाई गाभिने कम्पनी (Vendor Company) भनिन्छ । जस्तैः पृथक रूपमा सञ्चालनमा रहेका दुई वित्तीय संस्थाहरू NIC Bank र Bank of Asia विघटन गरी नयाँ कम्पनी NIC Asia स्थापना गरिएको छ ।

सम्मिलन हुँदा निम्न सर्तहरू आवश्यक हुन्छन् :

- सबै सम्मिलन हुने कम्पनीहरू विघटन हुन्छन् । (All amalgamated companies are liquidated.)
- नयाँ कम्पनीको स्थापना अपरिहार्य हुन्छ । (New Company must be established)
- सम्मिलन प्रक्रियामा कम्तीमा तीन कम्पनीको आवश्यकता रहन्छ । (At least three companies needed in the case of amalgamation.)



सम्मिलनका उद्देश्यहरू (Motive for Amalgamation)

दुई र दुई जोड्दा पाँच प्रभाव हुने अवस्थाको आधारमा सम्मिलन प्रक्रिया रहेको हुन्छ । दुई वा दुईभन्दा बढी व्यवसायको व्यक्तिगत प्रभावलाई समष्टिगत गरेर यस्तो अवस्थाको सृजना हुन्छ । दुई वा बढी संस्थाहरूको समायोजन गर्दा दुवै व्यवसायको व्यक्तिगत मूल्य जोडभन्दा नयाँ बन्ने व्यवसायको मूल्य बढी हुन्छ ।

$$V(AB) > V(A) + V(B)$$

जहाँ, $V(AB)$ – सम्मिलन पश्चात् बनेको व्यवसायको मूल्य (The value of the amalgamated company AB)

$V(A)$ – सम्मिलन पूर्व सम्मिलन हुने कुनै एउटा A भन्ने कम्पनीको मूल्य (The independent value of the amalgamating company A before amalgamation)

$V(B)$ – सम्मिलन पूर्व सम्मिलन हुने कुनै एउटा B भन्ने कम्पनीको मूल्य (The independent value of the amalgamating company B before amalgamation.)

व्यवसाय सम्मिलनका मुख्य उद्देश्यहरूलाई निम्नानुसार प्रस्तुत गरिएको छ ।

- क) स्तरको मितव्ययीता (Economies of Scale): सम्मिलन पश्चात् बनेको कम्पनीले सञ्चालन लागतबाट फाइदा लिन सक्दछ । अर्थात् उत्पादन लागतमा कटौती गर्न सक्दछ । जसबाट स्तरको मितव्ययीता हुन्छ ।
- ख) वित्तीय मितव्ययीता (Financial Economies): कर बचत, उच्च ऋण क्षमता र ऋणमा कम व्याज दर जस्ता फाइदा सम्मिलन पश्चात व्यवसायले प्राप्त गर्दछ ।
- ग) वृद्धि (Growth): सम्मिलन पश्चात दुई वा दुईभन्दा बढी व्यवसायहरूको व्यावसायिक क्षमता एउटै व्यवसायमा हुने हुँदा यसले समग्र व्यवसायको वृद्धिमा सहयोग गर्दछ ।
- घ) विविधीकरण (Diversification): सम्मिलन पश्चात् दुई वा दुईभन्दा बढी व्यवसायहरूको विविध पक्षहरूको प्रयोग हुँदा जोखिम न्यून हुन जान्छ ।
- ङ) व्यवस्थापकीय प्रभावकारीता (Managerial Effectiveness): सम्मिलन पश्चात उत्कृष्ट व्यवस्थापकलाई आफ्नो सीप, ज्ञान क्षमता र अनुसन्धान, दक्षताको प्रयोग गर्ने अवसर प्राप्त हुने भएकाले व्यवस्थापकीय प्रभावकारीता बढ्न जान्छ ।

सम्मिलनका फाइदाहरू (Advantage of Amalgamation)

- क) कम्पनीका बीचमा हुने प्रतिस्पर्धा हटाउँदछ ।
- ख) कम्पनीको संयोजन गरी पुनःसंरचना वृद्धि गरिन्छ ।
- ग) स्थापना र व्यवस्थापन खर्च कम गर्न सकिन्छ ।
- घ) ठूलो परिमाणमा उत्पादन गर्न सकिन्छ ।

- ड) सञ्चालन खर्च कम गर्न सकिन्छ ।
- च) अनुसन्धान तथा खोज कार्य सम्भव हुन्छ ।
- छ) बजार शक्तिको अभिवृद्धि गर्न सकिन्छ ।
- ज) एकैपल्ट अधिक कच्चा पदार्थ खरिद गर्दा मूल्य कम हुन्छ ।
- झ) वस्तुको मूल्यमा स्थिरता हुन्छ ।

सम्मिलनका बेफाइदाहरू (Disadvantage of Amalgamation)

- क) व्यवसाय संयोजनले अधिक पुनःसंरचनाकरण हुन सक्दछ ।
- ख) एकाधिकारको सम्भावना रहन्छ ।
- ग) पुरानो कम्पनीको ख्यातिमा कमी आउँदछ ।
- घ) नयाँ कम्पनीको व्यवस्थापनमा कठिनाई हुन्छ ।
- ड) विघटित कम्पनीको कानुनी अस्तित्व समाप्त हुन्छ ।

सम्मिलनका प्रक्रियाहरू (Procedures)

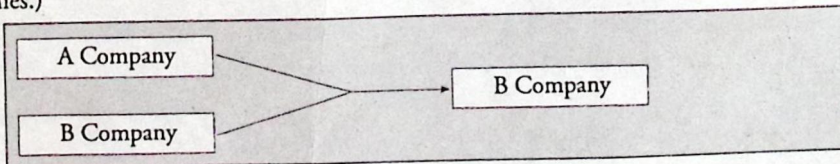
सम्मिलनमा निम्न प्रक्रियाहरू प्रयोग गरिन्छ :

- क) विद्यमान कम्पनीका सबै संचालकहरू सम्मिलन पश्चातको कम्पनीमा संचालककै रूपमा कार्य गर्दछन् ।
- ख) सम्मिलनका सबै योजना तथा क्रियाकलापहरू सम्बन्धीत कम्पनी रजिष्ट्रारको कार्यालयमा स्वीकृतिका लागि पेश गर्नुपर्दछ ।
- ग) विद्यमान कम्पनीका सेयरधनीहरूले सम्मिलन हुने सबै प्रक्रियाहरू पूर्व निर्धारित नियमावली र प्रचलित कानुन बमोजिम छ भनी प्रमाणित गर्नुपर्दछ ।
- घ) सम्मिलन हुन चाहने कम्पनीहरू कानूनतः विघटित हुन्छन् र यसका सबै सम्पत्ति र दायित्वहरू नयाँ कम्पनीले वहन गर्नुपर्दछ ।

विलयन (Absorption/Nature of Purchase)

पृथक पृथक रूपमा व्यावसायिक क्रियाकलापहरू सञ्चालन गरिरहेका कम्पनीहरू मध्ये एउटा ठूलो पूँजी वा आकार भएको कम्पनीले अर्को सानो पूँजी वा आकार भएको कम्पनीलाई खरिद गर्दछ वा सानो कम्पनी ठूलो कम्पनीमा गाभिन्छ भने त्यसलाई विलयन भनिन्छ । विलयन प्रक्रियामा दुई कम्पनी मध्ये एक कम्पनीको मात्र कानुनी अस्तित्व कायम रहन्छ । गाभिने कम्पनीको कानुनी अस्तित्व विलयन पश्चात स्वतः समाप्त हुन्छ । जस्तै: सञ्चालन भइरहेको A Company ले सञ्चालनमा रहेको B Company लाई आफ्नो कम्पनीमा गाभ्नु विलयन हो । विलयन प्रक्रियामा निम्न अवस्थाहरू देखापर्दछन् ।

- विलयन हुने कम्पनी तरलतामा परिणत हुन्छ । (Absorbed company goes into liquidation)
- नयाँ कम्पनीको स्थापना आवश्यक छैन । (Need not to establish new company)
- एक वा एकभन्दा बढी कम्पनीहरू विलयन हुन सक्दछ । (There can be one or more than one absorbed companies.)



सम्मिलन र विलयनबीच भिन्नता (Difference between Amalgamation and Absorption)

सम्मिलन र विलयनबीचको भिन्नतालाई निम्नानुसार प्रस्तुत गरिएको छ :

भिन्नताको आधार (Bases of Differences)	सम्मिलन (Amalgamation)	विलयन (Absorption)
विघटन (Liquidation)	दुई वा बढी कम्पनीहरू विघटन हुन्छन् ।	एक वा बढी कम्पनीहरू विघटन हुन्छन् ।
नयाँ कम्पनीको स्थापना (Formation)	नयाँ कम्पनीको स्थापना हुन्छ ।	नयाँ कम्पनी स्थापना हुँदैन ।
आकार (Size)	यसमा सम्मिलन हुने कम्पनीको आकार निश्चित हुँदैन ।	किन्ने कम्पनी गाभिने कम्पनि भन्दा ठुलो हुनु जरुरी छ ।

पुनःसंरचना (Reconstruction)

यदि कुनै कम्पनीले आफ्नो व्यावसायिक क्रियाकलाप नियमित तथा सहि ढंगबाट सम्पान गर्न सकिरहेको छैन वा व्यावसाय नोक्सानमा चलिरहेको वा व्यावसायिक अस्तित्व संकटमा परेको छ भने उक्त कम्पनीलाई आन्तरिक वा बाह्य रूपमा पुनः संरचना गर्नुपर्दछ । यदि कम्पनी निरन्तर नोक्सानमा चलिरहेको छ, अथवा कम्पनीको ख्याति नराम्रो छ भने त्यस्ता प्रकृतिका कम्पनीले पुनःसंरचना गर्दछन् । पुनःसंरचना आन्तरिक रूपमा वा बाह्य रूपमा गर्ने गरिन्छ । यदि व्यवसायको आन्तरिक व्यवस्थापन तथा संरचनामा परिवर्तन गरिन्छ, जसलाई प्रत्यक्ष रूपमा बाहिरबाट देख्न सकिँदैन भने त्यसलाई आन्तरिक पुनःसंरचना भनिन्छ । यदि संगठनको भौतिक संरचना, नाम वा अन्य कुनै कुरा परिवर्तन जसलाई प्रत्यक्ष रूपमा बाहिरबाट परिवर्तन भएको देख्न सकिन्छ भने त्यसलाई बाह्य पुनःसंरचना भनिन्छ ।

१) बाह्य पुनःसंरचना (External Reconstruction):

कम्पनीले आफ्नो व्यावसायिक क्रियाकलाप सम्पादनमा निरन्तर प्रतिकूलता उत्पन्न भएको अवस्थामा यसको दैनिक क्रियाकलापमा अवरोध सिर्जना हुन्छ । यदि कम्पनी लगातार नोक्सानमा चलिरहेको अवस्थामा यसको ख्यातिमा नराम्रो असर पर्दछ । त्यसैले यस्ता प्रकृतिका कम्पनी विघटित भई नयाँ कम्पनीको स्थापना हुन सक्दछन् । बाह्य पुनर्गठनमा विघटन हुने कम्पनीलाई विघटित कम्पनी भनिन्छ भने नयाँ स्थापना हुने कम्पनीलाई खरिद गर्ने कम्पनी भनिन्छ । यस किसिमको पुनर्गठनमा कानुनी प्रक्रिया सम्मिलन तथा विलयनमा जस्तै हुन्छ । पुनःसंरचना गरिएको नयाँ कम्पनीका अंशियारहरू पुरानै विघटित कम्पनीका अंशियारहरू नै रहने गर्दछन् । जस्तै: सञ्चालन भइरहेको Millennium Company विघटित भई New Millennium Company स्थापना गरिन्छ र नयाँ कम्पनीले पुरानो कम्पनीलाई खरिद गर्दछ भने त्यसलाई बाह्य पुनःसंरचना भनिन्छ ।

२) आन्तरिक पुनःसंरचना (Internal Reconstruction):

व्यवसाय कमजोर अवस्थामा रहेको समयमा यसको वित्तीय संरचना तथा व्यवस्थापनमा परिवर्तन गरी पुनःसंरचना गरिन्छ भने त्यसलाई आन्तरिक पुनःसंरचना भनिन्छ । व्यवसायले आफ्नो पूँजी व्यवस्थापन तथा आन्तरिक सञ्चालन संयन्त्रमा परिवर्तन गर्दछ, जसलाई प्रत्यक्ष रूपमा देख्न सकिँदैन ।

आन्तरिक पुनर्गठन महत्त्व तथा आवश्यकताहरू (Importance and Need of Internal Reconstruction)

आन्तरिक पुनःसंरचना को महत्त्व तथा आवश्यकतालाई निम्नानुसार प्रस्तुत गरिएको छ :

- जब कम्पनीको पूँजीगत संरचना जटिल बन्छ तब यसलाई पुनःसंरचना गरी सरल बनाउनु पर्दछ ।
- जब पूँजीको अंश दृश्य सम्पत्तिमा प्रदर्शित हुँदैन तब कम्पनीलाई पुनर्गठन गर्नुपर्दछ ।
- सेयरको अंकित मूल्यमा परिवर्तन गरी भावि लगानीकर्ताहरूलाई आकर्षित गर्नुपरेमा कम्पनीको पुनर्गठन गर्नुपर्दछ ।
- जब कम्पनीमा अधिक घाटाको स्थिति देखा पर्दछ ।

लेखा विधि (Method of Accounting)

सम्मिलन विलयन र पुनर्गठनको लेखा प्रणाली समान हुन्छ ।

- क) गाभिने कम्पनि (Vendor Company)
- ख) क्रेता कम्पनि (Purchasing Company)

सम्मिलन लेखा प्रक्रियामा निम्न तहहरू समावेश हुन्छन् ।

- क) क्रय मूल्यको निर्धारण (Determination of purchase consideration)
- ख) गाभिने कम्पनीको अन्तिम अभिलेख (Closing entries in the book of vender Company)
- ग) क्रेता कम्पनीको प्रारम्भिक अभिलेख (Opening entries in the book of purchasing company)

१) क्रय मूल्यको निर्धारण (Determination of Purchase Consideration)

क्रयमूल्य भन्नाले क्रेता कम्पनीले गाभिने कम्पनीलाई यसको व्यवसाय प्राप्तिका लागि प्रदान गर्ने मूल्य हो । AS-14 का अनुसार क्रय मूल्य भुक्तानी गर्दा, सेयर जारी गरेर, नगद भुक्तानी गरेर, नयाँ ऋणपत्र जारी गरेर भुक्तानी गर्न सकिन्छ । क्रेता कम्पनीले व्यवसाय खरिद गरेवापत अर्थात् विक्रेता कम्पनीको सम्पत्ति तथा दायित्वहरू लिए वापत भुक्तानी गर्ने जम्मा रकमलाई क्रय मूल्य भनिन्छ ।

क्रयमूल्य निर्धारण गर्ने विधिहरू (Methods of Calculating Purchase Consideration):

क्रयमूल्य निर्धारण गर्दा निम्न चार विधिहरू अपनाइन्छ ।

- क) एकमुष्ट रकम निर्धारण विधि (Lump sum method)
- ख) खुद भुक्तानी विधि (Net payment method)
- ग) खुद सम्पत्ति विधि (Net assets method)
- घ) सेयरको यथार्थ मूल्य विधि (Value of share method (Intrinsic value methods))

माथिका विधिहरू मध्ये कुन विधि अपनाउने भन्ने कुराको निर्धारण सूचनाको उपलब्धताको आधारमा गरिन्छ ।

क) एकमुष्ट रकम निर्धारण विधि (Lump sum method): यदि क्रेता कम्पनीले विक्रेता कम्पनीलाई एकमुष्ट क्रय मूल्य भुक्तानी गर्दछ भने यस विधिलाई एकमुष्ट क्रय मूल्य निर्धारण विधि भनिन्छ । यस विधिअनुसार छुट्टाछुट्टै शीर्षकको मूल्याङ्कन गरिदैन । क्रेता कम्पनी र विक्रेता कम्पनीका बीचमा आपसी सम्झौताका आधारमा एकमुष्ट मूल्य निर्धारण गरिन्छ । उदाहरणका लागि, रामानन्द कम्पनी लि. ले ध्रुव लिमिटेड कम्पनी खरिद गरी आपसी समझदारीका आधारमा रु.१२,००,००० दिने सम्झौता गरिन्छ भने यस विधिलाई एकमुष्ट क्रयमूल्य निर्धारण विधि भनिन्छ ।

ख) खुद भुक्तानी विधि (Net Payment Method): खुद भुक्तानी विधिअनुसार क्रयमूल्य निर्धारण गर्न क्रेता कम्पनीले विक्रेता कम्पनीलाई यसअन्तर्गत साधारण सेयर, ऋणपत्र, पूर्वाधिकार सेयर, नगद भुक्तानी समावेश गरी विक्रेता कम्पनीलाई भुक्तानी गरिन्छ । यसलाई निम्नानुसार निर्धारण गर्न सकिन्छ :

Net payment method

Particulars	Amount
Equity Shares of Purchasing Company.....	XXX
Preference Shares of Purchasing Company	XXX
Debentures of Purchasing Company	XXX
Cash	XXX
Purchase Consideration	XXX

Illustration - 1

X Ltd. agrees to acquire the business of Y Ltd., on the following terms:

- The shareholders of Y Ltd. are to be paid Rs.25 per share in cash and are offered four shares of Rs.10 each in X Ltd. for every share in Y Ltd. Y Ltd. has 50,000 equity shares outstanding as on the date of amalgamation.
- The debenture holders holding 5,000 debentures of Rs.100 each are to be redeemed at a premium of 10%.
- Cost of liquidation amounting to Rs.25,000 are to borne by X Ltd.

Required: Calculate the value of purchase consideration

Solution:

Amount payable to Shareholders of Y Ltd.		Amount (Rs.)
Cash payment (Rs.25 × 50,000)		12,50,000
Shares issued (50,000 × 4 × 10)		20,00,000
Total purchase consideration		32,50,000

ग) खुद सम्पत्ति विधि (Net Assets Method): यस विधिअन्तर्गत विक्रेता कम्पनीले उपलब्ध गराएको सम्पत्ति तथा दायित्वहरूको फरक निर्धारण गरिन्छ । अर्थात् क्रेता कम्पनीले लिएको सम्पूर्ण सम्पत्तिहरू र उसले वहन गर्नुपर्ने सम्पूर्ण दायित्वहरू बिचको फरक नै खुद सम्पत्ति विधि हो । यस विधिअनुसार क्रयमूल्य निर्धारण गर्नका लागि निम्न तरिका अपनाउन सकिन्छ ।

Net asset method:

Purchase Consideration

Particulars	Amount
Assets taken over by purchasing company	xxx
Less: Liabilities taken over by purchasing company	xxx
Net assets	xxx
Add: Payment for goodwill	xxx
Purchase consideration	xxx

Modes of Payment

Equity shares of purchasing company	xxx
Preference shares of purchasing company	xxx
Debentures of Purchasing Company	xxx
Cash	xxx
Purchase consideration	xxx

Illustration - 2

The balance sheet of Ranjan Ltd. on 31st March, 2009 was as under:

Liabilities	Rs.	Assets	Rs.
Share Capital:		Land and Buildings	4,00,000
75,000 Equity shares of Rs.20 each fully paid	1,50,000	Plant and Machinery	2,56,000
10% Debentures	4,00,000	Sundry Debtors	1,60,000
Outstanding interest on debentures	40,000	Debenture fund investments	80,000
Sundry Creditors	1,20,000	Cash	4,000
General Reserve	80,000	Preliminary Expenses	20,000
Debenture Redemption Fund (Sinking fund)	80,000		
Profit and Loss Account	50,000		
	9,20,000		9,20,000

Sumant Ltd. absorbs Ranjan Ltd. on the following terms:

- Sumant Ltd. to take over sundry creditors.
- It will also take over land and buildings, Plant and Machinery and investments at 120% of book values, sundry debtors at 90% of book values and goodwill at Rs.70,800.
- Liability to debentures including interest to be met by issue of Rs.5,00,000, 15% debentures by Sumant Ltd.

Required: Calculate purchase consideration

Solution:

Calculation of Purchase Consideration

Particulars	Amount
Agreed value of Assets taken over	
Land and Building.....	4,80,000
Plant and Machinery.....	3,07,200
Sundry Debtors.....	1,44,000
Debentures Fund Investments.....	96,000
Goodwill.....	70,800
	10,98,000
Less: Agreed value of Liabilities taken over:	
Sundry Creditors.....	1,20,000
10% debentures.....	4,00,000
Debenture interest.....	40,000
	5,60,000
Purchase consideration	5,38,000

घ) सेयरको यथार्थ मूल्य विधि (Value of share method (Intrinsic value method): सेयरको याथर्थ मूल्य विधि अनुसार क्रय मूल्य निर्धारण गर्दा प्रति एकाइ सेयरको यथार्थ मूल्य पत्ता लगाइन्छ । जसमा विक्रेता कम्पनीको खुद सम्पत्तिलाई कुल सेयर संख्याले भाग गरी प्रत्येक सेयरको यथार्थ मूल्य पत्ता लगाइन्छ । प्रति एकाइ सेयरको यथार्थ मूल्य पत्ता लगाई सके पश्चात क्रेता कम्पनीले किन्न चाहेको सेयर संख्याले गुणन गरी क्रय मूल्य पत्ता लगाइन्छ ।

Intrinsic method

Intrinsic value per share = $\frac{\text{Net assets}}{\text{No. of equity shares}}$
Where, Net assets = Total assets – Outsider's liabilities
Purchase consideration = No. of shares of vendor company × Exchange ratio × Paid up value of purchasing company.
No. of shares issued by purchasing company = $\frac{\text{Amount payable to vendor company}}{\text{Intrinsic value per share of purchasing co.}}$
Exchange ratio = $\frac{\text{No. of shares issued by purchasing company}}{\text{No. of shares of vendor company}}$

Illustration - 3

X Company Ltd. is absorbed by Y Company Ltd. given below are the balance sheets of the two companies, taken after revaluation of their assets on uniform basis:

X Company Limited			
Liabilities	Amount	Assets	Amount
Authorized Capital:		Sundry Assets.....	33,70,000
9,000 shares of Rs.300 each.....	27,00,000	Cash.....	7,000
Paid up Capital:			
9,000 shares of Rs.270 each.....	24,30,000		
Creditors.....	1,10,000		
Reserve Fund.....	8,07,000		
Profit and Loss.....	30,000		
	33,77,000		33,77,000

Y Company Limited			
Liabilities	Amount	Assets	Amount
Authorized Capital:		Sundry Assets.....	87,15,000
40,000 Shares of Rs.180 each.....	72,00,000	Cash.....	55,000
Paid up Capital:			
40,000 shares of Rs.150 each.....	60,000		
Creditors.....	1,30,000		
Reserve Fund.....	25,70,000		
Profit and Loss.....	70,000		
	87,70,000		87,77,000

The holders of every three shares in X Company Ltd. were to receive five shares in the Y Company Ltd. plus as much cash as is necessary to adjust the rights of shareholders of both the companies in accordance with the intrinsic values of the shares as per their respective balances.

Required: Calculate purchase consideration

Solution:

Calculation of intrinsic value of X Company

Particulars	Amount
Assets, including cash	33,77,000
Less: Creditors.....	1,10,000
Net Assets	32,67,000

$$\text{Intrinsic value of share} = \frac{32,67,000}{9,000} = \text{Rs.}363$$

Calculation of intrinsic value of Y Company

Particulars	Amount
Assets, including cash	87,70,000
Less: Creditors.....	1,30,000
Net Assets	86,40,000

$$\text{Intrinsic value of share} = \frac{86,40,000}{40,000} = \text{Rs.}216$$

Adjustment of the rights of the shareholders according to the intrinsic value of the shares of two Companies:

Intrinsic value of three shares in X Co. (Rs.363 × 3)	Rs.1,089
Less: Intrinsic value of five shares in Y Co. (Rs.216 × 5)	<u>Rs.1,080</u>
This is payable in cash	<u> 9</u>

For three shares in X Company, the payment = Rs.9

For 9,000 shares in X Company will get = $\frac{9,000 \times 9}{3} = \text{Rs.}27,000$

Purchase Price:

Discharge in Shares = $\frac{9,000 \times 5}{3} = 15,000$ shares × Rs.150	22,50,000
Discharge by Cash	<u>27,000</u>
	22,77,000

२) विक्रेता कम्पनीको लेखा (Accounting Treatment in the books of Vendor/Seller Company)

क्रेता कम्पनीले विक्रेता कम्पनीको सम्पत्ति तथा दायित्व खरिद गरिसके पश्चात विक्रेता कम्पनीको अन्तिम खाताहरू बन्द गर्नुपर्दछ । क्रेता कम्पनीले शुरुमा क्रय मूल्य भुक्तानी गर्दछ । त्यसपछि क्रमशः ऋण धनीहरू र सेयरधनीहरूलाई भुक्तानी गर्दछ । यि रकमहरू भुक्तानी भइसकेपछि विक्रेता कम्पनीको खाता बन्द गर्दा वासलात तथा अन्य खाताहरू बन्द गर्नुपर्ने हुन्छ । यसरी विक्रेता कम्पनीको खाता बन्द गर्दा Liquidator को नियुक्त गरेर वा नगरिकन क्रेता कम्पनीले रकम भुक्तानी गर्दछ । विक्रेता कम्पनीको खाता बन्द गर्न निम्न अनुसारका चरणहरू प्रयोगमा आउँदछन् :

Step-I: Transfer all assets and (excluding fictitious assets) to realization account;

Journal Entry:

For transferring different assets to Realization Account

a) Realization A/c Dr. (with total)

 To Sundry assets (individually) (with their individual values)

Points to be noted:

- Fictitious assets, such as preliminary expenses, discount on issue of shares and debentures, debit balance of P/L A/c etc. are not transferred to Realization Account.
- Intangible assets such as goodwill, patents, trademarks etc. are also transferred to realization Account.
- The cash and bank balances should not be transferred to Realization Account if those are not taken over by the purchasing company.
- An asset against which a provision or reserve has been created should be transferred at its gross figure and not at its net figure e.g. debtors.

Step-II: For transferring different liabilities to Realization Account:

Sundry Liabilities Dr. [with their individual book values]

To Realization A/c [with the total]

Points to be noted:

- Items in the nature 'Provisions' (e.g. Provision for taxation, Employees provident fund, Pension Fund, Provision for doubtful debts, Provision for Depreciation) should be transferred to Realization Account.
- Items in the nature of 'Reserve' are not to be transferred to Realization Account. These are directly transferred to sundry shareholders account (e.g. workmen compensation fund, credit balance of profit and loss account.)
- A liability against which a provision or reserve has been created should be transferred at its gross figure e.g. creditors.

Step-III: For realizing assets which have not been taken over by the purchasing company.

Cash or Bank Account Dr. (with the amount realized)

To Realization Account

Step-IV: For discharging liabilities which have not been taken over by the purchasing company.

Realization A/c Dr. (with the amount paid)

To Cash

Step-V: To record liquidation expenses

a) It these expenses are borne by the Vendor company	Journal Entry Realization Account Dr. To Bank
b) If these expenses are paid by the purchasing companies directly	No Entry
c) It these expenses are first paid by the Vendor Co. and later reimbursed by the Purchasing company	Realization A/c Dr. To Bank
i) On Payment by the Vendor company	(Note: Here realization expenses to be included in purchase consideration)
ii) On reimbursement	

Step-VI: For Receiving Purchase Consideration

Cash/Bank Account	Dr. With cash received.
Preference Shares in Purchasing Company	Dr. With issue price of preference shares
Equity shares in Purchasing Company	Dr. With issue price of equity shares
To Purchasing Company	With the total

Step-VII: Discharge the claims of preference shareholders and transfer the difference between the amount actually payable and the book figure to Realization Account.

If Preference shareholders are discharged at par	
Preference Share Capital Account	Dr. With book value of preference share
To Preference shareholders Account	
If preference shareholders are discharged at a premium	
Preference share capital Account	Dr. With book value of preference share capital
Realization Account	Dr. With premium payable to preference shareholders
To Preference shareholders Account	With total
If preference shareholders are discharged at a discount	
Preference Share Capital Account	Dr. With book value of preference share
To Realization Account	With discount
To Preference Shareholders Account	

For making payment to preference Shareholders

Preference Shareholders Account	Dr.	
To Cash/Bank Account		With cash paid
To Preference shares in Purchasing Company		With issue price of preference shares given to preference shareholders

Step-VIII: Discharge the claims of Debenture holders and transfer the difference between the amount actually payable and the book figure to Realization Account.

If Debenture holders are discharged at par	
Debentures A/c	Dr. With book value
To Debenture holders Account	With book value
If Debenture holders are discharge at premium	
Debenture Account	Dr. With book value of debenture
Realization Account	Dr. With premium payable to debenture holders
To Debenture holders Account	With total
If Debenture holders are discharged at discount	
Debentures A/c	Dr. With book value of preference share
To Realization Account	With discount
To Debenture holders Account	Book value - Discount

For making payment to Debenture holders

Debenture holders Account	Dr.	
To Cash/Bank Account	OR,	With cash paid
To Debentures in Purchasing Company		With issue price of Debentures given to Debentures shareholders

Step-IX: Ascertain the profit/loss on realization and transfer the same to equity shareholders A/c

In case of Profit	Realization Account (with profit)
	To Equity Shareholders Account
In case of loss	Equity Shareholders Account
	To Realization Account (with loss)

Step-X: Transfer Equity share capital, Accumulated profits and Reserves shown in the Balance Sheet (just before date of amalgamation) to Equity Shareholders Account

Equity Share Capital Account	Dr.	With paid up value of share capital
Profit and Loss Account	Dr.	With credit balance of profit and loss Account
General Reserve Account	Dr.	If any
Workmen Compensation Fund Account	Dr.	If any
Capital Reserve Account	Dr.	If any
Dividend Equalization Fund Account	Dr.	If any
Securities Premium Account	Dr.	If any
Debenture Redemption Reserve Account	Dr.	If any
Capital Redemption Reserve Account	Dr.	If any
To Equity Shareholders Account		With total

Step-XI: Transfer Accumulated losses (shown on debit side of Balance Sheet just before amalgamation)

Equity Shareholders Account	Dr.	
To Profit and Loss Account		Debit balance
To Preliminary Expenses Account		If any
To Discount on issue of shares/debentures		If any
To Deferred Revenue Expenditure Account		If any

Step-XII: Make the final payment to equity shareholders

Equity Shareholders Account	Dr.	With total
To Equity Shares in Purchasing Company's A/c		No. of shares issued X issue price per shares
To Cash/Bank Account		With cash paid

Note: (i) After passing the above mentioned entries in books of Vendor Company, all the accounts will be closed and not a single account will show any balance.

(ii) The net amount payable to equity shareholders must be equal to the amount of shares in Purchasing Company and cash and bank balance left after the discharge of all outsiders liabilities and claims of preference shareholders.

Alternative Method:

Step-I: While transferring sundry assets into realization A/c

Realization A/c	Dr.
To Sundry Assets	
(Being assets taken over by purchasing company transfer to realization A/c)	

Step-II: While transferring sundry liabilities into realization A/c

Sundry liabilities A/c	Dr.
To Realization A/c	
(Being liabilities assumed by purchasing company transfer to realization A/c)	

Step-III: While fixing purchasing consideration

Purchasing Company A/c	Dr.
To Realization A/c	
(Being purchasing consideration fixed)	

Step-IV: While paying liquidation expenses (if borne by vendor Company)

Realization A/c	Dr.
To Bank A/c	
(Being liquidation expenses paid borne by vendor Company)	

Step-V: While transferring debenture premium/preference share premium

a) For debenture premium

Realization A/c	Dr.
To Debenture holder A/c	
(Being debenture premium transferred to realization A/c)	

b) For preference premium

Realization A/c	Dr.
To Preference shareholder A/c	
(Being preference premium transferred to realization A/c)	

Step-VI: While transferring debenture discount/preference share discount

a) For debenture discount

Debenture holder A/c	Dr.
To Realization A/c	
(Being debenture discount transferred to realization A/c)	

b) For preference discount

Preference shareholder A/c	
To Realization A/c	Dr.
(Being preference discount transferred to realization A/c)	

Step-VII: For sale of assets not taken over by purchasing company

a) If assets are sold at their book value

Bank A/c	
To Assets A/c	Dr.
(Being sale of assets not taken over by purchasing Co. at book value)	

b) If assets are sold more than their book value (at profit)

Bank A/c	
To Assets A/c	Dr.
To Realization A/c	
(Being sale of assets not taken over by purchasing company at a profit of.....)	

c) If assets are sold less than their book value (at loss)

Bank A/c	
Realization A/c	Dr.
To Assets A/c	Dr.
(Being sale of assets not taken over by purchasing company at a loss of.....)	

Step-VIII: For payment of liabilities not assumed by purchasing company

a) If liabilities are discharged at their book value

Liabilities A/c	
To Bank A/c	Dr.
(Being payment made to liabilities not assumed by purchasing company at book value)	

b) If liabilities are discharged less than their book value (at discount/profit)

Liabilities A/c	
To Bank A/c	Dr.
To Realization A/c	
(Being payment made to liabilities not assumed by purchasing company at discount of.....)	

c) If liabilities are discharged more than their book value (at loss)

Liabilities A/c	
Realization A/c	Dr.
To Bank A/c	Dr.
(Being payment made to liabilities not assumed by purchasing company at loss of.....)	

Step-IX: While transferring profit/loss from realization A/c

a) If there is loss on realization A/c

Equity shareholder A/c	
To Realization A/c	Dr.
(Being loss on realization account transferred to equity shareholder A/c)	

b) If there is profit on realization A/c

Realization A/c	
To Equity shareholder A/c	Dr.
(Being profit on realization A/c transferred to equity shareholder A/c)	

Step-X: While receiving purchase consideration

Equity share capital in purchasing company A/c	Dr.
Preference share capital in purchasing company A/c	Dr.
Debenture in purchasing company A/c	Dr.
Bank A/c	Dr.
To Purchasing Company A/c	
(Being purchase consideration received)	

Step-XI: While satisfying debenture holder

a) Transfer entry

Debenture A/c	Dr.
To Debenture holder A/c	
(Being debenture transferred to debenture holder A/c)	

b) Satisfied entry

Debenture holder A/c	Dr.
To Debenture in purchasing Company/Bank A/c	
(Being debenture holder satisfied)	

Step-XII: While satisfying preference shareholder

a) Transfer entry

Preference share capital A/c	Dr.
To Preference shareholder A/c	
(Being preference share capital transferred to preference shareholder A/c)	

b) Satisfied entry

Preference shareholder A/c	Dr.
To Preference shareholder A/c	
(Being preference share capital transferred to preference shareholder A/c)	

Step-XIII: While transferring fictitious assets/deferred expenditure

Equity shareholder A/c	Dr.
To Preliminary expenses A/c	
To Discount on issue of share and debenture A/c	
To Underwriting commission A/c	
To Debit balance of profit and loss A/c	
To Special advertisement A/c	
(Being fictitious assets transferred to equity shareholder A/c)	

Step-XIV: While transferring shareholders equity

Equity share capital A/c	Dr.
Retained earning A/c	Dr.
General reserve A/c	Dr.
Contingency reserve A/c	Dr.
Dividend equalization fund A/c	Dr.
Workmen compensation fund A/c	Dr.
Accumulated/undistributed profit	Dr.
To Equity shareholder A/c	
(Being shareholders equity transferred to equity shareholder A/c)	

Step-XV: While satisfying equity shareholder

Equity shareholder A/c	Dr.
To Equity share in purchasing Company A/c	
To Preference share in purchasing Company A/c	
To Bank A/c	
(Being equity shareholder satisfied as an agreement)	

प्राप्ति खाता (Realization Account)

कुनै कम्पनीको खरिद गर्दा व्यवसायको बिक्रिमा नाफा वा नोक्सान पत्ता लगाउन प्राप्ति खाताको तयारी गरिन्छ । यो क्रेता कम्पनीले तयार पार्दछ यो खाता तयार पार्दा सम्पत्ति, दायित्व, नाफा र नोक्सानको स्थानतरण गरिन्छ । यो खाता तयार गर्दा क्रेता कम्पनीले नलिएको सम्पत्ति दायित्वको भुक्तानीलाई वास्तविक खातामा स्थानतरण गरिन्छ ।

प्राप्ति खाताको नमुनालाई निम्नानुसार देखाइएको छ : (The format of realization account is as follows):

Dr.		Realization Account		Cr.	
Particulars	Amount	Particulars	Amount		
To Tangible assets A/c (Taken over)	xxx	By External liabilities A/c (taken over).....			xxx
To Intangible assets A/c (Compulsory)	xxx	By Purchasing company's A/c (Total purchase price).			
To Bank A/c (Liquidation expenses paid by vendor Company)	xxx	By Bank A/c (Profit on sale of assets).....			xxx
To Assets A/c (Loss on sale).....	xxx	By Liabilities A/c (Profit on discharge)			xxx
To Bank A/c (loss on discharge of liabilities).....	xxx	By Debentures A/c (Discount on redemption)			xxx
To Debenture holders' A/c (Premium on redemption)	xxx	By Preference share capital A/c (Discount on redemption)			xxx
To Preference shareholders' A/c (Premium on redemption)	xxx	By Equity shareholders' A/c (Loss: Balancing figure)			xxx
To Equity shareholders' A/c (Profit: B/F).....	xxx				xxx
	xxx				xxx

While calculating purchase consideration under net assets method, the following points should be considered:

Point to be considered in respect of assets of Vendor Company

- Fictitious assets like preliminary expenses, discount on shares, underwriting commission, Discount or cost on issue of debentures, debit balance of profit and loss account etc should not be included in assets taken over.
- Intangible assets such as patent, trademark, copyright etc. should be included in assets taken over.
- The word "all assets" include cash in hand and balance at bank also.
- If any asset is not taken over by purchasing company that should not be considered for purchase consideration.
- The word "business" will always mean assets and external liabilities.
- While computing purchase consideration, current market price of assets should be considered.

Points to be considered in respect of liabilities of Vendor Company

- Liabilities taken over means only external liabilities.
- Trade liabilities include creditors, bills payable and account payable only.
- Liabilities taken over do not include accumulated profit and reserve.
- Any fund or reserve created out of salary of staff is treated as external liabilities.

1. Liabilities	creditors, account payable, bills payable, outstanding expenses, workmen's profit sharing fund, staff provident fund, bank overdraft, tax payable, unclaimed dividend, loan, debentures etc.
2. Trade liabilities	creditors, bills payable, account payable
3. Fictitious' assets	Preliminary expenses, discount on issue of shares and debentures, underwriting commission, profit and loss account (Dr. balance) etc.
4. Accumulated profit and reserve	Profit and loss account, general reserve, reserve fund, workmen accident fund, workmen compensation fund, sinking fund, capital reserve, capital redemption reserve, share premium, share forfeited account, Bonus equalization fund, dividend equalization fund etc.

३) क्रेता कम्पनीको खाता खोले (Opening entries in the book of purchasing company)

क्रेता कम्पनीको खाता खोल्नका लागि सुरुका अभिलेख (Entries) तयार गर्नका साथै समायोजित सुरुको वासलात तयार गर्नु पर्दछ । जसलाई लागि निम्नअनुसार देखाइएको छ :

- a) खरिद मूल्य निर्धारण गर्दा (While fixing purchase consideration) Dr.
- | | |
|--|--|
| Business Purchase A/c | |
| To Liquidator of Vendor Company | |
| (Being purchase consideration payable) | |
- b) खरिद मूल्य भुक्तानी गर्दा (While paying purchase consideration) Dr.
- | | |
|---|--|
| Liquidator of vendor Company A/c | |
| To Equity share in purchasing Company A/c | |
| To Debenture in purchasing Company A/c | |
| To Preference share in purchasing Company A/c | |
| To Bank A/c | |
| (Being purchase consideration paid) | |
- c) शुरूको अभिलेख तयार गर्दा (While making opening entries) Dr.
- | | |
|---|-----|
| Sundry assets A/c | |
| Goodwill (if Cr. is greater than Dr.) | Dr. |
| To Business purchase A/c | |
| To Sundry liabilities A/c | |
| To Capital reserve (If Dr. is greater than Cr.) | |
| (Being opening entry made and balancing transferred to goodwill/ Capital reserve) | |
- d) लिक्विडेशन खर्चको भुक्तानी गर्दा (While paying liquidation expenses (borne by purchasing Company)) Dr.
- | | |
|---|--|
| Goodwill A/c | |
| To Bank A/c | |
| (Being liquidation expenses paid borne by vendor Company) | |
- e) छातीलाई उल्लेख गर्दा (When goodwill written off) Dr.
- | | |
|-----------------------------------|--|
| Capital reserve/Share premium A/c | |
| To Goodwill A/c | |
| (Being goodwill written off) | |
- f) क्रेता कम्पनीको शुरूको खर्च भुक्तानी गर्दा (Expenses of purchasing Company) Dr.
- | | |
|---|--|
| Preliminary expenses A/c | |
| To Bank A/c | |
| (Being expenses paid by purchasing Company) | |

३.१ क्रेता कम्पनीको वासलातको तयारी (Preparation of Balance sheet by Purchasing Company after incorporating the assets and liabilities purchased):

Opening Balance sheet

As on

Liabilities	Amount	Assets	Amount
Share Capital	xxx	Goodwill	xxx
Share premium	xxx	Fixed assets	xxx
Capital reserve	xxx	Other Intangible assets	xxx
Debentures	xxx	Discount on issue of shares/Debentures	xxx
Long-term liabilities	xxx	Current assets	xxx
Current liabilities	xxx	Cash and bank balance	xxx
		Other Fictitious assets	xxx
Total	xxx		xxx

आन्तरिक पुनः संरचनाको लेखाविधि (Accounting treatment for internal reconstruction)

व्यवसायलाई वित्तीय रूपमा सफल बनाउनका लागि आन्तरिक वित्तीय संरचनामा फेरबदल गर्न सकिन्छ । नयाँ योजना बनाएर पुरानै कम्पनीलाई पुनर्संगठित गरी सञ्चालन गरिन्छ भने त्यसलाई आन्तरिक पुनः संरचना भनिन्छ । जसलाई निम्न अनुसार उल्लेख गरिन्छ ।

- a) For replacement of share of one denomination by the share of another denomination
- | | | |
|---|-----|-------------------------------|
| Share Capital (Old denomination) Account | Dr. | [Paid-up value of old shares] |
| To Share Capital (New denomination) Account | | [Paid-up value of new shares] |
| To Capital Reduction/Reconstruction Account | | [Difference] |
- b) For reducing called-up Share Capital (without changing denomination)
- | | | |
|---|-----|------------------|
| Share Capital Account | Dr. | [Amount reduced] |
| To Capital Reduction/Reconstruction Account | | |
- c) For Surplus on revaluation of fixed assets
- | | | |
|---|-----|--------------------------|
| Individual Fixed Asset Account | Dr. | [Amount of appreciation] |
| To Capital Reduction/Reconstruction Account | | |
- d) For waiver of preference dividend arrears by an issue of shares/debentures
- | | | |
|--|-----|--|
| Capital Reduction/Reconstruction Account | Dr. | |
| To Share Capital Account | | |
| To Debentures Account | | |
- e) For issue of shares/debenture against accrued interest already provided in the Balance Sheet
- | | | |
|---|-----|--|
| Accrued Interest Account | Dr. | |
| To Share Capital Account | | |
| To Debentures Account | | |
| To Capital Reduction/Reconstruction Account | | |
- f) For transfer of favourable balance on reserve accounts
- | | | |
|---|-----|--|
| Individual Reserve Account | Dr. | |
| To Capital Reduction/Reconstruction Account | | |
- g) For expenses incurred on reconstruction
- | | | |
|--|-----|--|
| Capital Reduction/Reconstruction Account | Dr. | |
| To Bank Account | | |
- h) For writing-off the fictitious assets and other assets
- | | | |
|--|-----|--|
| Capital Reduction/Reconstruction Account | Dr. | |
| To Profit and Loss Account | | |
| To Goodwill Account | | |
| To Plant and Machinery Account | | |
| To Patents Account | | |
| To Stock Account | | |
- i) For capitalization of surplus on Capital Reduction Account
- | | | |
|--|-----|--|
| Capital Reduction/Reconstruction Account | Dr. | |
| To Capital Reserve Account. | | |

Internal reconstruction

Dr.		Capital Reduction Account		Cr.	
Particulars	Amount	Particulars	Amount	Amount	
To Preliminary expenses A/c (written off)	xxx	By Share capital A/c (reduction)		xxx	
To Profit and loss A/c (loss) (written off)	xxx	By Fixed assets A/c (appreciation)		xxx	
To Underwriter's commission A/c (written off)	xxx	By Liabilities A/c (reduction)		xxx	
To Goodwill A/c (written off)	xxx	By Reserve fund A/c (transferred)		xxx	
To Other assets A/c (reduction)	xxx				
To Bank A/c (Reconstruction expenses)	xxx				
To Capital reserve A/c (Balancing figure)	xxx				
	xxx				xxx

Illustration - 4

A Public limited company passed the necessary resolution and received sanction of the court for the reduction of its share capital by Rs.5,00,000 for the purpose enumerated hereunder: (a) To write-off the debit balance of profit and loss A/c of Rs.2,10,000; (b) To reduce the value of plant and machinery by Rs.90,000 and of goodwill by Rs.40,000; (c) reduce the value of investment to market by writing off Rs.80,000.

The reduction was made by converting 50,000 preference share of Rs.20 each fully paid to the same number of preference shares of Rs.15 each fully paid and by converting 50,000 ordinary shares of Rs.20 each, Rs.15 paid-up into 50,000 ordinary share of Rs.10 each fully paid. Give journal entries necessary in relation of the reduction of share capital and show how you would deal with the balance sheet of the reduction of share capital account.

Solution:

Journal entries in the books of Public Company

Particulars	L/F	Debit (Rs.)	Credit (Rs.)
i) Preferences share capital of Rs.20. (50,000 × 20)	Dr.	10,00,000	
To Preference share capital of Rs.15 (50,000 × 15)			7,50,000
To Capital reduction			2,50,000
(Being preferences share of Rs.20 is reduced to Rs.15 as per internal reconstruction)			
ii) Equity share capital of Rs.20, Rs.15 paid (50,000 × 15)	Dr.	7,50,000	
To Equity share capital of Rs.10 (50,000 × 10)			5,00,000
To Capital reduction			2,50,000
(Being equity share capital of Rs.15 is reduced to Rs.10 as per internal re-construction scheme)			
iii) Capital reduction A/c	Dr	5,00,000	
To Profit and Loss A/c			2,10,000
To Plant and Machinery A/c			90,000
To Goodwill			40,000
To Investment			80,000
To Capital reserve (Balance figure)			80,000
(Being various fictitious assets including tangible assets reduced and balancing figure transferred to capital reduction A/c)			

सेयर पूँजीको पुनर्मिलान (Re-arrangement of Share Capital)

आन्तरिक पुनर्गठन गर्ने पूँजीको पुनर्मिलान गरेर पनि गर्न सकिन्छ । पूँजीको पुनर्मिलान भन्नाले नयाँ अंश जारी गर्ने, पूर्वाधिकार अंशलाई साधारण अंशमा परिणत गर्ने वा पहिला बढी अंश दिएका अशियारलाई कम कम अंश वितरण गर्ने जस्ता कार्यहरू गर्न सकिन्छ, जसमा निम्न कुराहरू गरिन्छ :

1. नयाँ सेयर जारी गरी पूँजी बढाउने
2. पहिलाको कम सेयर बढाउने र बढी पूँजी सङ्कलन गर्ने
3. सेयरको अंकित मूल्य घटाएर सेयर सङ्ख्या बढाउने

सेयर पूँजीको फेरबदलको लेखाअभिलेख (Accounting Records for Alteration of Share Capital)

a) When old share capital is sub-divided into shares

Date	Particulars	L/F	Debit (Rs.)	Credit (Rs.)
	Old share capital A/c (Rs. 100)	Dr.	xxx	
	To New share capital A/c (Rs.10)			xxx
	(Being shares of Rs. ... each sub-divided into shares of Rs. each)			

b) When old share capital is consolidated into shares of larger par value

Old share capital A/c (Rs.10)	Dr.	xxx	
To New share capital A/c (Rs.100)			xxx
(Being shares of Rs. each converted into shares of Rs. each)			

c) When fresh shares are issued for cash

Bank A/c	Dr.	xxx	
To Share capital A/c			xxx
(Being shares of Rs. each issued at par, premium or discount)			

d) When shares of fully paid up are converted into share stock

Share capital A/c	Dr.	xxx	
To Share stock A/c			xxx
(Being shares of Rs. each converted into share stock)			

Illustration - 5

Nishchal Company has 20,000 shares of Rs.100 each. The company decides to consolidate shares of Rs.10 each.

Required: Journal entry

Solution: Journal Entry

Date	Particulars	L/F	Debit (Rs.)	Credit (Rs.)
	Share capital A/c (20,000 × Rs.100)	Dr.	20,00,000	
	To Share capital A/c (2,00,000 × Rs.10)			20,00,000
	(Being consolidation of 20,000 shares of Rs.100 each into 2,00,000 shares of Rs.10 each)			

Illustration - 6

Janakpur Company has 50,000 shares of Rs.100 each, Rs.80 called-up and paid-up.

Required: Journal entry in the following conditions:

- The company resolves to consolidate the shares into 500,000 shares of Rs.10 each, Rs.8 called up and paid up.
- It decides to convert its 50,000 shares of Rs.100 each into Rs.50,00,000 common stocks. Assume that the shares are fully paid-up.
- The company decides to convert Rs.100,000 equity stock into 1,000 equity shares of Rs.100 each.

Solution: Journal Entries

Date	Particulars	L/F	Debit (Rs.)	Credit (Rs.)
a)	Share capital A/c (50,000 × Rs.80)	Dr.	40,00,000	
	To Share capital A/c (5,00,000 × Rs.8)			40,00,000
	(Being consolidation of 50,000 shares of Rs.100 each, Rs. 80 called up and paid up into 5,00,000 shares of Rs.10 each, Rs.8 called up)			
b)	Share capital A/c (50,000 × Rs.100)	Dr.	50,00,000	
	To Equity share stock A/c			50,00,000
	(Being conversion of 5,000 shares of Rs.100 each into equity stock Account)			
c)	Equity stock A/c	Dr.	1,00,000	
	To Equity share capital A/c (1,000 × Rs.100)			1,00,000
	(Being conversion of Rs.1,00,000 equity stocks into 1,000 equity shares of Rs.100 each)			

Illustration – 7

The assets of X Co. Ltd. are purchased by Y Co. Ltd., the consideration for the absorption is:

- Y Ltd. is to assume all assets except investment.
- Y Ltd. is to discharge the debentures of X Ltd. at a premium of 10% by issuing 10% debentures in Y Ltd.
- Holder of every 3 shares of X Ltd. was to receive 2 shares of Y Ltd. of Rs.100 each at a market value of Rs.150 per share.

The balance sheet of X. Ltd. as on 31st, Chaitra, last year stood as follows:

Liabilities	Amount	Assets	Amount
Equity share capital of Rs.100 each	10,00,000	Goodwill	50,000
Accident compensation fund	1,00,000	Land and building	7,00,000
Profit and loss A/c	1,50,000	Plant and machinery	3,00,000
9% Debentures	5,00,000	Investment	5,00,000
Provision for tax	50,000	Inventories	3,00,000
Accounts payable.....	3,00,000	Accounts receivable.....	2,00,000
		Cash at bank.....	40,000
		Preliminary expenses	10,000
	2,100,000		2,100,000

Investment realized Rs.7,00,000 and accounts payable were paid at a discount of Rs.50,000. The tax liability was discharged at Rs.60,000. The cost of liquidation amounted to Rs.10,000.

- Required:**
- Calculation of purchase consideration
 - Realization account in the books of X. Ltd.
 - Shareholders' account in the books of X Ltd.
 - Journal entries in the books of Y Ltd.

Solution:

(a) Calculation of Purchase Consideration

Particulars	Amount
10% Debentures of Y Ltd. for discharge of 9% debentures of X Ltd. $(5,00,000 \times 110/100)$	5,50,000
Equity share in Y Ltd. for every 3 shares of X Ltd. is receive 2 shares in Y Ltd. $(10,000 \times 2/3 \times 150)$	10,00,000
Amount of Purchase Consideration	15,50,000

Dr.		Cr.	
(b) Realization A/c			
Particulars	Amount	Particulars	Amount
To Goodwill A/c.....	50,000	By Y Co. Ltd. A/c (Purchase consideration)	15,50,000
To Land and building A/c	7,00,000	By Account payable A/c (Discount).....	50,000
To Plant and machinery A/c.....	3,00,000	By Bank A/c (Profit on sale of investment)	2,00,000
To Inventory A/c	3,00,000		
To Accounts receivable A/c	2,00,000		
To Bank A/c	40,000		
To Bank A/c (Liquidation cost).....	10,000		
To Provision for tax A/c (Additional)	10,000		
To Debenture holder's A/c	50,000		
To Equity shareholder's A/c (Profit-balancing figure)...	1,40,000		
	18,00,000		18,00,000

Dr.		Cr.	
(c) Equity Shareholder's A/c			
Particulars	Amount	Particulars	Amount
To Preliminary expenses A/c.....	10,000	By Equity share capital A/c.....	10,00,000
To Share in Y Ltd. A/c.....	10,00,000	By Accident compensation fund A/c.....	1,00,000
To Bank A/c $(7,00,000 - 2,50,000 - 60,000 - 10,000)$	3,80,000	By Profit and loss A/c	1,50,000
		By Realization A/c (Profit on realization).....	1,40,000
	13,90,000		13,90,000

(d) Journal entries in the books of Y Ltd.

Date	Particulars	L/F	Debit (Rs.)	Credit (Rs.)
	Business purchase A/c To Liquidator of X Ltd. A/c (Being Purchase consideration due for payment)	Dr.	15,50,000	15,50,000
	Land and building A/c Plant and machinery A/c Inventories A/c Accounts receivable A/c Bank A/c Goodwill A/c (Balancing figure) To Business purchase A/c (Being assets of X Ltd. purchased)	Dr. Dr. Dr. Dr. Dr. Dr.	7,00,000 3,00,000 3,00,000 2,00,000 40,000 10,000	15,50,000
	Liquidator of X Ltd. A/c To Equity share capital A/c To Share premium A/c To 10% Debentures A/c (Being purchase consideration paid off as per agreement)	Dr.	15,50,000	6,66,667 3,33,333 5,50,000
	Share premium A/c To Goodwill A/c (Being Goodwill written off)	Dr.	10,000	10,000

Illustration - 8

Strong Ltd. agreed to acquire the business of Weak Ltd. on 31st Chaitra, last year, on which date the Balance Sheet of Weak Ltd. was as under:

Liabilities		Amount	Assets		Amount
10% Preference share capital of Rs.100 each	500,000		Land and building	800,000	
Equity share capital of Rs.100 each	10,00,000		Plant and machinery	200,000	
Share forfeited Account	10,000		Inventories	200,000	
General reserve	40,000		Accounts receivable.....	350,000	
Accounts payable.....	1,20,000		Profit and Loss A/c.....	150,000	
Bank overdraft.....	30,000				
	17,00,000				1,700,000

The cost of liquidation amounted to Rs.15,000

The consideration payable by Strong Ltd. was agreed as under:

- The preference Shareholders of Weak Ltd. were to be allotted 12% preference share of Rs. 5,50,000 in strong Ltd.
- Equity Shareholders to be allotted two equity shares of Rs.100 each at a premium of 20% against every three shares held.
- The balance in cash after adjusting the value of assets in following way:
 - Land and building @ 120% of book value.
 - Plant and machinery @ 90% of book value.
 - Inventories @ 80% of book value.
 - Accounts receivable @ 100% of book value.

- Required:**
- Calculation of purchase consideration
 - Journal entries to close the books of Weak Ltd.
 - Realization Account in the books of Weak Ltd.
 - Shareholder's Account in the books of Weak Ltd.

Solution:

(a) Calculation of purchase consideration
Net Assets Method

Particulars	Amount
Assets taken over: Land and building.....	9,60,000
Plant and machinery	1,80,000
Inventories	1,60,000
Accounts receivable.....	3,50,000
Total assets taken over	16,50,000
Less: Liabilities taken over: Accounts payable	1,20,000
Bank overdraft.....	30,000
Purchases consideration (Net assets)	15,00,000

Mode of Payment

Particulars	Amount
12% Preference share in strong Ltd.	5,50,000
Equity share in strong Ltd (10,000 × 120 × 2/3)	8,00,000
Cash payment (Balancing figure)	1,50,000
Purchase consideration	15,00,000

(b) Journal Entries in the Book of Weak Ltd.

Date	Particulars	L/F	Debit (Rs.)	Credit (Rs.)
	Realization A/c	Dr.	15,50,000	
	To Land of building A/c			800,000
	To Plant of machinery A/c			200,000
	To Inventories A/c			200,000
	To Accounts receivable A/c			350,000
	(Being assets taken over transferred to realization A/c)			
	Account payable A/c	Dr.	120,000	
	Bank overdraft A/c	Dr.	30,000	
	To Realization A/c			150,000
	(Being liabilities taken over transferred to realization A/c)			
	Strong Ltd. A/c	Dr.	15,00,000	
	To Realization A/c			15,00,000
	(Being purchase consideration due)			
	12% Preference shares in Strong Ltd. A/c	Dr.	550,000	
	Equity shares in Strong Ltd. A/c	Dr.	800,000	
	Bank A/c	Dr.	150,000	
	To Strong Ltd. A/c			15,00,000
	(Being purchase consideration received)			
	Realization A/c	Dr.	15,000	
	To Bank A/c			15,000
	(Being liquidation exp. paid)			
	10% Preference share capital A/c	Dr.	500,000	
	Realization A/c	Dr.	50,000	
	To 10% Preference shareholder's A/c			550,000
	(Being transfer of 10% preference share capital to shareholder's A/c)			
	10% preference shareholder's A/c	Dr.	550,000	
	To 12% preference shares in Strong Ltd. A/c			550,000
	(Being preference shareholder's satisfied as per agreement)			
	Realization A/c	Dr.	35,000	
	To Equity shareholder's A/c			35,000
	(Being gain an realization transferred to equity shareholder's A/c)			

Equity share capital A/c	Dr.	10,00,000	
Share forfeited A/c	Dr.	10,000	
General reserve A/c	Dr.	40,000	
To Equity shareholder's A/c			1050,000
(Being share capital and accumulated profit transferred to equity shareholder)			
Equity shareholder's A/c	Dr.	150,000	
To Profit and loss A/c			150,000
(Being Profit and loss A/c transferred to equity shareholder's A/c)			
Equity shareholder's A/c	Dr.	935,000	
To Equity shares in strong Ltd A/c.			800,000
To Bank A/c (150,000 – 15,000)			135,000
(Being payment made to equity shareholder's)			

Dr.		(c) Realization A/c		Cr.	
Particulars	Amount	Particulars	Amount		
To Land and building A/c	800,000	By Accounts payable A/c	120,000		
To Plant and machinery A/c	200,000	By Bank overdraft A/c	30,000		
To Inventories A/c	200,000	By Strong Ltd. A/c	1500,000		
To Accounts receivable A/c	350,000				
To Bank A/c (liquidation expenses)	15,000				
To 10% Preference shareholder's A/c	50,000				
To Equity shareholder A/c (Gain on realization) ..	35,000				
	16,50,000				16,50,000

Dr.		(d) Equity Shareholder's Account in the books of Weak Ltd		Cr.	
Particulars	Amount	Particulars	Amount		
To Profit and loss A/c	1,50,000	By Realization A/c (Gain on realization)	35,000		
To Equity shares in Strong Ltd. A/c	8,00,000	By Equity share capital A/c	10,00,000		
To Bank A/c	135,000	By Share forfeiture A/c	10,000		
		By General reserve A/c	40,000		
	10,85,000				10,85,000

Illustration - 9

The Balance Sheet of X Company Ltd. as on 31st Chaitra, last year was as follows:

Liabilities		Amount	Assets		Amount
18,000 share of Rs.100 each	18,00,000		Land and building	15,00,000	
10% Debentures of Rs.100 each	8,00,000		Furniture	4,00,000	
Creditors	1,00,000		Inventory	3,00,000	
			Debtors	2,00,000	
			Cash	60,000	
			Profit & Loss A/c	2,40,000	
	27,00,000			27,00,000	

Y Company Ltd. is formed to take over the assets of X Company Ltd. but not the liabilities. The company adopted the following scheme:

- i) A payment in cash at Rs.90 each for every debenture in X. Company.
- ii) A further payment of cash at the rate of Rs.10 for every share in X. Company
- iii) The holders of every five shares of X Company will be allotted two shares of Rs.100 each in Y Company Ltd.
- iv) The creditors agreed to receive Rs.80,000 in full satisfaction of their claim.
- v) The cost of liquidation Rs.10,000 is paid by X. Company Ltd.

- Required:**
- (a) Purchase consideration amount
 - (b) Journal entries to close the books of X. Company Ltd.
 - (c) Realization account in the books of X Company Ltd.
 - (d) Shareholder's account in the books of X Company Ltd.

Solution:

(a) Calculation of Purchase Consideration

Particulars	Amount
Cash payment:	
Cash for debentures (8,000 × 90).....	7,20,000
Cash for share (18,000 × 10).....	1,80,000
Total Cash	9,00,000
Shares in Y Ltd. (18,000 × 2/5 = 7,200 shares of @ Rs.100).....	7,20,000
Purchase consideration	16,20,000

(b) Journal Entries in the books of X Company Ltd.

Date	Particulars	L/F	Debit (Rs.)	Credit (Rs.)
	Realization A/c	Dr.	24,60,000	
	To Land and buildings A/c			15,00,000
	To Furniture's A/c			4,00,000
	To Inventory A/c			3,00,000
	To Debtors A/c			2,00,000
	To Cash A/c			60,000
	(Being assets taken over transferred to realization A/c)			
	Y Company Ltd. A/c	Dr.	16,20,000	
	To realization A/c			16,20,000
	(Being purchase consideration fixed)			
	Bank A/c	Dr.	9,00,000	
	Share in Y Company Ltd. A/c	Dr.	7,20,000	
	To Y Company Ltd. A/c			16,20,000
	(Being collection of purchase consideration)			
	Realization A/c	Dr.	10,000	
	To Bank A/c			10,000
	(Being liquidation expenses paid)			
	Creditors A/c	Dr.	1,00,000	
	To Bank A/c			80,000
	To Realization A/c			20,000
	(Being payment of creditors)			
	10% Debentures A/c	Dr.	8,00,000	
	To Realization A/c			80,000
	To 10% Debenture holder's A/c			7,20,000
	(Being debentures A/c transferred to debenture holder's A/c)			
	10% Debenture holders A/c	Dr.	7,20,000	
	To Bank A/c			7,20,000
	(Being payment made to debenture holders)			
	Shareholders A/c	Dr.	7,50,000	
	To Realization A/c			7,50,000
	(Being loss on realization transferred to shareholders A/c)			
	Share capital A/c	Dr.	18,00,000	
	To Shareholders A/c			18,00,000
	(Being shareholders equity transferred to shareholders A/c)			
	Shareholders A/c	Dr.	2,40,000	
	To Profit and loss A/c			2,40,000
	(Being accumulated loss transferred to shareholders A/c)			
	Shareholders A/c	Dr.	8,10,000	
	To Shares in Y Company Ltd. A/c			7,20,000
	To Bank A/c			90,000
	(Being payment made to equity shareholders A/c)			

(c) Realization A/c in the books of X Company Ltd.

Dr. Particulars	Amount	Cr. Particulars	Amount
To Land and building A/c	15,00,000	By Y Company Ltd. A/c	16,20,000
To Furniture A/c	4,00,000	By Creditors A/c	20,000
To Inventory A/c	3,00,000	By 10% Debentures A/c	80,000
To Debtors A/c	2,00,000	By Shareholders A/c (Loss on realization)	7,50,000
To Cash A/c	60,000		
To Bank A/c (Liquidation expense.)	10,000		
	24,70,000		24,70,000

(d) Shareholders A/c in the books of X Company Ltd.

Dr. Particulars	Amount	Cr. Particulars	Amount
To Profit and loss A/c	2,40,000	By Share capital A/c	18,00,000
To Realization A/c	7,50,000		
To Share in Y Co. Ltd. A/c	7,20,000		
To Bank A/c	90,000		
	18,00,000		18,00,000

Illustration - 10

The business of A Company Ltd, is absorbed by B Company Ltd. The terms of absorption are as follows:

- a) The holders of 10% preference shares will be allotted four, 12% preferences shares of Rs.100 each for every five preference shares held in A Company Ltd.
- b) The 10% debentures will be paid off by the issue of equal number of 12% debentures of Rs.100 each in B Company Ltd., at a discount of 10%.
- c) The equity shareholders will be allotted 6 shares of Rs.100 each for every 5 shares hold by them at a premium of Rs.20.

The balance sheet of A Co. Ltd., at the date of absorption is as under.

Liabilities	Amount	Assets	Amount
7,000 equity share of Rs.100 each	7,00,000	Goodwill	50,000
10% Preference share of Rs.100 each	4,00,000	Plant and machinery	11,00,000
10% debentures of Rs.100 each	3,00,000	Stock	1,00,000
Sundry creditors	1,50,000	Sundry debtors	70,000
		Cash at bank	50,000
		Discount on issue of shares	10,000
		Profit and loss account	1,70,000
	15,50,000		15,50,000

- Required:**
- (a) Calculate purchase consideration
 - (b) Entries to close the books of A Company Ltd.
 - (c) Realization account
 - (d) Equity shareholders' account

Solution:

(a) Calculation of Purchase Consideration

Particulars	Amount
12% Preference share in B Co. Ltd. (4,000 × 4/5 = 3,200 shares @ Rs.100 each)	3,20,000
12% Debentures in B Co. Ltd. (3,00,000 ÷ 30,000)	2,70,000
Equity share in B Co. Ltd. (7,000 × 6/5 = 8,400 shares @ Rs.120 each)	10,08,000
Purchase Consideration	15,98,000

(b) Entries to close the books of A Company Ltd.

Date	Particulars	L/F	Debit (Rs.)	Credit (Rs.)
	Realization A/c	Dr.	13,70,000	
	To Goodwill A/c			50,000
	To Plant and machinery A/c			11,00,000
	To Stock A/c			1,00,000
	To Sundry debtors A/c			70,000
	To Bank A/c			50,000
	(Being various assets taken over transferred to realization account)			
	Sundry creditors A/c	Dr.	1,50,000	
	To Realization A/c			1,50,000
	(Being liabilities assumed transferred to realization A/c)			
	B. Company Ltd. A/c	Dr.	15,98,000	
	To Realization A/c			15,98,000
	(Being purchases consideration fixed)			
	Equity share in B Company Ltd. A/c	Dr.	10,08,000	
	12% Preference share in B. Company Ltd. A/c	Dr.	3,20,000	
	12% Debentures in B Company Ltd. A/c	Dr.	2,70,000	
	To B. Company Ltd. A/c			15,98,000
	(Being purchase consideration received)			
	10% Debentures A/c	Dr.	3,00,000	
	To Realization A/c			30,000
	To 10% Debenture holder's A/c			2,70,000
	(Being 10% debentures transferred to debenture holder's A/c)			
	10% Debenture holder's A/c	Dr.	2,70,000	
	To 12% Debentures in B Company Ltd. A/c			2,70,000
	(Being debenture holder satisfied as per agreement)			
	10% Preference share capital A/c	Dr.	4,00,000	
	To 10% Preference shareholder's A/c			3,20,000
	To Realization A/c			80,000
	(Being amount of preference share capital transferred to preference shareholder's A/c)			
	10% Preference shareholder's A/c	Dr.	3,20,000	
	To 12% Preference shares in B Company Ltd. A/c			3,20,000
	(Being 10% preference shareholders satisfied as per agreement)			
	Realization A/c	Dr.	4,88,000	
	To Equity shareholder's A/c			4,88,000
	(Being profit on realization transferred to equity shareholder's A/c)			
	Equity share capital A/c	Dr.	7,00,000	
	To Equity shareholder's A/c			7,00,000
	(Being equity share capital transferred to equity shareholder account)			
	Equity shareholder's A/c	Dr.	1,80,000	
	To Discount on issue of shares A/c			10,000
	To Profit and loss A/c			1,70,000
	(Being fictitious assets transferred to equity shareholder's account)			
	Equity shareholder's A/c	Dr.	10,08,000	
	To Equity shares in B Co. Ltd. A/c			10,08,000
	(Being equity shareholders satisfied as per agreement)			

Dr.		(c) Realization Account		Cr.	
Particulars	Amount	Particulars	Amount		
To Goodwill A/c.....	50,000	By Sundry creditors A/c	1,50,000		
To Plant and machinery A/c.....	11,00,000	By B Company Ltd. A/c.....	15,98,000		
To Stock A/c.....	1,00,000	By 10% Debentures A/c.....	30,000		
To Sundry debtors A/c	70,000	By 10% Preference share capital A/c	80,000		
To Bank A/c	50,000				
To Equity shareholders A/c (Profit- Bal./figure)...	4,88,000				
	18,58,000				18,58,000

(d) Equity Shareholder's Account			
Dr.		Cr.	
Particulars	Amount	Particulars	Amount
To Discount on issue of shares A/c	10,000	By Realization A/c	4,88,000
To Profit and loss account A/c	1,70,000	By Equity share capital A/c	7,00,000
To Equity share in B Company Ltd. A/c	10,08,000		
	11,88,000		11,88,000

Illustration – 11

The Balance Sheet of X Co. Ltd. and Y Company Ltd. as at 31st December 20XX are as under:

Liabilities	X Ltd. (Rs.)	Y Ltd. (Rs.)	Assets	X Ltd. (Rs.)	Y Ltd. (Rs.)
10% Preference share capital of Rs.100 each	3,00,000	—	Plant and machinery	2,50,000	3,00,000
Equity share capital of Rs.100 each			Land and building	8,00,000	5,20,000
Bank overdraft	7,00,000	10,00,000	Furniture	1,00,000	60,000
Accounts payable	2,00,000	—	Stock	70,000	80,000
Bills payable	2,00,000	1,10,000	Accounts receivable	1,30,000	1,20,000
Profit and loss A/c	1,00,000	—	Cash and bank	50,000	40,000
	—	90,000	Profit and loss A/c	1,00,000	—
			Preliminary expenses	—	40,000
			Discount on shares issued	—	40,000
	15,00,000	12,00,000		15,00,000	12,00,000

A new Z Company Ltd. will be formed to take over the assets and liabilities of the both companies. The authorized capital of Z Company Ltd. will be Rs.20,00,000 divided in 5,000; 12% Preference shares of Rs.100 each and 15,000 Equity shares of Rs.100 each. The conditions of merger have been met terms of acquisition will be as under:

- The holder of 10% Preference shares of X Company Ltd. would be allotted 2, 12% Preference shares of Rs.100 each in Z Company Ltd for every three shares in X Company Ltd.
- The holders of every 5 equity shares in X Company and Y Company would be allotted 4 equity shares in Z Company.
- Z Company Ltd. would pay the liquidation expenses of Rs.20,000 and Rs.10,000 for X Company and Y Company respectively.

- Required:** (a) Calculate purchase consideration
 (b) Journal entries in the books of Z Co. Ltd.
 (c) Balance sheet of Z Company Ltd.:

Solution:

(a) Calculation of Purchase Consideration

Particulars	For X Co.	For Y Co.
12% Preference share in Z Company Ltd. for X Ltd. (3,000 × 2/3 = 2,000 shares @ Rs.100 each)	2,00,000	
Equity share in Z Company Ltd.:..... For X Ltd.: 7,000 × 4/5 = 5,600 shares @ Rs.100 each	5,60,000	
For Y Ltd.: 10,000 × 4/5 = 8,000 shares @ Rs.100 each		8,00,000
Purchase consideration	7,60,000	8,00,000

(b) Journal Entries in the book of Z Company Ltd.

Date	Particulars	L/F	Debit (Rs.)	Credit (Rs.)
	Business purchase A/c	Dr.	15,60,000	
	To Liquidator of X Ltd A/c			7,60,000
	To Liquidator of Y Ltd A/c			8,00,000
	(Being purchase consideration due for purchase of business)			
	Plant and machinery A/c	Dr.	5,50,000	
	Land and building A/c	Dr.	13,20,000	
	Furniture A/c	Dr.	1,60,000	
	Stock A/c	Dr.	1,50,000	
	Accounts receivable A/c	Dr.	2,50,000	
	Bank A/c	Dr.	90,000	

To Bank overdraft A/c			2,00,000
To Accounts payable A/c			3,10,000
To Bills payable A/c			1,00,000
To Business purchase A/c			15,60,000
To Capital reserve A/c (Balancing figure)			3,50,000
(Being assets and liabilities taken over)			
Liquidator of X Company Ltd A/c	Dr.	7,60,000	
To Equity share capital A/c			5,60,000
To 12% Preference share capital A/c			2,00,000
(Being purchase consideration paid as per agreement)			
Liquidator of Y Company Ltd. A/c	Dr.	8,00,000	
To Equity share capital A/c			8,00,000
(Being purchase consideration paid as per agreement)			
Capital reserve A/c	Dr.	30,000	
To Bank A/c			30,000
(Being liquidation expenses paid)			

(c) Balance Sheet of Z. Company Ltd

Liabilities	Amount	Assets	Amount
Authorized capital:		Plant and machinery	5,50,000
5000, 12% Preference share of Rs.100 each ..5,00,000		Land and building	13,20,000
15,000 Equity share of Rs.100 each	15,00,000	Furniture	1,60,000
	20,00,000	Stock.....	1,50,000
Issued and subscription capital:		Accounts receivable	2,50,000
2000, 12% Preference share capital of Rs.100 each	2,00,000	Cash and bank (50,000 + 40,000 – 20,000 – 10,000) ..	60,000
13,600 Equity capital of Rs. 100 each	13,60,000		
Capital reserve (350,000 – 30,000)	3,20,000		
Bank overdraft.....	2,00,000		
Accounts payable	3,10,000		
Bills payable	1,00,000		
	24,90,000		24,90,000

Illustration – 12

The following is the Balance Sheet of Weak Company Ltd., as on 31st December, 20XX

Liabilities	Amount	Assets	Amount
10,000 Shares of Rs.100 each	10,00,000	Fixed assets.....	14,50,000
10% Debentures of Rs.100 each	7,00,000	Investment	25,000
Reserve fund.....	1,25,000	Patent rights.....	70,000
Sundry creditors	1,15,000	Stock.....	1,00,000
Profit and loss A/c.....	10,000	Sundry debtors	2,80,000
		Cash at bank	25,000
	19,50,000		19,50,000

The business of the Weak Company is taken over by Strong Company Ltd. as on that date on the following terms:

- Strong Company Ltd. to take over all assets and liabilities.
- The shareholders were to be discharged by paying Rs.20 per share and the exchange of four Rs.100 shares in Strong Company Ltd. at an agreed market value of Rs.150 each for every shares in Weak Company Ltd.
- Strong Company Ltd. is to make a further payment in cash of Rs.110 for every debenture in Weak Company Ltd.

- Required:**
- Calculate Purchase Consideration
 - Entries to close the books of Weak Company Ltd.
 - Realization Account
 - Shareholder's Account.

Solution:

(a) Calculation of Purchase Consideration

Particulars		Amount
(i) Cash payment:		
10,000 shares @ Rs.20 per share		2,00,000
7,000 10%, Debentures @ Rs.110 each		7,70,000
	Total Cash	9,70,000
(ii) Shares in strong Company Ltd.: 10,000 × 4 = 40,000 shares @ Rs.150 each		60,00,000
	Purchase consideration	69,70,000

(b) Entries to close the books of Weak Company Ltd.

Date	Particulars	L/F	Debit (Rs.)	Credit (Rs.)
	Realization A/c	Dr.	19,50,000	
	To Fixed assets A/c			14,50,000
	To Investment A/c			25,000
	To Patent right A/c			70,000
	To Stock A/c			1,00,000
	To Sundry debtors A/c			2,80,000
	To Bank A/c			25,000
	(Being various assets taken over transferred to realization A/c)			
	Sundry creditors A/c	Dr.	1,15,000	
	To Realization A/c			1,15,000
	(Being sundry liabilities taken over transferred to realization A/c)			
	Strong Company Ltd. A/c	Dr.	69,70,000	
	To Realization A/c			69,70,000
	(Being purchase consideration fixed)			
	Shares in strong Company Ltd. A/c	Dr.	60,00,000	
	Bank A/c	Dr.	9,70,000	
	To Strong Company Ltd. A/c			69,70,000
	(Being purchase consideration collected)			
	10% Debentures A/c	Dr.	7,00,000	
	Realization A/c	Dr.	70,000	
	To Debenture holder's A/c			7,70,000
	(Being 10% debentures transferred to debenture holder's A/c)			
	Debenture holder's A/c	Dr.	7,70,000	
	To Bank A/c			7,70,000
	(Being debenture holders satisfied as per agreement)			
	Realization A/c	Dr.	50,65,000	
	To Shareholders A/c			50,65,000
	(Being profit on realization transferred to shareholders account)			
	Share capital A/c	Dr.	10,00,000	
	Reserve fund A/c	Dr.	1,25,000	
	Profit and loss A/c	Dr.	10,000	
	To Shareholder's A/c			11,35,000
	(Being shareholder fund transferred to shareholders' A/c)			
	Shareholders' A/c	Dr.	62,00,000	
	To Bank A/c (9,70,000 - 7,70,000)			2,00,000
	To Share in Strong Company Ltd. A/c			60,00,000
	(Being shareholders satisfied as per agreement)			

Dr. (c) Realization Account Cr.

Particulars		Amount	Particulars		Amount
To Fixed assets A/c	14,50,000	By Sundry creditors A/c		1,15,000	
To Investment A/c	25,000	By Strong Company Ltd. A/c		69,70,000	
To Patent right A/c	70,000				
To Stock A/c	1,00,000				
To Sundry debtors A/c	2,80,000				
To Bank A/c	25,000				
To Debenture holder's A/c	70,000				
To Shareholders A/c (Profit-Balancing figure)	50,65,000				
	70,85,000			70,85,000	

Dr.		(d) Shareholder's Account		Cr.	
Particulars	Amount	Particulars	Amount		
To Bank A/c	2,00,000	By Realization A/c	50,65,000		
To Share in Strong Company Ltd. A/c	60,00,000	By Share capital A/c	10,00,000		
		By Reserve fund A/c	1,25,000		
		By Profit and loss A/c	10,000		
	62,00,000		62,00,000		

Illustration - 13

The Balance Sheet of Clux Company is as follows:

Equities		Amount	Assets		Amount
Equity shares of Rs.100 each	6,00,000		Goodwill	80,000	
Share premium	60,000		Land and building	5,00,000	
8% Debentures of Rs.50 each	4,00,000		Plant and machinery	5,80,000	
General reserve	80,000		Inventory	1,20,000	
Workmen bonus fund	1,50,000		Accounts receivable	1,30,000	
Profit and loss account	90,000		Cash at bank	40,000	
Accounts payable	75,000		Preliminary expenses	50,000	
Bills payable	45,000				
	15,00,000			15,00,000	

Quick company acquired the business of Clux Company on the following terms and conditions:

- Quick company issued 10% debentures of Rs.100 each to discharge the claims of 8% debentures of Clux Company at 10% premium.
- A cash payment of Rs.10 cash was made to equity shareholders.
- A further payment was made in cash to discharge bills payable amount.
- Quick company issued three shares of Rs.100 each for every two shares of Clux Company at a market value of Rs. 105 each.
- The realization expenses amounting to Rs.25,000 were paid by Clux Company.

Required: (a) Closing entries in the book of Clux Company

(b) Realization account (c) Quick company's opening entries

Solution:

Calculation of Account

Particulars	Amount
(i) Cash payment:	
For 6,000 equity shares @ Rs.10 each	60,000
For Bills payable	45,000
Total cash payment	1,05,000
(ii) Issued 10% debentures of Quick Co. (4,00,000 + 40,000)	4,40,000
(ii) Equity shares of Quick Co.: (6,000 × 3/2 = 9,000 shares @ Rs.105 each)	9,45,000
Purchase consideration	14,90,000

(a) Closing entries in the books of Clux Company (Vendor Co.)

Date	Particulars	L/F	Debit (Rs.)	Credit (Rs.)
	Realization A/c	Dr.	14,50,000	
	To Goodwill A/c			80,000
	To Land and building A/c			5,00,000
	To Plant and machinery A/c			5,80,000
	To Inventory A/c			1,20,000
	To Accounts receivables A/c			1,30,000
	To Bank A/c			40,000
	(Being sundry assets taken over transferred to realization A/c)			

Workmen bonus fund A/c	Dr.	1,50,000	
Accounts payable A/c	Dr.	75,000	
To Realization A/c			225,000
(Being sundry liabilities taken over transferred to realization A/c)			
Quick Co. A/c	Dr.	14,90,000	
To Realization A/c			14,90,000
(Being purchase consideration fixed)			
10% Debentures in Quick Co. A/c	Dr.	4,40,000	
Bank A/c	Dr.	1,05,000	
Equity share in Quick Co. A/c	Dr.	9,45,000	
To Quick Co. A/c			14,90,000
(Being purchases consideration received)			
Realization A/c	Dr.	25,000	
To Bank A/c			25,000
(Being realization expenses paid)			
Bills payable A/c	Dr.	45,000	
To Bank A/c			45,000
(Being paid to Bills payable)			
8% Debentures A/c	Dr.	4,00,000	
Realization A/c	Dr.	40,000	
To Debenture holder's A/c			4,40,000
(Being 8% debentures transferred to debenture holder's A/c)			
Debenture holder's A/c	Dr.	4,40,000	
To 10% Debentures in Quick Co. A/c			4,40,000
(Being 8% debenture holders satisfied as per agreement)			
Realization A/c	Dr.	2,00,000	
To Equity shareholder's A/c			2,00,000
(Being profit on realization transferred to shareholders' A/c)			
Equity share capital A/c	Dr.	6,00,000	
Share premium A/c	Dr.	60,000	
General reserve A/c	Dr.	80,000	
Profit and loss A/c	Dr.	90,000	
To Equity shareholder's A/c			830,000
(Being shareholders' equities transferred to shareholder's A/c)			
Equity shareholder's A/c	Dr.	50,000	
To Preliminary expenses A/c			50,000
(Being preliminary expenses transferred to shareholder's A/c)			
Equity shareholder's A/c	Dr.	9,80,000	
To Equity share in Quick Company A/c			9,45,000
To Bank A/c (1,05,000 – 25,000 – 45,000)			35,000
(Being equity shareholder's satisfied as per agreement)			

Dr.		(b) Realization A/c		Cr.	
Particulars	Amount	Particulars	Amount		
To Goodwill A/c.....	80,000	By workman bonus fund A/c	1,50,000		
To Land and building A/c	5,00,000	By Accounts payable A/c.....	75,000		
To Plant and machinery A/c.....	5,80,000	By Quick Company A/c.....	14,90,000		
To Inventory A/c.....	1,20,000				
To Accounts receivable A/c	130,000				
To Bank A/c	40,000				
To Debenture holder's A/c	40,000				
To Bank A/c	25,000				
To Equity shareholder's A/c (Profit: Bal. figure)...	2,00,000				
	17,15,000				17,15,000

Dr.		Equity Shareholder A/c		Cr.	
Particulars	Amount	Particulars	Amount		
To Preliminary expenses A/c	50,000	By Realization A/c.....	2,00,000		
To Equity share in Quick Company A/c.....	9,45,000	By Equity share capital A/c.....	6,00,000		
To Bank A/c	35,000	By Share premium A/c.....	60,000		
		By General reserve A/c.....	80,000		
		By Profit and loss A/c.....	90,000		
	10,30,000		10,30,000		

(c) Quick Company's Opening Entries

Date	Particulars	L/F	Debit (Rs.)	Credit (Rs.)
	Business purchase A/c	Dr.	14,90,000	
	To Liquidator of Clux Company A/c			14,90,000
	(Being purchase consideration payable for the purchase of business)			
	Goodwill A/c (Balancing figure)	Dr.	3,45,000	
	Land and building A/c	Dr.	5,00,000	
	Plant and machinery A/c	Dr.	5,80,000	
	Inventory A/c	Dr.	1,20,000	
	Accounts receivable A/c	Dr.	1,30,000	
	Bank A/c	Dr.	40,000	
	To Workmen bonus fund A/c			1,50,000
	To Accounts payable A/c			75,000
	To Business purchase A/c			14,90,000
	(Being assets and liabilities taken over)			
	Liquidator of Clux Company A/c	Dr.	14,90,000	
	To Equity share capital A/c			9,45,000
	To 10% Debentures A/c			4,40,000
	To Bank A/c			1,05,000
	(Being purchase consideration paid as per agreement)			

Illustration - 14

The Balance Sheet of Silk Company as on Chaitra 31, 2065 is as follows.

Equities		Amount	Assets		Amount
20,000 Equity shares of Rs.100 each.....	20,00,000		Fixed assets.....		20,30,000
General reserve	2,00,000		Investment		1,50,000
Profit and Loss A/C	1,50,000		Stock		1,20,000
Creditors.....	50,000		Debtors		1,20,000
Employees provident fund	1,00,000		Cash at bank.....		80,000
	25,00,000				25,00,000

The Cotton Company purchased silk company on Chaitra 31, 2065 on the following terms:

- Fixed assets were taken at a value of Rs.24,00,000 and investment at a value of Rs.80,000.
- The remaining assets were taken at book value.
- Provide sufficient cash to meet cash payment for creditor of silk company and liquidation expenses of Rs.25,000.
- Issue sufficient number of equity share of Rs.100 each at par.

Required: (a) Closing entries in the book of Silk Company

(b) Realization account

(c) Opening entries in the book of the Cotton Company

Solution:

(b) Calculation of Purchases Consideration

Particulars	Amount
Assets taken over:	
Fixed Assets	24,00,000
Investment	80,000
Stock	1,20,000
Debtors	1,20,000
Cash at bank	80,000
	28,00,000
Less: Liabilities taken over: Employees provident fund	1,00,000
	Net assets (Purchases consideration) 27,00,000

Mode of Payment

Particulars	Amount
Cash payment: (50,000 + 25,000)	75,000
Equity Shares in Cotton Company: (26,250 shares of Rs.100 each) (Balancing figure)	26,25,000
	27,00,000

(a) Closing entries in the book of Silk Company

Date	Particulars	L/F	Debit (Rs.)	Credit (Rs.)
	Realization A/c	Dr.	25,00,000	
	To Fixed assets A/c			20,30,000
	To Investment A/c			1,50,000
	To Stock A/c			1,20,000
	To Debtors A/c			1,20,000
	To Cash at bank A/c			80,000
	(Being sundry assets taken over transferred to realization A/c)			
	Employees' provident fund A/c	Dr.	1,00,000	
	To Realization A/c			1,00,000
	(Being sundry liabilities taken over transferred to realization A/c)			
	Cotton company A/c	Dr.	27,00,000	
	To Realization A/c			27,00,000
	(Being purchase consideration due for collection)			
	Bank A/c	Dr.	75,000	
	Equity share in Cotton Company A/c	Dr.	26,25,000	
	To Cotton company A/c			27,00,000
	(Being purchase consideration received)			
	Realization A/c	Dr.	25,000	
	To Bank A/c			25,000
	(Being liquidation expenses paid)			
	Creditors' A/c	Dr.	50,000	
	To Bank A/c			50,000
	(Being paid to creditors)			
	Realization A/c	Dr.	2,75,000	
	To Equity shareholder's A/c			2,75,000
	(Being profit on realization transferred to equity shareholder's A/c)			
	Equity share capital A/c	Dr.	20,00,000	
	General reserve A/c	Dr.	2,00,000	
	Profit and loss A/c	Dr.	1,50,000	
	To Equity shareholders' A/c			23,50,000
	(Being amount of shareholder's equities transferred to equity shareholder's A/c)			
	Shareholders' A/c	Dr.	26,25,000	
	To Equity share in Cotton company A/c			26,25,000
	(Being paid to equity shareholders)			

(b) Realization A/c					
Particulars		Amount	Particulars		Amount
To Fixed assets A/c	20,30,000	By Employees' Provident Fund A/c		1,00,000	
To Investment A/c	1,50,000	By Cotton company A/c		27,00,000	
To Stock A/c	1,20,000				
To Debtors A/c	1,20,000				
To Bank A/c	80,000				
To Bank A/c (Liquidation expenses)	25,000				
To Equity shareholder's A/c (Profit- Balancing figure)	2,75,000				
	28,00,000				28,00,000

(c) Opening entries in the books of Cotton Company

Date	Particulars	L/F	Debit (Rs.)	Credit (Rs.)
	Business purchase A/c To Liquidator of Silk Company A/c (Being purchase consideration payable for the purchase of business)	Dr.	27,00,000	27,00,000
	Fixed assets A/c Investment A/c Stock A/c Debtors A/c Bank A/c To Employees' provident fund A/c To Business purchase A/c (Being assets and liabilities taken over)	Dr. Dr. Dr. Dr. Dr.	24,00,000 80,000 1,20,000 1,20,000 80,000	1,00,000 27,00,000
	Liquidator of Silk Company A/c To Bank A/c To Equity share capital A/c (Being purchase consideration paid)	Dr.	27,00,000	75,000 26,25,000

Illustration - 15

The following is the Balance Sheet of Y Ltd, as on 31st December 2009.

Liabilities		Amount	Assets		Amount
8% Preference shares of Rs.100 each	300,000	Plant and machinery		800,000	
Equity share capital of Rs.100 each	500,000	Stock		60,000	
7% Debentures	200,000	Debtors		50,000	
Creditors.....	90,000	Bank.....		40,000	
		Profit and loss		140,000	
	1,090,000			1,090,000	

The business of Y Ltd. is absorbed by X Ltd. on the following terms:

- X Ltd. is to assume all assets and liabilities.
- The debentures would be paid off by the issue of an equal number of debentures in X Ltd. at a discount of 10%.
- The holder of 8% preference shares would be allotted four 10% preference shares of Rs.100 each in X Ltd. for every five shares in Y Ltd.
- The equity shareholders would be allotted sufficient shares in X Ltd. to cover the balance on their account after adjusting assets value by reducing plant and machinery by 10% and providing 5% provision for doubtful debt on sundry debtors.
- The expenses of liquidation Rs.10,000 paid by X Ltd.

Required: (a) Calculate purchase consideration
(b) Entries to close books of Y Ltd.
(c) Realization Account

Solution:

(a) Calculation of Purchase Consideration

Particulars	Amount
7% Debentures in X Ltd. (200,000 – 20,000)	1,80,000
10% Preference share in X Ltd. i.e. 3000 × 4/5 = 2400 shares @ Rs.100 each	2,40,000
Equity share in X Ltd i.e. 3575 shares of @ Rs.100 each (Balancing figure of net assets)	3,57,500
Total purchase consideration	7,77,500

Calculation of Net Assets

Particulars	Amount
Assets taken over:	
Plant and machinery (800,000 × 90/100).....	7,20,000
Stock.....	60,000
Debtors (50,000 – 2,500)	47,500
Bank	40,000
Total assets acquired	8,67,500
Less: Liabilities taken over: Creditors.....	90,000
Purchase consideration (Net assets)	7,77,500

(b) Entries to Close the Books of Y Ltd.

Date	Particulars	L/F	Debit (Rs.)	Credit (Rs.)
	Realization A/c	Dr.	9,50,000	
	To Plant and machinery A/c			8,00,000
	To Stock A/c			60,000
	To Debtors A/c			50,000
	To Bank A/c			40,000
	(Being sundry assets taken over by X Ltd. transferred to realization A/c)			
	Creditors A/c	Dr.	90,000	
	To Realization A/c			90,000
	(Being sundry Liabilities taken over by X Ltd. transferred to realization A/c)			
	X Ltd. A/c	Dr.	7,77,500	
	To Realization A/c			7,77,500
	(Being purchases consideration fixed)			
	7% Debentures in X Ltd. A/c	Dr.	1,80,000	
	10% Preference share in X Ltd. A/c	Dr.	2,40,000	
	Equity share in X Ltd. A/c	Dr.	3,57,500	
	To X Ltd. A/c			7,77,500
	(Being purchase consideration received)			
	7% Debentures A/c	Dr.	2,00,000	
	To Debenture holder's A/c			1,80,000
	To Realization A/c			20,000
	(Being amount of debentures transferred to debenture holder's A/c)			
	Debenture holder's A/c	Dr.	1,80,000	
	To 7% Debentures in X Ltd. A/c			1,80,000
	(Being debenture holder's satisfied as per agreement)			
	8% Preference share capital A/c	Dr.	3,00,000	
	To Preference shareholder's A/c			2,40,000
	To Realization A/c			60,000
	(Being amount of preference share transferred to preference shareholder's A/c)			

Preference shareholder's A/c To 10% Preference share in X Ltd. A/c (Being preference shareholders satisfied as per agreement))	Dr.	2,40,000	2,40,000
Equity shareholder's A/c To Realization A/c (Being loss on realization transferred to equity shareholder's A/c)	Dr.	2,500	2,500
Equity share capital A/c To Equity shareholder's A/c (Being amount of equity capital transferred to equity shareholder's A/c)	Dr.	5,00,000	5,00,000
Equity shareholder's A/c To Profit and loss A/c (Being profit and loss A/c transferred to equity shareholder's A/c)	Dr.	1,40,000	1,40,000
Equity shareholder's A/c To Equity share in X Ltd. (Being paid to equity shareholder's A/c)	Dr.	3,57,500	3,57,500

(c) Realization A/c

Particulars	Amount	Particulars	Amount
To Plant and machinery A/c.....	8,00,000	By Creditors A/c.....	90,000
To Stock A/c.....	60,000	By X Ltd. A/c.....	7,77,500
To Debtors A/c.....	50,000	By 7% Debentures A/c.....	20,000
To Bank A/c.....	40,000	By 8% Preference share capital A/c.....	60,000
		By Equity shareholder's A/c (Loss- Bal. figure).....	2,500
	9,50,000		9,50,000

Illustration - 16

The following is the Balance Sheet of Vendor Co. Ltd., as on 31st December, last year.

Liabilities	Amount	Assets	Amount
10,000 Shares of Rs.100 each.....	10,00,000	Land and building.....	11,00,000
General reserve.....	5,00,000	Plant and machinery.....	6,00,000
Profit and loss account.....	2,00,000	Furniture.....	65,000
12% Debentures.....	2,00,000	Inventories.....	1,50,000
Accounts payable.....	50,000	Accounts receivable.....	60,000
Dividend equalization fund.....	50,000	Cash in hand.....	10,000
		Cash at bank.....	15,000
	20,00,000		20,00,000

The company is absorbed by Purchasing Company Ltd. on the above date. The Purchasing Company Ltd. decided to acquire current-assets at book value and fixed at the following value:

Land and building	Rs.1,500,000
Plant and machinery	Rs.700,000
Furniture	Rs.50,000
Goodwill	Rs.150,000

The Purchasing Company Ltd. also decided to acquire the creditors of Vendor Company Ltd. The company also agreed to pay 15,000 equity shares of Rs.100 each at Rs.120 per share and balance in cash. The cost of liquidation was Rs.30,000.

- Required: (a) Closing entries in the books of Vendor Company Ltd.
 (b) Realization Account
 (c) Opening entries in the books of Purchasing Co. Ltd.

Solution:

Calculation of Purchases Consideration

Particulars	Amount
Assets taken over:	
Land and building	15,00,000
Plant and machinery	7,00,000
Furniture	50,000
Goodwill	150,000
Inventories	150,000
Accounts receivable	60,000
Cash in hand	10,000
Cash at bank	15,000
Total assets acquired	26,35,000
Less: Liabilities taken over: Accounts payable (Creditors)	50,000
Net assets acquired (Purchase consideration)	25,85,000

Mode of Payment

Particulars	Amount
Equity share in Purchasing Company Ltd. (15,000 shares@ Rs.120)	18,00,000
Cash payment (Balancing figure of net assets)	7,85,000
Total purchase consideration	25,85,000

(a) Closing entries in the books of Vendor Company Ltd.

Date	Particulars	L/F	Debit (Rs.)	Credit (Rs.)
	Realization A/c			
	To Land and building A/c	Dr.	20,00,000	
	To Plant and machinery A/c			11,00,000
	To Furniture A/c			6,00,000
	To Inventory A/c			65,000
	To Accounts receivable A/c			150,000
	To cash A/c			60,000
	To Bank A/c			10,000
	(Being sundry assets taken over by Purchasing Company Ltd. transferred to realization A/c)			15,000
	Accounts payable A/c			
	To Realization A/c	Dr.	50,000	
	(Being sundry liabilities assumed by Purchasing Co. Ltd. transferred to realization A/c)			50,000
	Purchasing Company Ltd A/c			
	To Realization A/c	Dr.	25,85,000	
	(Being purchaser consideration fixed)			25,85,000
	Equity Share in Purchasing Company Ltd. A/c			
	Bank A/c	Dr.	18,00,000	
	To Purchasing Company Ltd. A/c		785,000	
	(Being purchase consideration received as per agreement)			25,85,000
	Realization A/c			
	To Bank A/c	Dr.	30,000	
	(Being liquidation expenses paid)			30,000
	12% Debentures A/c			
	To Debenture holder's A/c	Dr.	2,00,000	
	(Being transfer of debentures A/c to debenture holder's A/c)			2,00,000
	Debenture holder's A/c			
	To Bank A/c	Dr.	2,00,000	
	(Being debenture holder's satisfied by cash)			2,00,000
	Realization A/c			
	To Equity shareholder's A/c	Dr.	6,05,000	
	(Being profit on realization transferred to equity shareholder's A/c)			6,05,000

Equity share capital A/c	Dr.	10,00,000	
General reserve A/c	Dr.	5,00,000	
Profit and loss A/c	Dr.	2,00,000	
Dividend equalization fund A/c	Dr.	50,000	
To Equity shareholder's A/c			17,50,000
(Being amount of shareholder's equity transferred to equity shareholder's A/c)			
Equity shareholder's A/c	Dr.	23,55,000	
To Equity share in Purchasing Company Ltd. A/c			18,00,000
To Bank A/c (7,85,000 – 30,000 – 200,000)			5,55,000
(Being paid to equity shareholder's)			

Dr.		(b) Realization A/c		Cr.	
Particulars	Amount	Particulars	Amount		
To Land and building A/c	11,00,000	By Accounts payable A/c	50,000		
To Plant and machinery A/c	6,00,000	By Purchasing Company Ltd. A/c	25,85,000		
To Furniture A/c	65,000				
To Inventory A/c	1,50,000				
To Accounts receivable A/c	60,000				
To Cash A/c	10,000				
To Bank A/c	15,000				
To Bank A/c (Liquidation expenses)	30,000				
To Equity shareholder's A/c (Profit- Bal. figure) .	6,05,000				
	26,35,000				26,35,000

(c) Opening entries in the book of Purchasing Company Ltd.

Date	Particulars	L/F	Debit (Rs.)	Credit (Rs.)
	Business purchase A/c	Dr.	25,85,000	
	To Liquidator of Vendor Company Ltd. A/c			25,85,000
	(Being purchase consideration payable for purchase of business)			
	Goodwill A/c (Bal. Fig.)	Dr.	150,000	
	Land and building A/c	Dr.	15,00,000	
	Plant and machinery A/c	Dr.	7,00,000	
	Furniture A/c	Dr.	50,000	
	Inventory A/c	Dr.	150,000	
	Accounts receivable A/c	Dr.	60,000	
	Cash A/c	Dr.	10,000	
	Bank A/c	Dr.	15,000	
	To Accounts payable A/c			50,000
	To Business purchase A/c			25,85,000
	(Being assets and liabilities taken over)			
	Liquidator of Vendor Company Ltd. A/c	Dr.	25,85,000	
	To Equity share capital A/c			18,00,000
	To Bank A/c			785,000
	(Being purchase consideration paid as per agreement)			

Illustration – 17

A Company sells its business to B Company as on 31st December 2004, on which date its balance sheet is as under:

Balance Sheet			
Liabilities and Equities	Amount	Assets	Amount
Share capital (6,000 shares of Rs.100 each)	6,00,000	Goodwill	80,000
Debentures	2,00,000	Premises	3,20,000
Accounts payables	1,00,000	Plant	2,00,000
Accident fund	1,00,000	Inventories	1,50,000
Profit and Loss A/c	50,000	Accounts receivable	2,80,000
		Cash at bank	20,000
	10,50,000		10,50,000

B Company agreed to take over the assets except cash and goodwill at 90% of book value. B Company paid Rs.100,000 for goodwill and also took over the accounts payable.

The purchase consideration was to be discharged by allotment of 3,000 shares of Rs.100 each at a premium of Rs.10 per share and balance in cash. The cost of liquidation amounted to Rs.20,000.

- Required: (a) Purchase consideration
 (b) Journal entries in the book of A Company
 (c) Realization account
 (d) Shareholder's account.

Solution:

(a) Calculation of Purchases Consideration

Particulars	Amount
Assets taken over:	
Goodwill	1,00,000
Premises (320,000 × 90%)	2,88,000
Plant (200,000 × 90%)	1,80,000
Inventories (150,000 × 90%)	1,35,000
Accounts receivable (280,000 × 90%)	2,52,000
Total assets acquired	9,55,000
Less: Liabilities taken over: Accounts payable	1,00,000
Net assets acquired	8,55,000

Mode of Payment

Particulars	Amount
Share capital in B Company i.e. 3,000 shares @ Rs.110	3,30,000
Cash payment (Balancing figure of net asset acquired)	5,25,000
Total purchase consideration	8,55,000

(b) Journal entries in the books of A company

Date	Particulars	L/F	Debit (Rs.)	Credit (Rs.)
	Realization A/c	Dr.	1,030,000	
	To Goodwill A/c			80,000
	To Premises A/c			320,000
	To Plant A/c			200,000
	To Inventories A/c			150,000
	To Accounts receivable A/c			280,000
	(Being sundry assets taken over by B Co. transferred to realization A/c)			
	Accounts payable A/c	Dr.	100,000	
	To Realization A/c			100,000
	(Being sundry liabilities taken over by B Co. transferred to realization A/c)			
	B Company A/c	Dr.	855,000	
	To Realization A/c			855,000
	(Being purchases consideration fixed)			
	Share in B Company A/c	Dr.	330,000	
	Bank A/c	Dr.	525,000	
	To B Company A/c			855,000
	(Being purchases consideration received)			
	Realization A/c	Dr.	20,000	
	To Bank A/c			20,000
	(Being liquidation expenses paid)			
	Debentures A/c	Dr.	200,000	
	To Debenture holder's A/c			200,000
	(Being conversation of debentures A/c to debenture holder's A/c)			
	Debenture holder's A/c	Dr.	200,000	
	To Bank A/c			200,000
	(Being debenture holder's satisfied for cash)			

Shareholder's A/c	Dr.	95,000	
To Realization A/c			95,000
(Being loss on realization transferred to shareholder's A/c)			
Share capital A/c	Dr.	6,00,000	
Accident fund A/c	Dr.	1,00,000	
Profit and loss A/c	Dr.	50,000	
To Shareholders' A/c			750,000
(Being shareholder's equity transferred to shareholder's A/c)			
Shareholder's A/c	Dr.	655,000	
To Share in B Company A/c			330,000
To Bank A/c (20,000 + 525,000 - 20,000 - 200,000)			325,000
(Being shareholder satisfied as per agreement)			

Dr.		(c) Realization A/c		Cr.	
Particulars		Amount	Particulars		Amount
To Goodwill A/c.....	80,000	By Accounts payable A/c.....		1,00,000	
To Premises A/c.....	3,20,000	By B Company A/c.....		8,55,000	
To Plant A/c.....	2,00,000	By Shareholder's A/c (Loss - Balancing figure)....		95,000	
To Inventories A/c.....	1,50,000				
To Accounts receivable A/c.....	2,80,000				
To Bank A/c (Liquidation expenses).....	20,000				
	10,50,000				10,50,000

Dr.		(d) Shareholder's A/c		Cr.	
Particulars		Amount	Particulars		Amount
To Realization A/c (Loss of realization).....	95,000	By Share capital A/c.....		6,00,000	
To Share in B Company A/c.....	3,30,000	By Accident fund A/c.....		1,00,000	
To Bank A/c.....	3,25,000	By Profit and loss A/c.....		50,000	
	7,50,000				7,50,000

Illustration - 18

On 1st Baisakh this year, D Company Ltd. is absorbed by A Company Ltd. The terms of absorption are as follows:

- A Company Ltd. will take over all assets except cash and investment.
- A Company Ltd. will issue 10% debentures to discharge 80% debentures at a premium of 6%.
- D Company Ltd. will get on share of Rs.100 each at Rs.180 from A Company Ltd. for every two shares in D Company Ltd.
- A Cash payment of Rs.40 per share in D Company Ltd.

D Company Ltd. sold the investment at a profit of 40% and paid off the creditors at a discount of 25%. The tax liability was determined at Rs.88,000. The cost of absorption amounted to Rs.11,200.

Liabilities		Amount	Assets		Amount
Equity share capital of Rs.100.....	8,00,000	Land and building.....		4,80,000	
General reserve.....	2,40,000	Plant.....		2,40,000	
Profit and Loss A/c	1,60,000	Investment.....		5,60,000	
8% Debentures.....	4,80,000	Stock.....		80,000	
Provision for taxation.....	80,000	Debtors.....		6,40,000	
Sundry creditors.....	4,80,000	Cash.....		1,60,000	
		Preliminary expenses.....		80,000	
	22,40,000				22,40,000

- Required:** a) Ledger accounts in the books of D Company Ltd.
 b) Journal entries in the books of A Company Ltd.

Solution:

Calculation of purchase consideration:

10% debentures in A Company Ltd. (4,80,000 + 6%)	Rs.5,08,000
Shares in A Company Ltd. (8,000 × 180 + 1/2)	Rs.7,20,000
Cash (8,000 × 40)	Rs.3,20,000
Total.....	Rs.15,48,800

(a) D Company Ltd. Realization A/c			
Dr.	Particulars	Amount	Cr.
	To Land and building A/c	4,80,000	By Provision for taxation A/c
	To Plant A/c	2,40,000	By Sundry creditors A/c
	To Investment A/c	56,60,000	By A Company Ltd. A/c
	To Stock A/c	80,000	By Cash A/c (Realization of investment)
	To Debtors A/c	6,40,000	
	To Cash A/c – Liquidator Expenses	11,200	
	To Cash A/c – Tax	88,000	
	To Debenture holders A/c	28,800	
	To Shareholders A/c	4,04,800	
		25,32,800	25,32,800

Shareholders A/c			
Dr.	Particulars	Amount	Cr.
	To Preliminary Expenses A/c	80,000	By Realization A/c
	To Shares in A Company	7,20,000	By Equity share capital A/c
	To Cash A/c	8,04,800	By General reserve A/c
			By Profit and Loss A/c
		16,04,800	16,04,800

Debentures Account			
Dr.	Particulars	Amount	Cr.
	To 10% debentures in A Company Ltd. A/c	5,08,800	By Realization A/c
			By 8% debentures A/c
		5,08,800	5,08,800

D Company Ltd. A/c			
Dr.	Particulars	Amount	Cr.
	To Realization A/c	15,48,800	By 10% Debentures in A Company Ltd. A/c
			By Shares in A Company Ltd.
			By Cash A/c
		15,48,800	15,48,800

Cash Account			
Dr.	Particulars	Amount	Cr.
	To Balance B/d	1,60,000	By Realization Liq. Expenses
	To Realization A/c	7,84,000	By Realization A/c Tax
	To A Company A/c	1,20,000	By Sundry Creditors A/c
			By Shareholders A/c
		12,64,000	12,64,000

(b) Journal Entries in the books of A Company Ltd.

Particulars	L/F	Debit (Rs.)	Credit (Rs.)
Business Purchase A/c	Dr.	15,48,800	
To Liquidator of D Company A/c			15,48,800
(Being the purchase consideration payable to D Company)			
Land and Building A/c	Dr.	4,80,000	
Plant and Machinery A/c	Dr.	2,40,000	
Stock A/c	Dr.	80,000	
Debtors A/c	Dr.	6,40,000	
Goodwill A/c	Dr.	1,08,600	
To Business purchase A/c			15,40,800
(Being the incorporation of assets and liabilities taken over from D Company Ltd.)			
D Company Ltd. A/c	Dr.	15,48,800	
To 10% debentures A/c			5,08,800
To Cash A/c			3,20,000
To Share capital A/c			4,00,000
To Share premium A/c			3,20,000
(Being settlement of purchase consideration)			
Share premium A/c	Dr.	1,08,300	
To Goodwill A/c			1,08,800
(Being the goodwill written off)			

Illustration - 19

The Balance sheet of Sekhar Ltd. as on 31st Chaitra 2069 is given below:

Liabilities		Amount	Assets		Amount
15% Preference share capital (5,000 shares of Rs.100 each)			Land and building		9,00,000
Common share capital 60,000 shares of Rs.10 each.....	5,00,000		Plant and machinery		3,00,000
Sundry creditors	6,00,000		Stock		1,50,000
10% Debentures	5,00,000		Debtors.....		2,00,000
	8,00,000		Bank balance.....		50,000
			Profit and loss A/c		6,00,000
			Preliminary expenses		2,00,000
		24,00,000			24,00,000

The company has been suffering loss from many years. The board of directors passed the following scheme for internal reconstruction of the company.

- The preference share capital reduced to Rs.40 per share by changing preference dividend rate at 20%.
- The face value of equity shares was reduced by Rs.6 per share.
- Debenture holders agree to sacrifice 50% of their present holding balance.

Thus the amount realized by liabilities reduction be utilized in writing off as:

- Plant by 10%
- Reserve for bad debts creation at 5%
- Stock by Rs.30,000
- Fictitious assets wholly.

The balance available after writing off above assets was transferred to capital reserve account.

- Required:**
- Pass journal entries after reconstruction
 - Capital reduction account
 - Reconstructed balance sheet.

Solution:

Journal entries in the books of Shekhar Company

Date	Particulars	L/F	Debit (Rs.)	Credit (Rs.)
	15% Preference share capital A/c (5,000 × Rs.100) Dr.		5,00,000	
	To Capital reduction A/c (5,000 × Rs.60)			3,00,000
	To 20% preference share capital A/c (5,000 × Rs.40)			2,00,000
	(Being preference share capital reduced by Rs.60 per share by changing dividend rate)			
	Equity share capital A/c (60,000 × Rs.10) Dr.		6,00,000	
	To Capital reduction A/c (60,000 × Rs.6)			3,60,000
	To Equity share capital A/c (60,000 × Rs.4)			2,40,000
	(Being equity share capital reduced to Rs.4 per share)			
	10% Debentures A/c (8,00,000 × 50%) Dr.		4,00,000	
	To Capital reduction A/c			4,00,000
	(Being debentures reduced by 50%)			
	Capital reduction A/c Dr.		8,70,000	
	To Plant A/c			30,000
	To Reserve for bad debts A/c			10,000
	To Stock A/c			30,000
	To Profit and loss A/c			6,00,000
	To Preliminary expenses A/c			2,00,000
	(Being various assets written off under internal reconstruction)			
	Capital reduction A/c Dr.		1,90,000	
	To Capital reserve A/c			1,90,000
	(Being balancing figure of capital reduction A/c transferred to capital reserve A/c)			

Dr.		Capital Reduction A/c		Cr.	
Liabilities	Amount	Assets	Amount		
To Plant A/c	30,000	By 15% Preference share capital A/c.....	3,00,000		
To Reserve for bad debts A/c.....	10,000	By Equity share capital A/c.....	3,60,000		
To Stock A/c.....	30,000	By 10% Debentures A/c	4,00,000		
To Profit and loss A/c.....	6,00,000				
To Preliminary expenses A/c.....	2,00,000				
To Capital reserve A/c (Balancing figure).....	1,90,000				
	10,60,000				10,60,000

**Reconstructed Balance Sheet
as on 1st Balshakh, 2069**

Liabilities	Amount	Assets	Amount
20% Preference share capital (5,000 shares of Rs.40 each).....	2,00,000	Land and building	9,00,000
Equity share capital (60,000 shares of Rs.4 each).....	2,40,000	Plant and machinery (3,00,000 – 30,000).....	2,70,000
10% Debentures (800,000 – 400,000).....	4,00,000	Stock (1,50,000 – 30,000).....	1,20,000
Sundry creditors.....	5,00,000	Debtors.....	2,00,000
Capital reserve.....	1,90,000	Less: Reserve for bad debts	10,000
		Bank balance	50,000
	15,30,000		15,30,000

Illustration - 20

A Company and B Company decided to amalgamate and a new Company, C Company is formed to take over the amalgamated companies with effect from January 1, 2013, when their balance sheet stood as follows:

Liabilities (Rs.)	A Co.	B Co.	Assets (Rs.)	A Co.	B Co.
Equity shares of Rs.100 each.....	10,00,000	5,00,000	Goodwill.....	1,90,000	60,000
Reserve Fund	2,90,000	1,75,000	Premises	5,00,000	2,40,000
Profit and Loss A/c.....	1,10,000	75,000	Machinery.....	3,00,000	1,95,000
Accounts payable.....	95,000	47,500	Furniture.....	85,000	--
Outstanding expenses	5,000	2,500	Inventory.....	1,30,000	90,000
			Accounts Receivables.....	2,10,000	1,75,000
			Cash at bank.....	85,000	30,000
			Preliminary expenses.....	--	10,000
	15,00,000	8,00,000		15,00,000	8,00,000

C Company issued 5,000 equity shares of Rs.100 each, 10,000, 8% preference shares of Rs.10 each and 10% debentures Rs.2,00,000 to the public apart from the issues made to carry out the business combination.

- Required:** i) Calculate the amount payable to each company assuming that the purchase consideration was settled by the following in each of the companies. 40% in equity shares, 30% in preference shares, 20% in debentures and the rest in cash.
 ii) Necessary journal entries in the book of A Company.
 iii) Amalgamated balance sheet of New Company.

Solution:

(i) Calculation of purchase Consideration

Particulars	A Co.	B Co.
Assets taken over:		
Premises.....	5,00,000	2,40,000
Machinery.....	3,00,000	1,95,000
Furniture.....	85,000	--
Inventory.....	1,30,000	90,000
Accounts receivable.....	2,10,000	1,75,000
Cash at bank.....	85,000	30,000
Total Assets taken over (A)	13,10,000	7,30,000
Liabilities taken over:		
Accounts payable.....	95,000	47,500
Outstanding expenses.....	5,000	2,500
Total Liabilities taken over (B)	1,00,000	50,000
Total Purchase Consideration (A - B)	12,10,000	6,80,000

Mode of payment

Particulars	A Co.	B Co.
Equity share @ Rs.100 each (40%).....	4,84,000	2,72,000
8% Preference share @ Rs.10 each (30%).....	3,63,000	2,04,000
10% Debenture (20%).....	2,42,000	1,36,000
Cash (10%).....	1,21,000	68,000
Total Purchase Consideration	12,10,000	6,80,000

(ii) Journal entries in the books of Shekhar Co.

Date	Particulars	L/F	Debit (Rs.)	Credit (Rs.)
1.	Realization A/c To All Assets A/c (Being all assets taken over)	Dr.	15,00,000	15,00,000
2.	Accounts payable A/c Outstanding expenses A/c To Realization A/c (Being all liabilities taken over)	Dr. Dr.	95,000 5,000	1,00,000

3.	C Company A/c To Realization A/c (Being purchase consideration fixed)	Dr.	12,10,000	12,10,000
4.	Equity Shareholders A/c To Realization A/c (Being loss on realization transferred to equity holders A/c)	Dr.	1,90,000	1,90,000
5.	Equity share capital A/c Reserve fund A/c Profit and Loss A/c To Equity shareholders A/c (Being equity capital and reserve fund transferred to equity holders A/c)	Dr. Dr. Dr.	10,00,000 2,90,000 1,10,000	14,00,000
6.	Equity shareholders' A/c To Share capital in C Company To 8% Preference share in C Company To 10% Debenture A/c To Cash A/c (Being equity share, preference share, debenture and cash paid to equity share of A Company)	Dr.	12,10,000	4,84,000 3,63,000 2,42,000 1,21,000

(iii) Opening Balance sheet of C Company

Liabilities		Amount	Assets		Amount
Equity Capital @ 100 each		12,56,000	Premises		7,40,000
2% Preference share @ 10 each.....		6,67,000	Machinery.....		4,95,000
10% Debenture		5,78,000	Furniture.....		85,000
Accounts payable.....		1,42,500	Inventory		2,20,000
Outstanding expenses		7,500	Accounts receivable.....		3,85,000
			Cash at Bank.....		7,26,000
		26,51,000			26,51,000

Key Points:

- Take over assets means only assets taken not liabilities. In this case, liabilities should be discharged by bank even if not stated in the problem.
- Take over business is assumed to be taken over all assets to liabilities by purchasing company.
- Liquidation expenses should not be included in purchase consideration unless otherwise stated clearly since it is not part of the purchase consideration.
- If nothing is clearly stated in the problems as to which company should pay liquidation expenses, then Vendor Company is supposed to be paid liquidity expenses.
- Liabilities and assets not taken over by purchasing company should not transfer to realization A/c rather liabilities are paid and assets are sold in their book value unless discharge price and selling price are not given in the problem.
- Generally, debenture of Vendor Company should not be included in liabilities while calculating purchasing consideration under net worth basis unless it is stated pointedly.
- Workmen/employees saving deposit, pension fund provident fund, security deposit and profit sharing fund are the liabilities of the vendor company. They should be transferred to realization A/c, if they are assumed by purchasing company, if not they are paid off by Vendor Company.
- Depreciation fund/ reserve, provision for bad and dividend debt appearing in the balance sheet of Vendor Company should be transferred to realization A/c.
- Insurance fund, contingency fund, reserve, general reserve, capital profit/reserve, dividend equalization fund, sinking fund, Profit and loss A/c, development resource rebate, capital redemption reserve, share forfeiture A/c, investment fluctuation fund, retained earning are the shareholder's equity but not liability. They should be transferred to equity shareholder A/c.
- Debentures included in purchase consideration should not be transferred to realization A/c. If it is not included, then it is transferred to realization A/c.

सैद्धान्तिक प्रश्नहरू (Theoretical Questions)

- १) क्रय मूल्य भन्नाले के बुझिन्छ ? क्रय मूल्य निर्धारण गर्ने कुनै एउटा विधि उल्लेख गर्नुहोस् । (Define purchase consideration? Write any one method of determining purchase consideration.)
- २) उपयुक्त उदाहरणसहित क्रयमूल्य निर्धारणका विधिहरू उल्लेख गर्नुहोस् । (Write in brief the methods of purchase consideration with suitable example.)
- ३) आन्तरिक पुनःसंरचना र बाह्य पुनःसंरचना बीच भिन्नता छुट्टयाउनुहोस् । (Write the differences between internal and external reconstruction.)
- ४) सम्मिलनलाई व्याख्या गर्नुहोस् । यसका फाइदा र बेफाइदाहरू उल्लेख गर्नुहोस् । (Define amalgamation and write its advantages and disadvantages.)
- ५) सम्मिलन र विलयन बीच के के भिन्नता छन् ? (What are differences between amalgamation and absorption?)
- ६) किन व्यवसायिक संयोजनमा क्रयमूल्य निर्धारण गरिन्छ ? (Why purchase consideration is determined in business combination?)
- ७) किन आन्तरिक पुनःसंरचना गर्दा पुँजीलाई घटाउनु आवश्यक हुन्छ । (Why reduction of capital is necessary in case of internal reconstruction of the company?)
- ८) विलयन भनेको के हो ? यसका विशेषताहरू उल्लेख गर्नुहोस् । (What is absorption? Write its features.)
- ९) सम्मिलन भनेको के हो ? यसका विशेषताहरू उल्लेख गर्नुहोस् । (What is amalgamation? Write its features.)

प्रयोगात्मक समस्याहरू (Practical Problems)

Question No. 1

Keshav Limited buys business Ranjan Limited for Rs.1,00,000. At the date of purchase the balance sheet of business Ranjan Limited Shows the following:

Fixed Assets	Rs.30,000	Current assets	Rs.90,000
Current liabilities	Rs.65,000	Share capital	Rs.55,000

Required: Amount of Goodwill

Ans.: Goodwill Rs.45,000

Question No. 2

X Company purchases the business of a Sole traders for Rs.1,00,00,000. The purchase consideration involved is:

- a) The issue of 60,000 ordinary share of Rs.100 each in the company at Rs.120 each.
- b) The issue of Rs.5,00,000 debentures at par in the company.
- c) The balance of the purchase price paid in cash.

Required: Amount of Cash to be paid

Ans.: Cash paid to Sole trade Rs.23,00,000

Question No. 3

A Ltd. Agrees to absorb B Ltd., the consideration being:

- a) The assumption of trade liabilities of Rs. 50,000
- b) The payment of the costs of liquidation Rs.2,000
- c) The redemption of 8% debentures of Rs 6,00,000 at a premium of 10% in cash.
- d) The payment of Rs.20 per share in cash and the exchange of two fully paid Rs.10 shares in A Ltd. for every share of Rs.25 in B Ltd. The share capital of the vendor company consists of 20,000 shares of Rs.25 each fully paid.

Required: Calculate the purchase consideration

Ans.: Purchase consideration Rs.67,00,000 OR, Rs.68,10,000 if Debenture is included.

Question No. 4

X Ltd. is acquired by Y Ltd., the consideration being the takeover of liabilities; the payment of cost of acquisition as a part of purchase consideration not exceeding Rs.20,000 (actual cost Rs.17,000); the payment of the debentures Rs.1,00,000 at a premium of 10% in 9% debentures issued at par; and the payment of Rs.16 per share in cash and allotment of one 14% preference share of Rs.10 each and 6 equity shares of Rs.10 each fully paid for every 4 shares in X Ltd. The number of shares of the vendor company (X Ltd.) is 2,00,000 of Rs.10 each fully paid.

Required: Calculate purchase consideration

Question No. 5

Following is the balance sheet of Prem Limited as on 31st Ashad, 2069

Liabilities		Amount	Assets		Amount
Equity Share Capital (R.100 per value)		500,000	Fixed Assets		5,00,000
12% Preference Shares @ Rs.100 each.....		2,00,000	Current Assets		5,00,000
10% Debentures		1,00,000			
Current Liabilities		50,000			
Reserve and Surplus		1,50,000			
		10,00,000			10,00,000

Not payment method
Loss yet to be

Rakesh Ltd. acquired the business of Prem Limited on the following terms.

- Cash payment of Rs.30 per share of Prem Ltd.
- Three shares of Rs.50 at an agreed value of Rs.70 for every two shares of Prem Ltd.
- Debenture holders of Prem Ltd. agreed to take 10% debentures of Rakesh Ltd. with 10% premium.
- Five 12% preference shares would be allotted for every four 10% preference shares held in Prem Ltd.

Required: Purchase consideration under net payment method.

Ans.: Purchase consideration Rs.10,35,000

Question No. 6

Following is the balance sheet of S Co. Ltd. as on 31st Chaitra, 2069.

Liabilities		Amount	Assets		Amount
Share capital (2,000 shares of Rs.100 each)		2,00,000	Plant and Machinery		1,00,000
Profit and loss Account		50,000	Furniture		100,000
Workmen accident fund		20,000	Stock		75,000
Staff provident fund		30,000	Prepaid expenses		25,000
Trade Creditors		40,000	Debtors		20,000
Outstanding expenses		10,000	Cash at bank		10,000
			Preliminary expenses		15,000
			Underwriting Commission		5,000
		3,50,000			3,50,000

D Company Ltd. adsorbs the business of S Company Ltd. on the following conditions:

- D Company Ltd. agreed to take over the fixed assets at 90% of the book value and other assets at book value.
- D Co. Ltd. does not take over cash at bank.
- D Co. Ltd. agreed to take over the liabilities at book value.
- Goodwill is valued at Rs.50,000 as per mutual agreement.
- Purchase consideration is to be discharged in the form of 1,500 fully paid equity shares of Rs.100 each at a premium of Rs.20 per share and balance in cash.

Required: (i) Purchase Consideration (ii) Mode of Payment

Ans.: Purchase consideration Rs.2,70,000

Question No. 7

Consider the following information:

Company A:

Share capital (50,000 shares of Rs.10 each)	Rs.5,00,000
Total assets	Rs.13,00,000
Liabilities	Rs.1,00,000

Company B:

Share capital (30,000 shares of Rs.10 each)	Rs.3,00,000
Total assets	Rs.3,50,000
Liabilities	Rs.1,10,000

A Company took over the business of B Company.

Required: Calculate purchase consideration under intrinsic value of shares method.

Ans.: Purchase consideration Rs.2,40,000

Question No. 8

Give the journal entries for the following transactions in connection with internal reconstruction.

- 10,000 equity shares of Rs.10 each fully paid, reduced to shares of Rs.5 each fully paid.
- 100, 8% debentures Rs.1,000 each converted into 500, 6% debentures of Rs.100 each.
- The debit balance of profit and loss account Rs.50,000 and the preliminary expenses of Rs.10,000 were written off.
- The value of plant and machinery & stock were written down by Rs.20,000 and Rs.10,000 respectively.

Ans.: Capital Reserve Rs.10,000

Question No. 9

Keshav Company and Rekha Company decided to amalgamate and a new Company, Shankar Company is formed to take over the amalgamated companies with effect from March 1, 2013, when their balance sheet stood as follows:

Liabilities (Rs.)	Keshav Co.	Rekha Co.	Assets (Rs.)	Keshav Co.	Rekha Co.
Equity shares of Rs.100 each.....	5,00,000	2,50,000	Goodwill.....	95,000	30,000
Reserve Fund	1,45,000	87,500	Premises	2,50,000	1,20,000
Profit and Loss A/c.....	55,000	37,500	Machinery.....	1,50,000	97,500
Accounts payable.....	47,500	23,750	Furniture	42,500	-
Outstanding expenses	2,500	1,250	Inventory.....	65,000	45,000
			Accounts Receivables.....	1,05,000	87,500
			Cash at bank	42,500	15,000
			Preliminary expenses.....	-	5,000
	7,50,000	4,00,000		7,50,000	4,00,000

Shankar Company issued 2,500 equity shares of Rs.100 each, 5,000, 8% preference shares of Rs.10 each and 10% debentures Rs.1,00,000 to the public apart from the issues made to carry out the business combination.

- Required:**
- Calculate the amount payable to each company assuming that the purchase consideration was settled by the following in each of the companies. 40% in equity shares, 30% in preference shares, 20% in debentures and the rest in cash.
 - Necessary journal entries in the book of Keshav Company.
 - Amalgamated balance sheet of Shankar Company.

Ans.: (i) A Co. Rs.6,05,000; B Co. Rs.3,40,000; (iii) Opening Balance sheet Rs.13,25,500

Question No. 10

A Company was agreed to be absorbed by B Company on 31st December, last year. The consideration of purchase was as follows:

- B Company to take over all assets and liabilities
- The purchase consideration was to be discharged by paying cash Rs.60 per share and the exchange of three Rs.100 shares in B Company Ltd. and agreed value of Rs.150 each for five shares in A Company.
- B Company is to discharge the debentures of A Company at a premium of 5% by issuing 10% debentures in B Company.

The balance sheet of A Company on 31st December was:

Liabilities		Amount	Assets		Amount
24,000 shares of Rs.100 each		24,00,000	Land and Building		6,12,000
6% Debentures		12,00,000	Plant and Machinery		17,60,000
Sundry creditors		1,60,000	Investment		40,000
Workmen profit sharing fund		80,000	Stock		8,48,000
Accident compensation fund		40,000	Sundry debtors		3,60,000
General reserve A/c		2,56,000	Cash at bank		2,80,000
Profit and Loss A/c		24,000	Patents		40,000
			Pattern and Drawing		20,000
			Goodwill		2,00,000
		41,60,000			41,60,000

- Required: a) Journal entries in the books of A Company
b) Journal entries in the books of B Company

Ans.: Purchase consideration Rs.48,60,000 (Absorption)

Question No. 11

The balance sheet of Bimal Company Ltd. on 31st Chaitra, Last year was:

Liabilities		Amount	Assets		Amount
72,000 Shares of Rs.100 each		7,20,000	Land and building		8,96,000
General reserve		4,80,000	Plant and Machinery		5,60,000
Profit and Loss A/c		2,24,000	Furniture		48,000
10% Debentures		1,76,000	Inventories		1,28,000
Creditors		32,000	Debtors	5,7,000	57,000
Dividend equalization fund		64,000	Cash at bank		6,000
		16,96,000			16,96,000

The Company decides to sell its business to Dhimal Company Ltd. Dhimal Company Ltd. decides to acquire current assets at book values and fixed assets at the following value:

Land and Building	Rs.9,60,000	Plant and Machinery	Rs.6,40,000
Furniture	Rs.32,000	Goodwill	9,60,000

The Company also decides to acquire the liabilities of Bimal Company Ltd. The purchase price was to be discharged by the allotment to the Bimal Company Ltd. of 14,000 shares of Rs.100 each at 120 each and the balance in cash. The cost of liquidation of Bimal Company Ltd. came to Rs.10,000.

- Required: a) Journal entries in the books of Bimal Company Ltd.
b) Journal entries in the books of Dhimal Company Ltd.

Ans.: Purchase consideration Rs.18,88,400 (Absorption)

Question No. 12

Hulas Steel Company Ltd absorbs the business of Himal Company Ltd. The considerations of purchase are as follows:

- Hulas Steel Company Ltd. is to take all assets of Himal Company Ltd.
- Hulas Steel Company Ltd. is to make payment in cash of Rs.90 for every 5% debenture of Rs.100 in Himal Ltd. which debentures holders have agreed to accept in full discharge of their debentures.
- Hulas Steel Company Ltd. is to make a further payment in cash of Rs.35 per share for every share in Himal Company Ltd.
- Hulas Steel Company Ltd. is to allot one share of Rs.20 each at an agreed market value of Rs.25 each for every share in Himal Company Ltd.

900/100

एकका-५

अमिलन, विलयन ट पुनः वंटचना १८५

The balance sheet of Himal Company Ltd. on Chaitra 2069 Stood as:

Liabilities	Amount	Assets	Amount
Share Capital 10,000 shares of Rs.50 each fully paid ...	5,00,000	Goodwill	3,00,000
5% Debenture 100 each	2,00,000	Plant and Machinery	2,00,000
Sundry creditors	2,00,000	Stock in trade	2,00,000
Bills payable	1,00,000	Bills receivable	70,000
		Sundry debtors	80,000
		Cash at Bank	10,000
		Profit and Loss A/c	1,40,000
	10,00,000		10,00,000

Pass necessary entries to close their books of Account.

Ans.: Purchase consideration Rs.7,80,000 (Absorption)

Question No. 13

The summarized balance sheet of P Company Ltd. as on 31st December, 2012 was a follows:

Liabilities	Amount	Assets	Amount
20,000 equity shares of Rs.10 each	2,00,000	Goodwill	20,000
1,000, 5% debentures of Rs.100 each	1,00,000	Stock	35,000
Sundry creditors	30,000	Land and Building	70,000
Bills payable	10,000	Plant and Machinery	85,000
		Furniture and fixture	8,000
		Sundry debtors	40,000
		Cash at Bank	2,000
		Profit and Loss A/c	80,000
	3,40,000		3,40,000

A Scheme of capital reduction was dully approved and adopted. The equity share were reduced to the same number of shares of each of Rs.5 and 5% debentures converted into the same number of 6% debentures of Rs.75 each. The amount thus realized was utilized to write-off the debit balance of profit and loss A/c and goodwill account, to reduce plant and machinery by Rs.13,000; Furniture and fixtures by Rs.2,000; Stock by Rs.6,000 and to create a provision for sundry debtors at 10% show the necessary journal entry to give the effect to the scheme of reconstruction and a balance sheet after reconstruction.

Ans.: Balance Sheet Rs.2,15,000 (Internal Reconstruction)

Question No. 14

The H Co. Ltd. and G Co. Ltd., whose business is of similar nature, decided to amalgamate and a new company called H-and G Co. Ltd. is formed to take over their respective assets and liabilities. The balance sheet of both companies as on 31st December, 2012 are as follows:

Balance Sheet
As on 31st December, 2012

Liabilities	H Co. Ltd.	G. Co. Ltd.	Assets	H. Co. Ltd.	G. Co. Ltd.
Share capital (Rs.100 each)	7,50,000	4,55,000	Goodwill	3,00,000	2,00,000
Sundry creditors	33,000	20,000	Land and building	1,00,000	-
General reserve	42,000	-	Plant and machinery	1,83,000	1,34,500
Profit and loss A/c	8,000	45,000	Inventory	1,60,000	1,15,500
			Sundry debtors	75,000	60,000
			Cash	15,000	10,000
	8,33,000	5,20,000		8,33,000	5,20,000

Assuming that assets and liabilities are worth at their book values

Required: (a) Purchase consideration (b) Closing entries in the books of both companies
(c) Realization A/c of both companies (d) Shareholder A/c

Ans.: (a) H. Co. Ltd. Rs.8,00,000; G. Company Rs.5,00,000; (c) Nil (Amalgamation)

Question No. 15

Hari Company Ltd. and Krishna Company Ltd. agreed to amalgamate and form a new company Radha Company Ltd. which will take over all the assets and liabilities of two companies.

In the case of Hari Company Ltd. assets are taken over at a reduced valuation of 10% with the exception of building, which is accepted at book value.

Both the companies are to receive 5% of the net valuation of their respective business as goodwill. In return of debentures in Hari Company Ltd. debentures of the same amount and denomination are to be issued by Radha Company Ltd. The entire purchase price is to be paid in fully shares of Rs.10 each.

Summarized balance sheets of two companies just prior to amalgamation were as follows:

Hari Company Ltd.			
Liabilities	Amount	Assets	Amount
Equity shares of Rs.10.....	2,00,000	Building	2,60,000
10% Debentures of Rs.100 each.....	40,000	Machinery	20,000
Reserve fund.....	68,000	Stock	32,000
Dividend equalization fund.....	8,000	Debtors	28,000
Employees provident fund	6,000	Cash.....	6,000
Trade creditors.....	20,000		
Profit and Loss A/c.....	4,000		
	3,46,000		3,46,000

Krishna Company Ltd.			
Liabilities	Amount	Assets	Amount
Equity shares of Rs.10.....	1,20,000	Plant and Machinery	1,00,000
Trade creditors.....	16,000	Stock	16,000
		Debtors	20,000
		Less: Provision	2,000
		Cash.....	2,000
	1,36,000		1,36,000

- Required:** a) Journal entries in the books of Hari Company Ltd.
 b) Opening journal entries in the book of Radha Company Ltd.
 c) Opening Balance sheet of Radha Company Ltd.

Ans.: Purchase consideration: Hari Co. Rs.1,27,600, Krishna Co. Rs.1,26,000, B/S Rs.4,95,600

(Amalgamation)

Question No. 16

The following is the balance sheet of S Ltd. as on March 31, 2012

Liabilities	Amount	Assets	Amount
6,500 Equity shares of Rs.10 each.....	6,50,000	Furniture and fittings	85,000
2,000 12% preference shares of Rs.100 each	2,00,000	Stock	7,20,000
10% Debentures.....	1,50,000	Debtors	1,07,000
Bank overdraft.....	5,000	Expenses of issue of debentures.....	7,500
Sundry creditors.....	2,25,000	Profit and Loss A/c.....	3,10,000
Preference dividend in arrears for 3 years.....	-		
	12,30,000		12,30,000

P Ltd. takes over the company on the terms that it would:

- a) Take furniture and fittings after depreciating the same by 10%, stock at Rs.6,86,850 and debtors subject to a provision for bad debts @5%.
 b) Take 10% debentures.
 c) Discharge the purchase consideration by allotment of 20,000 equity shares of Rs.10 each at an agreed value of Rs.12 each of S Ltd. and by the payment of the balance in cash.
 d) Bear the expenses of liquidation which come to be Rs.8,000

Preference shareholders of S Ltd. agreed to accept Rs.1,80,000 in full settlement of their total claim. Close the books of S Ltd. and pass journal entries in the book of P Ltd.

Ans.: Purchase Consideration Rs.7,15,000 (Absorption)

