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Paper: Corporate accounting II

IV SEM B.Com, C section

Problems on amalgamation of companies under Net Asset method

1. X Company Limited and Y Company Limited have agreed to merge and to form a new company called Z Company Limited which has taken over both the companies as per their balance sheet given below:

Balance sheet of X Company Limited as on 31st December 2001

Liabilities	₹	Assets	₹
Share capital		Land and building	200000
Subscribed and paid up capital		Plant and machinery	150000
50,000 shares of ₹ 10 each	500000	Furniture	50000
Reserves and surplus:		Investment in Government securities	200000
General reserve ₹ 150000	200000	Stock	90000
Surplus ₹ 50000		Debtors	80000
Development rebate reserve	30000	Bank	30000
Creditors	50000		
Bills payable	20000		
	800000		800000

Balance sheet of Y Company Limited as on 31st December 2001

Liabilities	₹	Assets	₹
Share capital		Land and building	300000
Subscribed and paid up capital		Plant and machinery	250000
		Patents	150000
80,000 shares of ₹ 10 each	800000	Furniture	50000
Reserves and surplus:		Investment in other securities	450000
General reserve ₹ 300000	400000	Stock	120000
Surplus ₹ 100000		Debtors	90000
Secured loans	150000	Bank	90000
Unsecured loans	50000		
Creditors	60000		
Bills payable	40000		
	1500000		1500000

You are required to pass opening journal entries in the books of new company and also balance sheet.

Solution:

Calculation of purchase consideration under Net Asset method

A. Assets taken over	X Co.₹	YCo.₹
Land and buildings	200000	300000
Plant and machinery	150000	250000
Furniture	50000	50000
Patents	-	150000
Investments	200000	450000
Stock	90000	120000
Debtors	80000	90000
Bank balance	30000	90000
	800000	1500000
Liabilities taken over		
Development rebate reserve	30000	-
Secured loans	-	150000
Unsecured loans	-	50000
Creditors	50000	60000
Bills payable	20000	40000
Total liabilities	100000	300000
Purchase consideration(A-B)	700000	1200000

II discharge of purchase consideration

	X Co.₹	YCo.₹
Equity shares of Z Co.	700000	1200000

Opening journal entries in the Books Z Co. Accounts

Particulars	Dr.	Cr.
1. Business purchase account Dr	1900000	-
To liquidators X company account	-	700000
To liquidators Y company account	-	1200000
(being purchase consideration due)		
2. Land and building account Dr	500000	-
Plant and machinery account Dr	400000	-
Furniture account Dr	100000	-
Patents account Dr	150000	-
Investments account Dr	650000	-
Stock account Dr	210000	-
Debtors account Dr	170000	-
Bank account Dr	120000	-
To secured loans account	-	150000
To unsecured loans account	-	50000
To creditors account	-	110000
To bills payable account	-	60000

To business purchase account	-	1900000
To Capital Reserve account(bal fig.)	-	30000
(being assets and liabilities taken over incorporated)		
3. Amalgamation adjustment account Dr	30000	-
To development rebate reserve account	-	30000
(being statutory reserve Incorporated)		
4. Liquidators of X company account Dr	700000	
Liquidators of X company account Dr	1200000	
To equity share capital account		1900000
(24000+16000×10)		

Balance sheet as on 1st January 2002

Share capital and liabilities	Notes	₹
Authorised Share capital	1	2500000
Issued, subscribed and paid up capital		1900000
Reserve and surplus	2	
Development rebate reserve		30000
Capital reserve		30000
Long term loans:	3	-
Secured loans		150000
Unsecured Loan		50000
Current liabilities and provisions:	4	
Sundry creditors		110000
Bills payable		60000
Total Liabilities		2330000
Properties and assets		
Fixed assets:	5	
Land and building		500000
Plant and machinery		400000
Furniture		100000
Patents		150000
Investments:		
Government securities	6	200000
Current assets loans and advances:	7	
Stock		210000
Debtors		170000
Bank balance		210000
Miscellaneous expenses and losses:	8	
Amalgamation adjustment account		30000
Total assets		2330000

2. X Limited and Y Limited agreed amalgamate by transferring their undertakings to a new company Z Company Limited formed for that purpose. on the date of amalgamation balance shLims of the company were as under:

Liabilities	X Co.₹	Y Co.₹	Assets	X Co.₹	Y Co.₹
Equity share capital			Sundry assets	480000	322000
Shares of ₹ 10 each	500000	300000	Freehold property	200000	100000
5% debentures	200000	100000	Investments	50000	20000
Reserve fund	-	50000	Debtors	250000	150000
Profit and loss account	30000	20000	Preliminary expenses	20000	8000
Mortgage Loan	50000	-			
Sundry creditors	220000	130000			
	1000000	600000		1000000	600000

The Purchase consideration consisted of:

1. Discharge of debentures in X Company Limited and Y company limited by the issue of equivalent amount of 6% in Z Limited.
2. The assumptions of liabilities of the companies.
3. Issue of shares at a premium of rupees 2 per share of equity shares of ₹ 10 each in Z Limited.

For the purpose of amalgamation, the assets are to be revalued as under:

Particulars	X Co.₹	Y Co.₹
Goodwill	100000	75000
Sundry assets	410000	280000
Freehold property	260000	140000
Investments	51000	20000
Debtors	225000	135000

Opening journal entries in the books of new company and also balance sheet.

Solution: calculation of purchase consideration under Net Asset method

Particulars	X Co.₹	Y Co.₹
A. Assets taken over:		
Goodwill	100000	75000
Sundry assets	410000	280000
Freehold property	260000	140000
Investments	51000	20000
Debtors	225000	135000
Total of assets	1046000	650000
Less: Total liabilities		
5% debentures	200000	100000
Mortgage Loan	50000	-
Creditors	220000	130000
Total of liabilities	470000	230000
Purchase consideration (A-B)	576000	420000

Discharge of purchase consideration	₹	
X Limited		
Issue of 48000 shares of ₹10 each at a premium of ₹ 2 per share (48000×12)	576000	
Y Limited		
Issue of 35000 shares of ₹10 each at a premium of ₹ 2 per share (35000×12)	420000	

Journal entries in the books of Z Limited

Particulars	Dr.	Cr.
1. Business purchase account Dr	996000	-
To liquidators X company account	-	576000
To liquidators Y company account	-	420000
(being purchase consideration due)		
2. Goodwill account Dr	175000	-
Sundry Assets account Dr	690000	-
Free hold property account Dr	400000	-
Investments account Dr	71000	-
Debtors account Dr	360000	-
To 6% Debenture account	-	300000
To Mortgage Loan account	-	50000
To sundry creditors account	-	350000
To business purchase account	-	996000
(being assets and liabilities taken over incorporated)		
3. Liquidators of X company account Dr	576000	
Liquidators of Y company account Dr	420000	
To share capital account (48000+35000×10)		830000
To share premium account (48000+35000×2)		166000
(Being purchase consideration discharged)		
4. 5% debentures account Dr	300000	
To 6% debentures account		300000
(being discharge of debentures)		

Balance sheet as on that date

Share capital and liabilities	Notes	₹
Share capital	1	830000
Share premium		166000
Reserve and surplus		
Long term loans:	2	-
6% debentures	3	300000
Mortgage Loan		50000

Current liabilities:		
Sundry creditors	4	350000
Total Liabilities		1696000
Properties and assets		
Fixed assets:		
Freehold property	5	400000
Sundry assets		690000
Goodwill		175000
Investment	6	71000
Current assets:		
Debtors		360000
Total assets		1696000

3 the following are the balance sheet as on 31st December 1999 of X Limited and Y Limited

Liabilities	X Co.₹	Y Co.₹	Assets	X Co.₹	Y Co.₹
Equity share capital			Land and buildings	30000	-
Shares of ₹ 100 each	100000	60000	Plant and machinery	110000	50000
6% debentures	20000	-	Stock	16000	8000
Reserve fund	34000	-	Debtors	14000	9000
Profit and loss account	2000	-	Cash	3000	1000
Dividend equalisation fund	4000	-			
Employees Provident Fund	3000				
Sundry creditors	10000	8000			
	173000	68000		173000	68000

The two companies agreed to amalgamate and form a new company called Z Limited which takes over the Assets and liabilities of both the companies. The authorised capital of Z Limited is ₹ 1000000 zero consisting 100000 equity shares of ₹10 each come the Assets of X Limited or taken over at a reduced valuation of 10% with exception of land and buildings which are accepted at book value.

Both the companies Auto receive 5% of the valuation of their respective business as Goodwill. The entire purchase price is to be paid by Z Limited in fully paid shares. In return for debenture in X Limited debenture of same amount at the nomination are to be issued by Z Limited.

You are required to opening journal entries and balance sheet in the books of Z Limited.

Solution :

Note:1. Employee provident fund is a liability and dividend equalisation fund is an accumulated profit.

Calculation of purchase consideration under Net Asset method

A. Assets taken over	X Co.₹	YCo.₹
Land and buildings	30000	-
Plant and machinery	99000	50000
Stock	14400	8000
Debtors	12600	9000
Cash	3000	1000
	159000	68000
Liabilities taken over		
6% debentures	20000	-
Creditors	10000	8000
Employees Provident Fund	3000	-
Total liabilities	33000	8000
Net valuation(A-B)	126000	60000
Add: Goodwill at 5%	6300	3000
Purchase consideration	132300	63000

Discharge of purchase consideration		
X Limited		
By equity shares 13230 shares of ₹10 each	132300	
Y Limited		
6300 shares of ₹10 each	63000	

Opening journal entries in the books of Z Limited

Particulars	Dr.	Cr.
1. Business purchase account Dr	195300	-
To liquidators X company account	-	132300
To liquidators Y company account	-	63000
(being purchase consideration due)		
2. Goodwill account Dr	9300	-
Land and buildings account Dr	30000	-
Plant and machinery account Dr	149000	-
Stock account Dr	22400	-
Debtors account Dr	21600	-
Cash account Dr	4000	
To 6% Debenture account	-	20000
To Creditors account	-	18000
To Employees Provident Fund account	-	3000
To business purchase account	-	195300
(being assets and liabilities taken over incorporated)		
3. Liquidators of X company account Dr	132300	

Liquidators of Y company account Dr	63000	
To share capital account (13230+6300×10)		195300
(Being purchase consideration discharged)		
4. 6% debentures account Dr	20000	
To 6% debentures account		20000
(being discharge of debentures)		

Balance sheet of Z Limited

Share capital and liabilities	Notes	₹
Authorised Share capital	1	1000000
Issued, subscribed and paid up capital		195300
Reserve and surplus		
Long term loans:	2	-
6% debentures	3	20000
Current liabilities:		
Creditors	4	18000
Employees Provident Fund		3000
Total Liabilities		236300
Properties and assets		
Fixed assets:		
Goodwill	5	9300
Land and buildings		30000
Plant and machinery		149000
Current assets		
Stock	6	22400
Debtors		21600
Cash		4000
Total assets		236300

4 X Limited and Y Limited agreed to amalgamate and form in your company called Limited. The balance sheet on the date of amalgamation was as under:

Liabilities	X Co.₹	Y Co.₹	Assets	X Co.₹	Y Co.₹
Equity share capital			Fixed assets	120000	180000
Shares of ₹ 100 each	100000	140000	Stock	60000	110000
Reserve fund	170000	100000	Debtors	60000	130000
Sundry creditors	40000	90000	Cash	50000	-
Bank loan	-	90000			
	310000	420000		310000	420000

Consideration was to be based on the net assets of the company but subject to an addition to compensate ₹ 90000 to X Limited for its super profit. The shares of Z Limited, were to be

issued to X limited and Y Limited at a premium and in proportion to the agreed net assets. Z Limited proposed to issue 12000 shares of ₹ 10 each at a price of ₹ 15 per share.

You are required to pass opening journal entries and balance sheet in the books of Z Limited.

Solution : calculation of purchase consideration under Net Asset method:

A. Assets taken over	X Co.₹	YCo.₹
Fixed assets	120000	180000
Stock	60000	110000
Debtors	80000	130000
Cash	50000	-
Goodwill	90000	-
	400000	420000
Liabilities taken over		
Creditors	40000	90000
Bank loan	-	90000
Total liabilities	40000	180000
Purchase consideration (A- B)	360000	240000

Discharge of purchase consideration		
X Limited		
By equity shares 24000shares of ₹15 each	360000	
Y Limited		
16000 shares of ₹15 each	240000	

Working note: calculation of number of equity shares

X Limited:

$$360000/15=24000$$

Y Limited:

$$240000/15=16000$$

Opening journal entries in the books of Z Limited

Particulars	Dr.	Cr.
1. Business purchase account Dr	600000	-
To liquidators X company account	-	360000
To liquidators Y company account	-	240000
(being purchase consideration due)		
2. Fixed assets account Dr	300000	-
Goodwill account Dr	90000	-
Stock account Dr	170000	-

Debtors account Dr	210000	-
Cash account Dr	50000	
To Creditors account	-	130000
To bank loan account	-	90000
To business purchase account	-	600000
(being assets and liabilities taken over incorporated)		
3. Liquidators of X company account Dr	360000	
Liquidators of Y company account Dr	240000	
To share capital account (24000+16000×10)		400000
To share premium account (24000+16000×5)		200000
(Being purchase consideration discharged)		

Balance sheet in the books of Z Limited

Share capital and liabilities	Notes	₹
Issued, subscribed and paid up capital	1	400000
Share premium		200000
Reserve and surplus	2	-
Long term loans:	3	-
Current liabilities:	4	
Creditors		130000
Bank loan		90000
Total Liabilities		820000
Properties and assets		
Fixed assets	5	300000
Goodwill		90000
Current assets	6	
Stock		170000
Debtors		210000
Cash		50000
Total assets		820000