Problems on Amalgamation, Absorption and External Reconstruction

Amalgamation

Problem No.1: (MGP-1/5.24)

The following is the Balance sheet of Anita Ltd. and Sunita Ltd. as on 31st March 2014.

Balance Sheet as on 31st March 2014

Liabilities	Anita Ltd. Rs.	Sunita Ltd Rs.	Assets	Anita Ltd. Rs.	Sunita Ltd Rs.
Share Capital			Building	80,000	--
• Shares of Rs. 10 each	1,20,000	40000	Machinery	46,000	42,000
8% Debentures	20,000	---	Stock	80,000	10,000
General Reserve	30,000	---	Debtors	40,000	12,000
Development Equlisation Reserve	42,000	---	Cash	20,000	6,000
Employee's Provident Fund	4,000	-----			
Creditors	50,000	30,000			
TOTAL	**2,66,000**	**70,000**	**TOTAL**	**2,66,000**	**70,000**

The above companies have agreed to amalgamate and a new company Vanita Ltd. is formed.

Vanita Ltd. Takes over assets and liabilities of both the companies on the following terms:

1) Building of Anita Ltd. is accepted at book value and Machinery at Rs. 40,000. The other assets are taken over at 10% depreciation.
2) All assets and liabilities of Sunita Ltd. are taken over at book value.
3) Both the companies to receive 10% of net valuation of their respective business as Goodwill.
   The entire purchase price of both the companies paid in Equity Shares of Rs. 10 each.
   Close the books of Anita Ltd. and Sunita Ltd. and also give the opening journal entries in the books of Vanita Ltd.

Problem No.2: (MGP-2/5.27)

The following are the Balance sheets of A Ltd. and B Ltd. as on 31st March 2014.

Balance Sheet of A Ltd.as on 31st March 2014

Liabilities	Rs.	Assets	Rs.
6,000 Equity Shares of Rs. 100 each	6,00,000	Land and Building	2,00,000
		Plant and Machinery	3,00,000
1,000 7% Preference Shares of Rs. 100 each	1,00,000	Furniture	20,000
		Stock	70,000
Contingency Reserve	20,000	Debtors	90,000
Creditors	70,000	Cash at Bank	15,000
Unclaimed Dividend	5,000	Preliminary Expenses	20,000
		Discount on issue of Shares	5,000
		Profit and Loss	75,000
Contingent Liability for Bills discounted Rs. 4,000			
TOTAL	**7,95,000**	**TOTAL**	**7,95,000**

Balance Sheet of B Ltd.as on 31st March 2014

Liabilities	Rs.	Assets	Rs.
7,000 Equity Shares of Rs. 100 each	7,00,000	Freehold Premises	4,00,000
		Plant and Machinery	2,10,000
General Reserve	18,000	Stock	29,000
Profit and Loss	40,000	Debtors	1,90,000
Workmen's Compensation Fund	10,000	Cash at Bank	11,000
Creditors	72,000		
TOTAL	**8,40,000**	**TOTAL**	**8,40,000**

A Ltd. and B Ltd. amalgamated as on 31st March 2014 and a new company C Ltd. was formed with an authorized capital of 20,000 Equity Shares of Rs.100 each. The amalgamation was agreed on the following terms:--

1) C Ltd. took all the assets of A Ltd.at book value and creditors of A Ltd. The purchase consideration was discharged by issuing 3,000 Equity Shares of Rs. 100 each at Rs. 120 per share and the balance in cash.
2) C Ltd. took all the assets of B Ltd.at book value except cash and creditors of B Ltd. The purchase consideration was discharged by issuing 6,000 Equity Shares of Rs. 100 each at Rs. 120 per share and the balance in cash.
3) A Ltd. paid its Preference Share Capital back with arrears of preference dividend for last two years.
4) Liability for Bills Discounted was settled at Rs. 2,500.
5) Out of unclaimed dividend, Rs. 2,000 was paid to the rightful shareholders. The remaining unclaimed was time-barred.
6) Liability for workmen's compensation of B Ltd. amounted to Rs. 7,500.
7) The cost of liquidation of A Ltd. was Rs. 5,000 and that of B Ltd. was Rs. 6,000.

You are required to prepare :--

a) Necessary ledger accounts in the books of A Ltd.
b) Opening entries in the books of C Ltd.
c) Balance sheet of C Ltd.

Problem No.3: (MGP-6/5.41)

X Ltd. and Y Ltd.are two companies carrying on business in the same line.
Their Balance sheet as on 31st March 2014 are given below.

Balance Sheet as on 31st March 2014

Liabilities	X Ltd. Rs.	Y Ltd Rs.	Assets	X Ltd. Rs.	Y Ltd Rs.
Fully paid Equity Shares of Rs. 10 each	6,00,000	2,00,000	Land and Building	1,00,000	--
General Reserve	4,00,000	2,00,000	Plant and Machinery	7,00,000	3,00,000
Secured Loans	6,00,000	1,00,000	Investment	1,00,000	--
Current Liabilities	6,00,000	4,00,000	Stock	9,00,000	4,00,000
			Debtors	3,00,000	1,00,000
			Cash at Bank	1,00,000	1,00,000
TOTAL	**22,00,000**	**9,00,000**	**TOTAL**	**22,00,000**	**9,00,000**

The above companies have agreed to amalgamate into XY Ltd.

a) X Ltd. holds 8,000 shares in Y Ltd. at Rs. 12.50 each.
b) All the assets and liabilities of the two companies, except Investments are taken over.
c) Each share in Y Ltd. is valued at Rs. 25/- for the purpose of amalgamation.
d) Each share in X Ltd. is valued at Rs. 15/- for the purpose of amalgamation.
e) Shareholders in X Ltd. and Y Ltd., are paid off by issuing to them sufficient number of Equity Shares of Rs. 10/- each in XY Ltd., as fully paid at par.

Give ledger accounts of X Ltd. and Y Ltd.

Absorption

Problem No.4: (MGP-5/5.38)

Balance Sheet of B Co. Ltd.as on 31st March 2014

Liabilities	Rs.	Assets	Rs.
Share Capital		Goodwill	2,00,000
50,000 Equity Shares of Rs. 100 each	50,00,000	Fixed Assets	83,00,000
		Current Assets	69,00,000
Capital Reserve	10,00,000	Investments	17,00,000
General Reserve.	36,00,000		
Unsecured Loans	22,00,000		
Sundry Creditors	42,00,000		
Provision for Taxation	11,00,000		
TOTAL	**1,71,00,000**	**TOTAL**	**1,71,00,000**

B Co. Ltd. is absorbed by Bee Sons Ltd. as on 31st March 2014, on which date the Balance sheet of Bee Sons Ltd. is as follows.

Balance Sheet of Bee Sons Ltd. as on 31st March 2014

Liabilities	Rs.	Assets	Rs.
Share Capital		Fixed Assets	1,60,00,000
8,00,000 Equity Shares of Rs. 10 each	80,00,000	Current Assets	1,68,00,000
General Reserve.	1,00,00,000		
Secured Loans	40,00,000		
Sundry Creditors	46,00,000		
Provision for Taxation	52,00,000		
Provision for Dividend	10,00,000		
TOTAL	**3,28,00,000**	**TOTAL**	**3,28,00,000**

For the purpose of absorption, the Goodwill of B Co. Ltd. is considered valueless. There are also arrears of depreciation in B Co. Ltd. amounting to Rs. 4, 00,000. The shareholders in B Co. Ltd., are allotted in full satisfaction of their claims, shares in Bee Sons Ltd., in the same proportion as the respective intrinsic values of the shares of the two companies bear to one another.

Pass the Journal Entries in the books of both the companies to give effect to the above.

Problem No.5: (MGP-2/5.46)

The Balance sheet of Marson Ltd. as on 31st March 2014 is as follows.

Balance Sheet of Marson Ltd.as on 31st March 2014

Liabilities	Rs.	Assets	Rs.
Share Capital		Land and Building	2,10,000
6,000 Shares of Rs. 100 each	6,00,000	Plant and Machinery	1,60,000
6% Debentures	20,000	Vehicles	1,00,000
Creditors	60,000	Stock	80,000
Outstanding Expenses	4,000	Debtors	60,000
		Cash	64,000
		Underwriting Commission	10,000
TOTAL	**6,84,000**	**TOTAL**	**6,84,000**

Nicholas Ltd. absorbed, Marson Ltd. on the following terms.

a) Nicholas Ltd. acquired only the assets of Marson Ltd., except cash.
b) The purchase consideration was fixed as 5 Equity Shares of Rs.100 each at Rs. 140 per share for every 7 shares of Marson Ltd., and 700, 6% Preference Shares of Rs. 100 each.
c) Realisation expenses amounted to Rs.12,000 and were paid by Marson Ltd.
d) The liquidator of Marson Ltd., transferred the Preference Shares to Creditors in full satisfaction of their claim.
e) Debentures were paid at a premium of 10%.

f) Outstanding Expenses were paid and in addition Marson Ltd., had to pay rs. 4,200 as compensation to the worker.

g) Nicholas Ltd., valued Land and Building, Plant and Machinery at 10% appreciation, Vehicles at 10% depreciation, Stock was reduced to its market valueRs.64,000, Debtors were taken over subject to 5 % RDD.

Prepare necessary ledger accounts in the books of Marson Ltd. and pass opening journal entries in the books of Nicholas Ltd.

Problem No.6: (MGP-4/5.51)

Given below are the Balance sheets of two companies A Ltd. and B Ltd. as on 31st March 2014.

Balance Sheet of A Ltd.as on 31st March 2014

Liabilities	Rs.	Assets	Rs.
Share Capital		Fixed Assets	3,20,000
• Equity Shares of Rs.10 each fully paid	2,00,000	Investment (2,000 shares in B ltd.)	24,000
• 6% Preference Shares of Rs.100 each	2,00,000	Current Assets	2,00,000
Reserve	44,000		
Current Liabilities	1,00,000		
TOTAL	**5,44,000**	**TOTAL**	**5,44,000**

Balance Sheet of B Ltd.as on 31st March 2014

Liabilities	Rs.	Assets	Rs.
Share Capital		Fixed Assets	2,40,000
		Current Assets	68,000
• 16,000 Equity Shares of Rs.10 each	1,60,000		
• 400, 6% Preference Shares of Rs.100 each	40,000		
Reserve	40,000		
400, 7% Debentures of Rs. 100 each	40,000		
Current Liabilities	28,000		
TOTAL	**3,08,000**	**TOTAL**	**3,08,000**

A Ltd. absorbs B Ltd. on the following terms:-

a) A Ltd. will issue 7 Equity Shares of Rs. 10 each at a premium of 20% and cash payment of Rs. 5 for 5 Equity Shares in B Ltd.

b) Preference shareholders of B Ltd., are to be given @ one 6% Preference Share in A Ltd., at a premium of 5% for every share held by them.

c) 7% Debentures of B Ltd., are to be redeemed at 8% premium by issue of 7% Debentures in A Ltd., at 10% discount.

d) Liquidation expenses amounted to Rs. 5,000 to be paid by A Ltd.

e) Fixed Assets of B Ltd., are to be valued at Rs. 3,20,000/-

Close the books of B Ltd. and pass journal entries in the books of A Ltd. and prepare Balance sheet of A Ltd. after absorption.

External Reconstruction

Problem No.7: (MGP-3/5.67)

Green Ltd. went into voluntary liquidation for its reconstruction on 31st March 2014, when its Balance Sheet was as follows.

Balance Sheet of Unfortunate Ltd.as on 31st March 2014

Liabilities	Rs.	Assets		Rs.
Share Capital		Freehold Property		4,15,000
3,000, 6% Preference Shares		Plant and Machinery		2,15,000
of Rs. 100 each	3,00,000	Vehicle		40,000
7,000 Equity Shares of Rs.		Stock		1,75,000
100 each	7,00,000	Debtors	50,000	
		Less: R.D.D.	-5,000	45,000
Share Premium	10,000		----------	
Unsecured Loan	50,000	Bills Receivable		10,000
Bills Payable	30,000	Cash		4,000
Creditors	70,000	Profit and Loss		2,56,000
TOTAL	**11,60,000**	**TOTAL**		**11,60,000**

A new company White Ltd. was formed to take over the following assets and liabilities of the Green Ltd.

Freehold Property at Rs. 3, 60,000; Plant and Machinery at Rs. 2, 00,000; Vehicles at Rs. 45,000; Stock at Rs. 1, 50,000. White Ltd. also took over Unsecured Loan and Creditors at the book value.

The Purchase Consideration was satisfied in 2,350, 7%, Preference Shares of Rs. 100 each and 10,000 equity Shares of Rs. 100 each, Rs. 40 paid-up. There was a contingent liability for a Repair bill amounting to Rs. 1,700 for which White Ltd. issued 11 Equity Shares of Rs. 100 each fully paid in full satisfaction of their claim.

The Preference shareholders of Green Ltd., accepted Preference Shares of White Ltd., in full satisfaction of their claim and partly paid Equity Shares of White Ltd., were allotted to the Equity Shareholders of Green Ltd.

The Debtors and Bills Receivables of Green Ltd., realized Rs. 48,000 and Rs. 8,000 respectively. Bills Payable were fully paid. The winding up expenses were Rs. 4,500.

White Ltd. immediately made a call of Rs. 60 on partly paid Equity Shares to pay the Unsecured Loan and Creditors.

Preliminary expenses of White Ltd. amounted to Rs. 10,000.

Close the books of Green Ltd. and prepare necessary ledger accounts and journal entries in the books of White Ltd.

Problem No.8: (MGP-26/5.75)

Balance Sheet of Unfortunate Ltd.as on 31st March 2014

Liabilities	Rs.	Assets	Rs.
Share Capital		**Fixed Assets**	
2,500 Equity Shares of Rs.		Land and Building	1,30,000
100 each	2,50,000	Plant and Machinery	75,000
		Current Assets	
Creditors	1,25,000	Stock	50,000
		Debtors	57,000
		Cash	1,000
		Misc. Expenses	
		Preliminary Expenses	5,500
		Profit & Loss	56,500
TOTAL	**3,75,000**	**TOTAL**	**3,75,000**

The shareholders of the company resolved to take the company into voluntary liquidation and to form Fortunate Ltd., a new company with an authorised share capital of Rs. 10 lakhs to take over the business on the following terms:--

a) Preferential Creditors of Rs. 15,000 are to be paid in full.
b) Unsecured Creditors to receive 50 paisa in a rupee in full settlement of their claims or at parvalue in 7% Debentures of Fortunate Ltd.
c) 2,500 Equity Shares of Rs. 100 each, Rs. 60 paid, to be distributed pro-rata to existing shareholders.

Half the Unsecured Creditors opted to be paid in Cash, and the funds for this purpose were found by calling up the balance of Rs. 40 per share. Cost of liquidation amounted to Rs. 3,500 was paid by Fortunate Ltd. to Unfortunate Ltd.

Compute the Purchase Consideration and prepare the Balance Sheet of the new company assuming that all assets are taken over at book value except Building, which is also taken over.

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