Chapter 4

Amalgamation Accounts

INTRODUCTION

- During last some years, many amalgamations have taken place. Two tea companies Brook Bond India Ltd. and Lipton India Ltd. combined and formed a new company called Brook Bond Lipton India Ltd. The Hindustan Lever Ltd. absorbed Tata Oil Mills Ltd. (TOMCO). The Arvind Mills Ltd. absorbed The Rohit Mills Ltd.

- Production or large scale and giant industrial units are the outstanding characteristics of modern business world. These has been a trend towards bigger and bigger business units during the last hundred years. Some of the causes of such trend are as follows:

1) Cut- throat competition at national and international level is harmful to all business enterprises; therefore, they turn to amalgamation to save themselves from this competition.

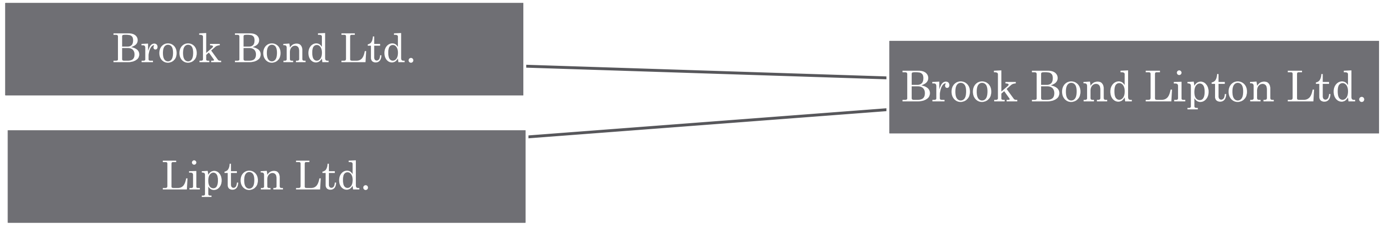
2) Two or more units combine to form a large-sized company in order to get the benefits of economics of scale.

MEANING OF AMALGAMATION, ABSORPTION AND RECONSTRUCTION

- In order to get the benefits of large-scale trading, there has been a trend towards combining two or more business units. There are various ways of combining two or more companies:

A. **Amalgamation**: When two or more companies carrying on similar business decide to combine, a new company is formed to take over their business. This process is known as ***Amalgamation***. The existing companies go into liquidation. Usually, the new company will issue its shares in satisfaction of the purchase price and they would be given to the shareholders of the existing companies in exchange of old shares.

   - Suppose, two companies X and Y amalgamate and form a new company Z, then mathematically the scheme can be represented as, X + Y = Z.

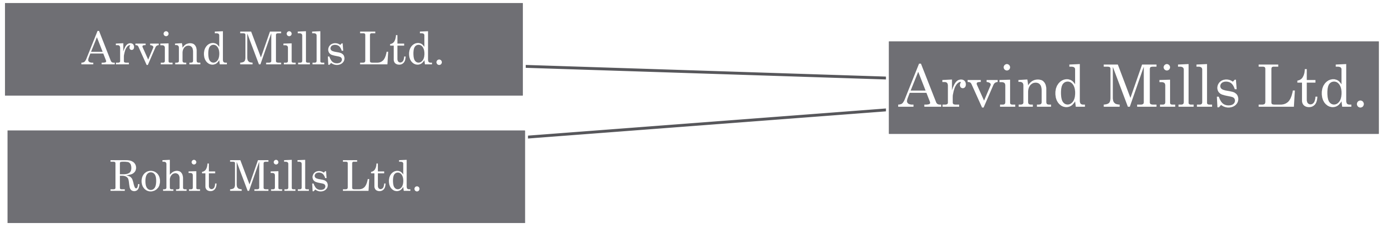


B. **Absorption**: When one of the existing companies takes over business of another company or companies, it is known as ***Absorption***. The company whose business is taken over, goes into liquidation. In this case also, the intention is to remove unhealthy competition. But one company continues its existence and the other companies merge into it Under the Companies Act, Absorption is also treated as one type of Amalgamation.

- Suppose, X Co. takes over the business of Y Co., then the position is as under:

$$X + Y = X.$$

- The Arvind Mills Ltd. absorbed the Rohit Mills, which is an example of Absorption.



c. **Reconstruction**: Reconstruction has an another different purpose. It is undertaken with a view to writing off past losses or to reorganize the capital structure. There are two types of reconstruction, viz. Internal and External.

- In Internal Reconstruction the existing company continues to carry on business in the same name but it reduces its capital and from the balance available it writes off accumulated past losses. This has been discussed in detail in a chapter on Alteration of Share Capital-Reduction of Capital.
- External Reconstruction takes place when a new company is formed to take over the business of an existing company which goes into liquidation. With change in the name, a new company is formed with the same shareholders to carry on the same business. Its purpose is also to wipe off the past losses and to obtain additional working capital.

PURPOSES OF AMALGAMATION & ABSORPTION

- The following are some of the purposes for which two or more companies combine by amalgamation or absorption:
  - To eliminate or reduce competition
  - To combine financial and technical resources
  - Economies of large-scale production
  - Benefits of centralization

PURPOSES OF RECONSTRUCTION

- The purposes of reconstruction are entirely different from those of amalgamation. A financially weak company undertakes reconstruction for writing off past accumulated losses and to obtain some additional working capital.
- Sometimes, reconstruction becomes inevitable and at times, it is only desirable and not essential. If it is inevitable, it entails some sacrifice on the part of the shareholders as well as creditors.
- At times, it may be undertaken with a view to effecting decentralization so that a particular branch or department may work as an independent unit.

HOW TO CALCULATE PURCHASE CONSIDERATION

- In amalgamation, absorption and external reconstruction, one company takes over the business of one or more companies and hence, the question of calculating purchase consideration arises. Purchase consideration is the price at which the business (i.e., assets and liabilities) of the vendor company are taken over by the purchasing company. There are two methods of calculating the purchase consideration:
- (A) Net Assets Method:
- (B) Consideration Method or Net Payment Method
- (C) Total Amount given: Sometimes, the total amount to be given by way of Purchase Price is given in the example. In that case, the question of finding out purchase price does not arise.

NET ASSETS METHOD

- The purchasing company may agree to take over the business of vendor company by stating the values of various assets (including goodwill) and various liabilities. Then in this case, the purchase consideration will be the difference between total value of assets taken over at new valued agreed upon and total values of liabilities taken over.

- ***Purchase Price = Value of total assets taken over – Value of total liabilities taken over***

CONSIDERATION METHOD

- The purchasing company may agree to pay to the vendor company a certain lump sum of money either in the form of shares or debentures or cash to the vendor of the company. The total of all such sums payable will be the purchase consideration.
- However, if the purchasing company has agreed to pay purchase consideration in shares, debentures or cash, then total of the value of shares, debentures and cash will be the purchase consideration.

Remember the following points while calculating purchase price under consideration method :

(1) *When consideration method is used* : When the amount of cash, shares and debentures are given in the example, this method should be used. The purchase consideration is obtained by totalling the values of the consideration given.

If, however in the example the values of shares and debentures are given and it is stated that '*the balance is given in cash*', it is not possible to use the consideration method because the amount of cash is not given. In such a case, the purchase consideration is obtained by net assets method.

(2) *All considerations to be included :* While computing the purchase price by consideration method, all amounts given for whatever purpose, must be totalled up. But if the purchasing company agrees to issue its new debentures in place of old debentures of selling company, then the value of new debentures must not be included.

(3) *Price of shares :* Generally, the shares issued by the purchasing company towards purchase consideration are valued at its *paid-up value.* e.g. if the purchasing company issues 5,000 equity shares of Rs. 100 each, Rs. 80 paid up per share, then the value of shares to be included in purchase price would be 5,000 shares × Rs. 80 = Rs. 4,00,000.

(4) *Cash against fraction of shares :* If while calculating the number of shares to be issued by the purchasing company, some fraction of a share is obtained, then the market price of such fractional share is treated as paid in cash.

e.g. The share capital of A Co. Ltd. consists of 5,000 shares of Rs. 100 each fully paid and B Co. Ltd. which absorbs A Ltd. agrees to issue one share of B Ltd for every 3 shares of A Ltd. The face value of B's share is Rs. 100, while its market value is Rs. 150. Then the purchase price will be paid as follows :

5,000 shares × 1/3 = 1,666 2/3 shares

This will be issued as follows :

1,666 shares × Rs. 150	= Rs. 24,990	Shares
2/3 Share × Rs. 150	= Rs. 100	Cash
Purchase Price	Rs. 25,090	

(5) *Goodwill or Capital Reserve :* When the purchase price is to be ascertained by consideration method, then the amount paid for goodwill is not given. Hence, the amount of goodwill or capital reserve in the books of the purchasing company must be found out. Remember that the amount of goodwill or capital reserve is found out in the books of purchasing company only, not in the books of the vendor company.

When net assets are more than the purchase consideration, the excess is the goodwill, which is calculated as follows :

Goodwill = Purchase Consideration – Net Assets

Conversely, if the net assets is more than the purchase consideration, the difference is the capital reserve. It is calculated as follows :

Capital Reserve = Net Assets – Purchase Consideration

In short goodwill is the excess of net assets over purchase price while, capital reserve is the excess of purchase price over net assets.

IN THE BOOKS OF VENDOR COMPANY

- Open necessary accounts like Realization Account, Shareholder’s Account, Bank or Cash Account, Purchasing Company’s Account and New Company’s Shares or Debentures Account.
- Balances given in Balance Sheet to be transferred to these A/cs.
- Share Capital A/c, P & L A/c etc. are transferred to Shareholder’s A/c.
- Two entries for Purchase Consideration should be made:
  I. For Purchase Consideration due
  II. For Purchase Consideration received
- Assets and Liabilities not taken over must be disposed off; Expenses to be paid.
- Realization A/c to be closed and Profit or Loss transferred.
- Payment made to shareholders and their A/c closed.

IN THE BOOKS OF PURCHASING COMPANY

- Calculate Net Assets.
- Calculation of Purchase Consideration.
- Find out Goodwill or Capital Reserve:
  - Goodwill = Purchase Consideration – Net Assets
  - Capital Reserve = Net Assets – Purchase Consideration
- Pass necessary Journal Entries
- Prepare initial Balance Sheet of Purchasing Company.

1. With a view to amalgamating and taking over the business of Gujarat Ltd. and Ahmedabad Ltd., a new company Bharat Ltd. was formed. The balance sheet of Gujarat Ltd. as on 31-3-2021 was as follows :

Balance Sheet

Particulars	Note	Rs.
I. EQUITY AND LIABILITIES :		
(1) Shareholders' Funds :		
(a) Share Capital : 50,000 Equity Shares of Rs. 10 each fully paid up		5,00,000
(b) Reserves and Surplus :		
Reserve Fund		1,00,000
Profit & Loss A/c		80,000
Workmen's Compensation Fund		25,000
(2) Non-Current Liabilities :		
(a) Long Term Borrowings : 7.5% Debentures		3,00,000
(b) Long Term Provisions :		
Workmen's Profit Sharing Fund		45,000
(3) Current Liabilities :		
(a) Trade Payables : Creditors		1,50,000
Total		12,00,000

II. ASSETS :		
(1) Non-Current Assets :		
(a) Fixed Assets :		
(i) Tangible Assets :		
Land & Building		4,00,000
Machinery		3,00,000
(ii) Intangible Assets : Goodwill		1,00,000
(b) Other Non-Current Assets : Preliminary Expenses		50,000
(2) Current Assets :		
(a) Inventories : Stock		1,00,000
(b) Trade Receivables : Debtors		2,00,000
(c) Cash and Cash Equivalents :		
Cash and Bank balance		50,000
Total		12,00,000

Bharat Ltd. takes over the assets of Gujarat Ltd. except cash and bank balance, at values agreed as follows :

(1) Goodwill Rs. 1,50,000

(2) Land and building at 25% more

(3) Plant and machinery at 10 % less

(4) Stock Rs. 1,50,000

(5) Debtors after providing 5% for bad debts reserve.

(6) A claim of Rs. 5,000 is accepted by the company against workmen's compensation fund.

Bharat Ltd. took over all the liabilities of Gujarat Ltd. at book values.
Find out the Purchase Consideration.

- **Solution: Here, we have to find out Purchase Consideration by using Net Assets Methods.**

Net Assets = Total Assets – Total Liabilities

Total Assets			₹
Goodwill			1,50,000
Land & Building	4,00,000		
+ 25% more	1,00,000		5,00,000
Plant & Machinery	3,00,000		
- 10% Less	30,000		2,70,000
Stock			1,50,000
Debtors	2,00,000		
- 5% B.D.R.	10,000		1,90,000
Total Assets			12,60,000
Less: Total Liabilities			
Workmen's Compensation Fund		5,000	
7.5% Debentures		3,00,000	
Workmen's Profit Sharing Fund		45,000	
Creditors		1,50,000	5,00,000
Net Assets (Purchase Consideration)			7,60,000

2. Balance Sheets as on 31st March, 2021 of Harshad Ltd. and Pravin Ltd. were as under :

Balance Sheet of Harshad Ltd.

Particulars	Note	Rs.
I. EQUITY AND LIABILITIES :		
(1) Shareholders' Funds :		
(a) Share Capital :		
10,000 Equity Shares of Rs. 100 each		10,00,000
(b) Reserves and Surplus :		
General Reserve		3,00,000
Workmen's Compensation Fund		50,000
Profit & Loss A/c		65,000
(2) Current Liabilities :		
(a) Trade Payables :		
Creditors		65,000
Bills Payable		10,000
Total		14,90,000
II. ASSETS :		
(1) Non-Current Assets :		
(a) Fixed Assets :		
(i) Tangible Assets :		
Land & Building		3,50,000
Machinery		7,00,000
Furniture		50,000
(ii) Intangible Assets : Patents		75,000
(2) Current Assets :		
(a) Inventories : Stock		1,50,000
(b) Trade Receivables :		
Debtors		50,000
Bills Receivables		15,000
(c) Cash and Cash Equivalents : Bank balance		1,00,000
Total		14,90,000

Balance Sheet of Pravin Ltd.

Particulars	Note	Rs.
I. EQUITY AND LIABILITIES :		
(1) Shareholders' Funds :		
(a) Share Capital :		
2,000 Equity Shares of Rs. 100 each		2,00,000
(b) Reserves and Surplus : Profit & Loss Account		26,000
(2) Current Liabilities :		
(a) Trade Payables : Creditors		15,500
Total		2,41,500
II. ASSETS :		
(1) Non-Current Assets :		
(a) Fixed Assets :		
(i) Tangible Assets :		
Land & Building		1,00,000
Vehicles		15,000
(ii) Intangible Assets :		
Goodwill		35,000
Patents		5,000
(2) Current Assets :		
(a) Inventories : Stock		32,000
(b) Trade Receivables : Debtors		31,000
(c) Cash and Cash Equivalents : Bank balance		23,500
Total		2,41,500

Directors of both the companies decided that :

(1) Both the companies should be wound up and a new company Anand Ltd. be formed to acquire the assets and liabilities of both the companies.

(2) Authorised share capital of Anand Ltd., be fixed at Rs. 12,00,000. divided into 12,000 Equity shares of Rs. 100 each.

(3) Harshad Ltd. to be paid Rs. 14,00,000 as purchase consideration. 8,860 Equity shares of Rs.100 value to be treated at Rs. 150 per share and balance purchase consideration in cash.

(4) Pravin Ltd. to be paid Rs. 1,85,000 as purchase consideration. 1,140 Equity shares of Rs. 100 value to be treated at Rs. 150 per share and balance purchase consideration in cash.

(5) Harshad Ltd. and Pravin Ltd. shall retain cash with Bank.

(6) Anand Ltd. issued remaining Equity shares at Rs. 150 per share and were fully paid.

(7) The liquidation expenses of Harshad Ltd. and Pravin Ltd. amounted to Rs. 5,000 and Rs. 3,000 respectively.

Prepare : (a) In the books of Harshad Ltd. :

(i) Realisation A/c (ii) Shareholders A/c (iii) Bank A/c.

(b) In the books of Anand Ltd. :

(i) Pass necessary journal entries (ii) Initial Balance Sheet after taking over the business of both the companies.

- **Solution: Here, we first find out Net Assets of both vendor companies.**

Step – 1: Net Assets = Total Assets – Total Liabilities

Total Assets		Harshad Ltd. ₹		Pravin Ltd. ₹
Land & Building		3,50,000		1,00,000
Machinery		7,00,000		----
Furniture		50,000		----
Vehicles		----		15,000
Patents		75,000		5,000
Stock		1,50,000		32,000
Debtors		50,000		31,000
Bills Receivable		15,000		----
Total Assets		13,90,000		1,83,000
Less: Total Liabilities				
Creditors	65,000		15,500	
Bills Payable	10,000	75,000	----	15,500
Net Assets		**13,15,000**		**1,67,500**

Step – 2: Purchase Consideration of both Vendor Companies.

Particulars	Harshad Ltd. ₹		Pravin Ltd. ₹
Equity Share Capital			
(8,860 shares × ₹ 100)	8,86,000	(1,140 shares × ₹ 100)	1,14,000
Security Premium			
(8,860 shares × ₹ 50)	4,43,000	(1,140 shares × ₹ 50)	57,000
Cash (Balance amount)	71,000		14,000
Purchase Consideration	**14,00,000**		**1,85,000**

Step – 3: Goodwill or Capital Reserve:

Harshad Ltd.: Goodwill = Purchase Consideration – Net Assets

= 14,00,000 – 13,15,000

= **₹ 85,000**

Pravin Ltd.: Goodwill = Purchase Consideration – Net Assets

= 1,85,000 – 1,67,500

= **₹ 17,500**

3. The following are the Balance Sheets of two companies Sagar Ltd. and Sarita Ltd. on 31-3-2021 :

Sagar Limited

Particulars	Note	Rs.
I. EQUITY AND LIABILITIES :		
(1) Shareholders' Funds :		
(a) Share Capital :		
50,000 Equity Shares of Rs. 10 each		5,00,000
(2) Non-Current Liabilities :		
(a) Long Term Borrowings : 6% Debentures		70,000
(3) Current Liabilities :		
(a) Trade Payables :		
Sundry Creditors		1,20,000
Bills Payable		30,000
(b) Other Current Liabilities : Bank Overdraft		10,000
Total		7,30,000
ASSETS :		
(1) Non-Current Assets :		
(a) Fixed Assets :		
(i) Tangible Assets :		
Machinery		1,20,000
Building		2,15,000
(b) Other Non-Current Assets :		
Profit & Loss A/c		1,50,000
(2) Current Assets :		
(a) Inventories : Stock		1,50,000
(b) Trade Receivables : Debtors		
(1,00,000 – 5,000 Bad Debts Reserve)		95,000
Total		7,30,000

Sarita Limited

Particulars		Note	Rs.
I. EQUITY AND LIABILITIES :			
(1) Shareholders' Funds :			
(a) Share Capital : 1,50,000 Equity Shares of Rs. 10 each	15,00,000		
Add : Forfeited Shares	2,000		15,02,000
(b) Reserves and Surplus :			
Profit & Loss Account			1,00,000
Dividend Equalisation Fund			60,000
Reserve Fund			1,00,000
(2) Non-Current Liabilities :			
(a) Long Term Borrowings : 7% Debentures			3,50,000
(3) Current Liabilities :			
(a) Trade Payables :			
Creditors			60,000
Bills Payable			6,000
Total			21,78,000
II. ASSETS :			
(1) Non-Current Assets :			
(a) Fixed Assets :			
(i) Tangible Assets :			
Machineries			3,50,000
Building			4,50,000
Furniture			1,00,000
(ii) Intangible Assets : Goodwill			1,00,000
(2) Current Assets :			
(a) Inventories : Stock			6,82,000
(b) Trade Receivables : Debtors			3,50,000
(c) Cash and Cash Equivalents : Bank balance			1,46,000
Total			21,78,000

The two companies decided to amalgamate as on 1st April, 2021 and a new company called Sangam Ltd. was formed with an authorised capital of Rs. 30,00,000 in shares of Rs. 10 each.

New company took over all assets and liabilities of Sagar Ltd. and Sarita Ltd. at their book values and the following terms for purchase of business were agreed upon :

Sagar Co. Ltd. :

(1) The consideration was 3 shares of Rs. 10 each fully paid in th new company in exchange for every 5 shares in Sagar Ltd.

(2) The debentureholders of Sagar Ltd. were to be allotted such debentures in the new company bearing interest at 5 % as would bring them the same amount of interest.

(3) Rs. 2,000 to be paid in cash.

Sarita Co. Ltd. :

(1) The consideration was 6 shares of Rs. 10 each fully paid in the new company in exchange for every 5 shares in Sarita Ltd.

(2) The debentureholders of Sarita Ltd. were to be allotted such debentures in the new company bearing interest at 5 % as would bring them the same amount of interest.

(3) Rs. 6 in cash for every 5 Shares in Sarita Ltd.

Costs of liquidation of Sagar Ltd. Rs. 200 and Rs. 1,200 for Sarita Ltd. are to be paid by the new co.

Sangam Ltd. issued the remaining shares to the public at a premium of Re. 1 per share, which were fully paid.

You are required to write journal entries in the books of the new company and prepare its initial balance sheet. Also prepare necessary accounts in the books of Sarita Ltd.

- **Solution: Here, we first find out Net Assets of both vendor companies.**

Step – 1: Net Assets = Total Assets – Total Liabilities

Total Assets		Sagar Ltd. ₹		Sarita Ltd. ₹
Machinery		1,20,000		3,50,000
Building		2,15,000		4,50,000
Furniture		----		1,00,000
Stock		1,50,000		6,82,000
Debtors		95,000		3,50,000
Bank Balance		----		1,46,000
Total Assets		5,80,000		20,78,000
Less: Total Liabilities:				
5% Debentures (W.N.1)	84,000		4,90,000	
Creditors	1,20,000		60,000	
Bills Payable	30,000		6,000	
Bank Overdraft	10,000	2,44,000	----	5,56,000
Net Assets		**3,36,000**		**15,22,000**

Step – 2: Purchase Consideration of both Vendor Companies.

Particulars	**Sagar Ltd. ₹**		**Sarita Ltd. ₹**
Equity Share Capital			
Old New		Old New	
5 3		5 6	
50,000 (?)		1,50,000 (?)	
(30,000 shares of ₹ 10)	3,00,000	(1,80,000 shares of ₹ 10)	18,00,000
Cash	2,000	For every 5 shares ₹ 6	
		so for 1,50,000 shares (?)	1,80,000
Purchase Consideration	**3,02,000**		**19,80,000**

Step – 3: Goodwill or Capital Reserve:

Sagar Ltd.: Capital Reserve = Net Assets – Purchase Consideration

= 3,36,000 – 3,02,000

= **₹ 34,000**

Sarita Ltd.: Goodwill = Purchase Consideration – Net Assets

= 19,80,000 – 15,22,000

= **₹ 4,58,000**

11. MERGERS AND PURCHASE : ACCOUNTING STANDARD 14 :

Institute of Chartered Accountants of India issued Accounting Standard-14 in October, 1994 titled "Accounting for Amalgamation". This Standard has come into effect in respect of accounting periods commencing on or after 1-4-95 and is mandatory (Compulsory) in nature. The "Guidance Note on Accounting Treatment of Reserves in Amalgamation" issued by the Institute in 1983 will stand withdrawn from the aforesaid date.

Moreover, a limited revision to this standard was made in 2004. Thenafter, wide notification dated 30th March, 2016, AS-14 has been further revised by the Ministry of Corporate Affairs, Government of India.

The important provisions of this Standard are as follows :

(1) This Statement deals with accounting for amalgamation and treatment of any resultant goodwill or reserves .

(2) The amalgamations described in this standard are of two types :

(i) Amalgamation in the nature of `Merger'

(ii) Amalgamation in the nature of `Purchase'

(3) Amalgamation in the nature of Merger : This is a type of amalgamation where there is genuine pooling of the shareholders' interest and of the business of these companies. So, it is not merely combining or pooling of the assets and liabilities of the amalgamating companies. The accounting treatment of such amalgamations is such that the result figures of assets, liabilities, capital and reserves are almost the same as in the old companies.

An amalgamation is classified as merger, if all the following conditions are satisfied :

(i) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.

(ii) Shareholders holding at least 90% of the face value of equity shares of the transferor company become equity shareholders of the transferee company.

(iii) Those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company will be paid the consideration, by the issue of equity shares in the transferee company. Of course, cash may be paid in respect of any fractional shares.

(iv) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.

(v) No adjustment (charge) is intended to be made in the book values of assets and liabilities of the transferor company, when they are incorporated in the financial statements of the transferee company. This can be done only to ensure uniformity of accounting policies.

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Thus, the following five conditions are necessary for merger :

(i) Assets and liabilities of the old company must be transferred in the new company at the same figures.

(ii) Shareholders holding 90% of the face value of old company's shares must become the shareholders of the new company.

(iii) The equity shareholders of the old company must be paid in the form of shares of new company.

(iv) The intention must be to continue the business of the old company after amalgamation.

(v) No changes in values of assets and liabilities of the old company must be made in the new company.

(4) Amalgamation in the Nature of Purchase :

An amalgamation which does not satisfy any one or more of the above conditions falls in the category of 'amalgmation in the nature of purchase'. The illustrations that we have seen so far in this book relate to amalgamation in the nature of purchase.

In this method :

(1) It is not necessary that the all assets and liabilities of the old company must be transferred in the same form in the books of new company. The values may be changed, if necessary, while making entries in the books of the new company.

(2) It is not necessary that the equity shareholders of the old company must be paid in the form of equity shares of the new company. They can be paid the consideration in the form of cash or even new debentures.

(3) It is not necessary that shareholders holding 90% of the shares in the old company must become shareholders of the new company.

(4) It is not necessary that the business of the old company be intended to be continued by the new Company.

11. Arun Ltd. takes over Badal Ltd. on 1st April, 2017. Following the Balance Sheets of the companies immediately before such absorption :

(Rs. in '000)

Particulars	Note	Arun Ltd. Rs.	Badal Ltd. Rs.
I. EQUITY AND LIABILITIES :			
(1) Shareholders' Funds :			
(a) Share Capital :			
Equity share capital of Rs. 100 each		5,000	3,000
13% Preference share capital		2,200	1,700
(b) Reserves and Surplus :			
General Reserve		500	250
Export Profit Reserve		300	200
Investment Allowance Reserve			100
Profit and Loss A/c		750	500
(2) Non-Current Liabilities :			
(a) Long Term Borrowings :			
12% Debentures (Rs. 100 each)		500	350
(3) Current Liabilities		650	500
Total		9,900	6,600
II. ASSETS :			
(1) Non-Current Assets :			
(a) Fixed Assets		6,325	3,600
(b) Non-Current Investments		700	500
(2) Current Assets		2,875	2,500
Total		9,900	6,600

Arun Ltd. discharges the purchase consideration as under :

(i) Issued 3,50,000 Equity shares of Rs. 10 each at par to the equity shareholders of Badal Ltd.

(ii) Issued 14% Preference shares of Rs. 100 each at par to discharge the preference shareholders of Badal Ltd. at 10% premium.

(iii) The Debentures of Badal Ltd. will be converted into equivalent number of debentures of Arun Ltd.

(iv) The Statutory reserves of Badal Ltd. are to be maintained for 2 more years.

Prepare the Balance Sheets of Arun Ltd., after absorption on the assumption that :

(a) the Amalgamation is in the nature of merger,

(b) the Amalgamation is in the nature of purchase.

- **Solution**:

(A) Amalgamation in nature of Merger:

Share capital issued by Arun Ltd.:

(i) 3,50,000 Equity share capital of ₹ 10 each	₹ 35,00,000
(ii) 14% 17,000 Pref. shares of ₹ 100 each	₹ 17,00,000
+ Security premium of ₹ 10 each	₹ 1,70,000
Total Payment:	**₹ 53,70,000**
Less: Total share capital of Badal Ltd. taken over	
(Eq. shares ₹ 30,00,000 + Pref. shares ₹ 17,00,000)	₹ 47,00,000
Transferred to General Reserve	**₹ 6,70,000**

(B) Amalgamation in nature of Purchase:

Step – 1: Net Assets = Total Assets – Total Liabilities

(i) Total Assets taken over (36,00,000 + 5,00,000 + 25,00,000)		₹ 66,00,000
Less: Total Liabilities : 12% Debentures	3,50,000	
Current Liabilities	5,00,000	₹ (8,50,000)
Net Assets		**₹ 57,50,000**

Step – 2: Purchase Consideration:

(i) 3,50,000 Equity share capital of ₹ 10 each	₹ 35,00,000
(ii) 14% 17,000 Pref. shares of ₹ 100 each	₹ 17,00,000
+ Security premium of ₹ 10 each	₹ 1,70,000
Total Purchase Consideration	**₹ 53,70,000**

Step – 3: Goodwill or Capital Reserve

Capital Reserve = Net Assets – Purchase Consideration

= ₹ 57,50,000 – ₹ 53,70,000

= **₹ 3,80,000**

[29] The Balance Sheet of A Ltd. and B Ltd. as on 31-3-2017 are as under :

Particulars	Note	A Ltd. Rs.	B Ltd. Rs.
I. EQUITY AND LIABILITIES :			
(1) Shareholders' Funds :			
(a) Share Capital :			
Equity share capital of Rs. 10 each fully paid up		16,00,000	6,00,000
12% Pref. shares of Rs. 10 each		—	2,00,000
(b) Reserves and Surplus :			
General Reserve		9,22,000	1,96,000
Investment Rebate Reserve		78,000	25,000
Profit and Loss A/c		1,12,600	71,000
(2) Non-Current Liabilities :			
(a) Long Term Borrowings :			
12% Debentures		—	50,000
(3) Current Liabilities :			
(a) Trade Payables :			
Creditors		2,00,000	1,40,000
Bills Payable		87,400	58,000
Total		30,00,000	13,40,000
II. ASSETS :			
(1) Non-Current Assets :			
(a) Fixed Assets		22,00,000	9,46,000
(2) Current Assets :			
(a) Inventories : Stock		5,00,000	1,94,000
(b) Trade Receivables : Debtors		2,50,000	1,20,000
(c) Cash and Cash Equivalents :			
Bank balance		50,000	80,000
Total		30,00,000	13,40,000

A Ltd. has decided to absorb the business of B Ltd. on 1-4-2017 with following conditions :

(1) The equity shareholders of B Ltd. will be given fully paid up 70,000 equity shares of A Ltd. of Rs. 10 each.

(2) The preference shareholders of B Ltd. will be given 12% 2,200 preference shares of A Ltd.

(3) Debenture holders of B Ltd. will be given 15% new debentures of A Ltd. so that company can receive the same interest as per last year.

(4) Investment Rebate Reserve is to be kept for another two years.

Prepare Balance Sheet after amalgamation.

(a) Amalgamation is in the nature of merger.

(b) Amalgamation is in the nature of purchase.

- **Solution**:

(A) Amalgamation is in the nature of Merger:

Share capital issued by A Ltd.:

(i) 70,000 Equity share capital of ₹ 10 each	₹ 7,00,000
(ii) 12% 2,200 Pref. shares of ₹ 100 each	₹ 2,20,000
Total Payment:	**₹ 9,20,000**
Less: Total share capital of B Ltd. taken over	
(Eq. shares ₹ 6,00,000 + Pref. shares ₹ 2,00,000)	₹ 8,00,000
Transferred to General Reserve	**₹ 1,20,000**

(B) Amalgamation is in the nature of Purchase:

Step – 1: Net Assets = Total Assets – Total Liabilities

(i) Total Assets taken over (9,46,000 + 1,94,000 + 1,20,000 + 80,000)	₹ 13,40,000
Less: Total Liabilities :	
(15% Deb. ₹ 40,000 + Creditors ₹ 1,40,000 + B.P. ₹ 58,000)	₹ (2,38,000)
Net Assets	**₹ 11,02,000**

Step – 2: Purchase Consideration:

(i) 70,000 Equity share capital of ₹ 10 each	₹ 7,00,000
(ii) 12% 2,200 Pref. shares of ₹ 100 each	₹ 2,20,000
Total Purchase Consideration	**₹ 9,20,000**

Step – 3: Goodwill or Capital Reserve

Capital Reserve = Net Assets – Purchase Consideration

= ₹ 11,02,000 – ₹ 9,20,000

= **₹ 1,82,000**

reserve).]

30. Sagar Ltd. and Sarita Ltd. were amalgamated on and from 1-4-2021. A new company Sangam Ltd. was formed to take over the business of the existing companies.

Balance Sheets

Particulars	Note	Sagar Ltd. Rs.	Sarita Ltd. Rs.
I. EQUITY AND LIABILITIES :			
(1) Shareholders' Funds :			
(a) Share Capital :			
Equity Shares of Rs. 100 each fully paid up		6,00,000	5,00,000
12% Preference Shares of Rs. 100 each fully paid up		2,00,000	1,50,000
(b) Reserves and Surplus :			
General Reserve		1,50,000	1,00,000
Investment Allowance Reserve		50,000	30,000
Export Profit Reserve		80,000	40,000
Profit & Loss A/c		60,000	40,500
(2) Non-Current Liabilities :			
(a) Long Term Borrowings :			
12% Debentures		50,000	35,000
(3) Current Liabilities :			
(a) Trade Payables :			
Creditors		90,000	40,000
Bills Payable		15,000	10,000
Total		12,95,000	9,45,500
II. ASSETS :			
(1) Non-Current Assets :			
(a) Fixed Assets :			
(i) Tangible Assets :			
Land & Building		5,00,000	3,00,000
Plant & Machinery		3,00,000	2,00,000
(b) Non-Current Investments		2,00,000	1,00,000
(2) Current Assets			
(a) Inventories : Stock		1,30,000	70,000
(b) Trade Receivables : Debtors		1,00,000	1,50,000
(c) Cash and Cash Equivalents :			
Cash and Bank balance		65,000	1,25,500
Total		12,95,000	9,45,500

Additional Informations :

(1) 12% Debentures of Sagar Ltd. and Sarita Ltd. are discharged by Sangam Ltd. by issuing such number of its 15% debentures of Rs. 100 each so as to maintain the same amount of interest.

(2) Sangam Ltd. will issue 4 equity shares for each 3 equity shares of Sagar Ltd. and 3 equity shares for each 4 equity shares of Sarita Ltd. The shares are to be issued at Rs. 110 each, having face value of Rs. 100 each.

(3) Preference Shareholders of the two companies are issued equivalent number of 15% Preference shares of Sangam Ltd. each of Rs. 100 at a price of Rs. 120 per share.

(4) Statutory reserves are to be maintained for 2 more years.

You are required to prepare the Balance Sheet of Sangam Ltd. after the amalgamation has been carried out on the basis of following assumptions :

(A) Amalgamation is in the nature of merger.

(B) Amalgamation is in the nature of purchase.

[Guj. Uni., T.Y., April, 2010; Nov. 2015, 2016, 2018, 2019]

➢ **Solution**: **(A) Amalgamation is in the nature of Merger:**

Purchase Price of both Vendor Companies.

Particulars	**Sagar Ltd. ₹**		**Sarita Ltd. ₹**
Equity Share Capital			
Old New		Old New	
3 4		4 3	
6,000 (?)		5,000 (?)	
(8,000 shares of ₹ 100)	8,00,000	(3,750 shares of ₹ 100)	3,75,000
Security Premium			
(8,000 shares of ₹ 10)	80,000	(3,750 shares of ₹ 10)	37,500
15% Preference Share Capital			
(2,000 shares of ₹ 100)	2,00,000	(1,500 shares of ₹ 100)	1,50,000
Security Premium			
(2,000 shares of ₹ 20)	40,000	(1,500 shares of ₹ 20)	30,000
Purchase Consideration	**11,20,000**		**5,92,500**

Amount transferred to General Reserve:

Total Purchase price paid to both companies			
(₹ 11,20,000 + ₹ 5,92,500)			₹ 17,12,500
Less: Total share capital of taken over			
Sagar Ltd.:			
Equity shares	₹ 6,00,000		
Pref. shares	₹ 2,00,000	₹ 8,00,000	
Sarita Ltd.:			
Equity shares	₹ 5,00,000		
Pref. shares	₹ 1,50,000	₹ 6,50,000	₹ 14,50,000
Transferred to General Reserve			**₹ 2,62,500**

- **(B) Amalgamation is in the nature of Purchase:**

Step – 1: Net Assets = Total Assets – Total Liabilities

Total Assets		Sagar Ltd. ₹		Sarita Ltd. ₹
Land & Building		5,00,000		3,00,000
Plant & Machinery		3,00,000		2,00,000
Non-Current Investment		2,00,000		1,00,000
Stock		1,30,000		70,000
Debtors		1,00,000		1,50,000
Cash & Bank Balance		65,000		1,25,500
Total Assets		12,95,000		9,45,500
Less: Total Liabilities:				
15% Debentures (W.N.1)	40,000		28,000	
Creditors	90,000		40,000	
Bills Payable	15,000	1,45,000	10,000	78,000
Net Assets		**11,50,000**		**8,67,500**

Step – 2: Purchase Consideration of both Vendor Companies.

Particulars	**Sagar Ltd. ₹**		**Sarita Ltd. ₹**
Equity Share Capital			
Old New		Old New	
3 4		4 3	
6,000 (?)		5,000 (?)	
(8,000 shares of ₹ 100)	8,00,000	(3,750 shares of ₹ 100)	3,75,000
Security Premium			
(8,000 shares of ₹ 10)	80,000	(3,750 shares of ₹ 10)	37,500
15% Preference Share Capital			
(2,000 shares of ₹ 100)	2,00,000	(1,500 shares of ₹ 100)	1,50,000
Security Premium			
(2,000 shares of ₹ 20)	40,000	(1,500 shares of ₹ 20)	30,000
Purchase Consideration	**11,20,000**		**5,92,500**

Step – 3: Goodwill or Capital Reserve

Sagar Ltd.: Capital Reserve = Net Assets – Purchase Consideration

= ₹ 11,50,000 – ₹ 11,20,000

= ₹ 30,000

Sarita Ltd.: Capital Reserve = Net Assets – Purchase Consideration

= ₹ 8,67,500 – ₹ 5,92,500

= ₹ 2,75,000