

Chapter - 5: Absorption Accounts

Example - 6:

In the books of Payal Ltd. (Vendor Company)

| Dr. | | Realization Account | | Cr. | |
|--|----------------|---------------------------|------------|----------------|--|
| Particulars | Amount (₹) | Particulars | Amount (₹) | | |
| To Land & Building A/c | 60,000 | By 11% Debentures A/c | 40,000 | | |
| To Plant & Machinery A/c | 50,000 | By Provident Fund A/c | 10,000 | | |
| To Motor Car A/c | 30,000 | By Workmen Comp. Fund A/c | 8,000 | | |
| To Goodwill A/c | 20,000 | By Creditors A/c | 30,000 | | |
| To Stock A/c | 40,000 | By Bills Payable A/c | 20,000 | | |
| To Debtors A/c | 35,000 | By Zankar Ltd.'s A/c | 146,000 | | |
| To Bank A/c | 15,000 | (Purchase Consideration) | | | |
| To Bank A/c - W.C. Fund | 8,000 | By Bank A/c - Motor Car | 35,000 | | |
| To Bank A/c - Absorption Exp. (4,500 - 2,000) | 2,500 | | | | |
| To Equity SH's A/c (Profit) | 28,500 | | | | |
| | 289,000 | | | | |
| | | | | 289,000 | |

| Dr. | | Shareholder's Account | | Cr. | |
|---|----------------|---|------------|----------------|--|
| Particulars | Amount (₹) | Particulars | Amount (₹) | | |
| To Equity shares in Zankar Ltd.'s A/c | 80,000 | By Equity Share Capital A/c | 100,000 | | |
| To Security premium in Zankar Ltd.'s A/c | 16,000 | By General Reserve A/c | 20,000 | | |
| | | By Profit & Loss A/c | 10,000 | | |
| | | By Workmen's Compensation (20,000 - 8,000) | 12,000 | | |
| To Bank Account (Balance) | 74,500 | By Realization A/c (Profit) | 28,500 | | |
| | 170,500 | | | | |
| | | | | 170,500 | |

| Dr. | | 11% Debentures Account | | Cr. | |
|--------------------|---------------|------------------------|------------|---------------|--|
| Particulars | Amount (₹) | Particulars | Amount (₹) | | |
| To Realization A/c | 40,000 | By Balance b/d | 40,000 | | |
| | 40,000 | | | | |
| | | | | 40,000 | |

| Dr. | | Bank Account | | Cr. | |
|--|---------------|------------------------------------|---------------|---------------|--|
| Particulars | Amount (₹) | Particulars | Amount (₹) | | |
| To Realization A/c - Motor Car | 35,000 | By Realization A/c (Liq. Exp.) | 2,500 | | |
| To Zankar Ltd.'s A/c (Purchase consideration) | 50,000 | By Workmen Compensation | 8,000 | | |
| | | By Equity Shareholder's A/c | 74,500 | | |
| | 85,000 | | | | |
| | | | | 85,000 | |

In the books of Zankar Ltd. (Purchasing Company)

Journal Entries in the books of Zankar Ltd.

| Date | Particulars | L.F. | Debit (₹) | Credit (₹) |
|------|-------------------------------------|------|-----------|---|
| 1 | Goodwill A/c Dr. | | 53,500 | |
| | Land & Building A/c Dr. | | 70,000 | |
| | Plant & Machinery A/c Dr. | | 45,000 | |
| | Stock A/c Dr. | | 35,000 | |
| | Debtors A/c Dr. | | 31,500 | |
| | Bank A/c Dr. | | 15,000 | |
| | | | | To 11% Debentures A/c 44,000 |
| | | | | To Provident Fund A/c 10,000 |
| | | | | To Creditors A/c 30,000 |
| | | | | To Bills Payables A/c 20,000 |
| | | | | To Liquidator of Payal Ltd.'s A/c 146,000 |
| 2 | Liquidators of Payal Ltd.'s A/c Dr. | | 146,000 | |
| | | | | To Equity Share Capital A/c 80,000 |
| | | | | To Security Premium A/c 16,000 |
| | | | | To Cash or Bank A/c 50,000 |
| 3 | 11% Debentures A/c Dr. | | 44,000 | |
| | Debenture Discount A/c Dr. | | 6,000 | |
| | | | | To 11% New Debentures A/c 50,000 |
| 4 | Goodwill A/c Dr. | | 2,000 | |
| | | | | To Cash/Bank A/c 2,000 |
| | (Liquidation Expenses paid) | | | |

Working Note:

The new company issues its debentures at 12% discount.

i.e., ₹ 100 debentures are paid at ₹ 88.

| | |
|---------|---------|
| Paid up | Nominal |
|---------|---------|

| | |
|----|-----|
| 88 | 100 |
|----|-----|

| | |
|--------|-----|
| 44,000 | (?) |
|--------|-----|

So, Nominal value of new debentures are ₹ 50,000.

and discount on debentures will be ₹ 6,000.

Example - 10:

In the books of Palak Ltd. (Vendor Company)

| Dr. | | Realization Account | | Cr. | |
|------------------------------------|----------------|--------------------------------|------------|-----|----------------|
| Particulars | Amount (₹) | Particulars | Amount (₹) | | |
| To Building A/c | 200,000 | By 8% Debentures A/c | 150,000 | | |
| To Furniture A/c | 50,000 | By Provident Fund A/c | 10,000 | | |
| To Machinery A/c | 150,000 | By Creditors A/c | 20,000 | | |
| To Goodwill A/c | 25,000 | By Bills Payable A/c | 5,000 | | |
| To Investment A/c | 20,000 | By Kanika Ltd.'s A/c | 576,000 | | |
| To Debtors A/c | 80,000 | (Purchase Consideration) | | | |
| To Bills Receivable A/c | 60,000 | By Bank A/c - Investment | 25,000 | | |
| To Cash & Bank A/c | 40,000 | By Bank A/c - Bills Receivable | 50,000 | | |
| To Bank A/c - Bills Payable | 5,000 | | | | |
| To Equity SH's A/c (Profit) | 206,000 | | | | |
| | 836,000 | | | | 836,000 |

| Dr. | | Shareholder's Account | | Cr. | |
|--|----------------|-----------------------------|------------|-----|----------------|
| Particulars | Amount (₹) | Particulars | Amount (₹) | | |
| To Equity shares in Kanika Ltd.'s A/c | 480,000 | By Equity Share Capital A/c | 400,000 | | |
| To Security premium in Kanika Ltd.'s A/c | 96,000 | By General Reserve A/c | 20,000 | | |
| To Bank Account (Balance) | 70,000 | By Profit & Loss A/c | 10,000 | | |
| | | By Workmen's Compensation | 10,000 | | |
| | | By Realization A/c (Profit) | 206,000 | | |
| | 646,000 | | | | 646,000 |

| Dr. | | Bank Account | | Cr. | |
|------------------------------------|---------------|------------------------------------|---------------|-----|---------------|
| Particulars | Amount (₹) | Particulars | Amount (₹) | | |
| To Realization A/c - Investment | 25,000 | By Realization A/c - Bills Payable | 5,000 | | |
| To Realization A/c - Bills Receiv. | 50,000 | By Equity Shareholder's A/c | 70,000 | | |
| | 75,000 | | | | 75,000 |

| Dr. | | Kanika Ltd.'s A/c (Purchasing Company) | | Cr. | |
|---|----------------|---|------------|-----|----------------|
| Particulars | Amount (₹) | Particulars | Amount (₹) | | |
| To Realization A/c (Purchase Consideration) | 576,000 | By Equity Shareholder's A/c (Shares issued to Palak Ltd.) | 480,000 | | |
| | | By Equity Shareholder's A/c (Security Premium) | 96,000 | | |
| | 576,000 | | | | 576,000 |

In the books of Kanika Ltd. (Purchasing Company)

Journal Entries in the books of Kanika Ltd.

| Date | Particulars | L.F. | Debit (₹) | Credit (₹) |
|------|-------------------------------------|------|-----------|---|
| 1 | Goodwill A/c Dr. | | 28,500 | |
| | Building A/c Dr. | | 300,000 | |
| | Furniture A/c Dr. | | 75,000 | |
| | Machinery A/c Dr. | | 225,000 | |
| | Debtors A/c Dr. | | 80,000 | |
| | Cash & Bank A/c Dr. | | 40,000 | |
| | | | | To 8% Debentures A/c 142,500 |
| | | | | To Provident Fund A/c 10,000 |
| | | | | To Bills Payables A/c 20,000 |
| | | | | To Liquidator of Palak Ltd.'s A/c 576,000 |
| 2 | Liquidators of Palak Ltd.'s A/c Dr. | | 576,000 | |
| | To Equity Share Capital A/c | | | 480,000 |
| | To Security Premium A/c | | | 96,000 |
| 3 | 8% Debentures A/c Dr. | | 142,500 | |
| | Debenture Discount A/c Dr. | | 7,500 | |
| | To 10% New Debentures A/c | | | 150,000 |
| 4 | Goodwill A/c Dr. | | 6,500 | |
| | To Cash/Bank A/c | | | 6,500 |
| | (Liquidation Expenses paid) | | | |

Example - 16:

In the books of Hamida Ltd. (Vendor Company)

| Dr. | | Realization Account | | Cr. | |
|------------------------------------|----------------|-----------------------|------------|-----|----------------|
| Particulars | Amount (₹) | Particulars | Amount (₹) | | |
| To Fixed Assets A/c | 550,000 | By 12% Debentures A/c | 200,000 | | |
| To Investments A/c | 110,000 | By Creditors A/c | 100,000 | | |
| To Current Assets A/c | 260,000 | By Bills Payable A/c | 48,000 | | |
| | | By Anisa Ltd.'s A/c | 600,000 | | |
| To Equity SH's A/c (Profit) | 28,000 | | | | |
| | 948,000 | | | | 948,000 |

| Dr. | | Shareholder's Account | | Cr. | |
|---|----------------|-----------------------------|------------|-----|----------------|
| Particulars | Amount (₹) | Particulars | Amount (₹) | | |
| To Preliminary Expense A/c | 28,000 | By Equity Share Capital A/c | 500,000 | | |
| To Eq. shares in Anisa Ltd.'s A/c | 400,000 | By General Reserve A/c | 100,000 | | |
| To Security premium in Anisa Ltd.'s A/c | 160,000 | By Realization A/c - Profit | 28,000 | | |
| To Bank Account (Balance) | 40,000 | | | | |
| | 628,000 | | | | 628,000 |

| Dr. | | Bank Account | | Cr. | |
|---|------------|-----------------------------|------------|-----|--|
| Particulars | Amount (₹) | Particulars | Amount (₹) | | |
| To Anisa Ltd.'s A/c (Purchase Consideration) | 40,000 | By Equity Shareholder's A/c | 40,000 | | |
| | 40,000 | | 40,000 | | |

| Dr. | | Anisa Ltd.'s A/c (Purchasing Company) | | Cr. | |
|--|------------|---|------------|-----|--|
| Particulars | Amount (₹) | Particulars | Amount (₹) | | |
| To Realization A/c (Purchase Consideration) | 600,000 | By Equity Shareholder's A/c (Shares issued to Hamida Ltd.) | 400,000 | | |
| | | By Equity Shareholder's A/c (Security Premium) | 160,000 | | |
| | | By Cash/Bank A/c | 40,000 | | |
| | 600,000 | | 600,000 | | |

In the books of Anisa Ltd. (Purchasing Company)

Journal Entries in the books of Anisa Ltd.

| Date | Particulars | L.F. | Debit (₹) | Credit (₹) |
|------|------------------------------------|------|-----------|------------|
| 1 | Fixed Assets A/c | Dr. | 550,000 | |
| | Investments A/c | Dr. | 150,000 | |
| | Current Assets other than stock | Dr. | 168,000 | |
| | Stock A/c | Dr. | 80,000 | |
| | To 12% Debentures A/c | | | 200,000 |
| | To Creditors A/c | | | 100,000 |
| | To Bills Payable A/c | | | 48,000 |
| | To Liquidator of Hamida Ltd.'s A/c | | | 600,000 |
| 2 | Liquidators of Hamida Ltd.'s A/c | Dr. | 600,000 | |
| | To Equity Share Capital A/c | | | 400,000 |
| | To Security Premium A/c | | | 160,000 |
| | To Cash/Bank A/c | | | 40,000 |