Paper Solution January 2021

Example - 1:

Step - 1: Net Assets = Total Assets taken over - Total Liabilities taken over

Total Assets		**Gaurang Ltd.**		**Gopi Ltd.**
Fixed Tangible Assets (M.V.)		3,000,000		1,500,000
Non-Current Investment		250,000		125,000
Current Assets		250,000		562,500
		3,500,000		2,187,500
Less: Total Liabilities:				
15% Debentures (W.N.)	100,000		50,000	
Current Liabilities	375,000	475,000	125,000	175,000
Net Assets		**3,025,000**		**2,012,500**

W.N.: 15% Debentures

Here, Misha Ltd. issued 15% new debentures for Gaurang Ltd. and Gopi Ltd. so that they can receive same interest.

Now, Old Debenture Interest of Gaurang Ltd. is ₹ 15,000 (125,000 × 12%)

Percentage	Interest	
15	15,000	So, New Debentures are ₹ 1,00,000
100	(?)	(100 × 15,000 / 15)

and Old Debenture Interest of Gopi Ltd. is ₹ 7,500 (62,500 × 12%)

Percentage	Interest	
15	7,500	So, New Debentures are ₹ 50,000
100	(?)	(100 × 7,500 / 15)

Step - 2: Purchase Consideration

Particulars	**Gaurang Ltd.**		**Gopi Ltd.**
Equity Share Capital	1,250,000		1,000,000
Security Premium			
(125,000 × ₹ 2)	250,000	(100,000 × ₹ 2)	200,000
12% Pref. Share Capital	625,000		375,000
Security Premium			
(6,250 × ₹ 20)	125,000	(3,750 × ₹ 20)	75,000
Total	**2,250,000**		**1,650,000**

Step - 3: Goodwill or Capital Reserve:

Gaurang Ltd.

Capital Reserve = Net Assets - Purchase Consideration
= ₹ 30,25,000 - ₹ 22,50,000
= **₹ 7,75,000**

Gopi Ltd.

Capital Reserve = Net Assets - Purchase Consideration
= ₹ 20,12,500 - ₹ 16,50,000
= **₹ 3,62,500**

Journal Entries in the books of Misha Ltd.

Date	Particulars		L.F.	Debit	Credit
1	Fixed Tangible Assets A/c	Dr.		3,000,000	
	Non-Current Investment A/c	Dr.		250,000	
	Current Assets A/c	Dr.		250,000	
	To Capital Reserve A/c				775,000
	To 15% Debentures A/c				100,000
	To Current Liabilities A/c				375,000
	To Liq. of Gaurang Ltd.				2,250,000
	(For assets and liabilities taken over of Gaurang Ltd.)				
2	Liq. of Gaurang Ltd. A/c	Dr.		2,250,000	
	To Equity Share Capital A/c				1,250,000
	To 12% Pref. Share Capital A/c				625,000
	To Security Premium A/c				375,000
	(For payment of purchase consideration to Gaurang Ltd.)				
3	Fixed Tangible Assets A/c	Dr.		1,500,000	
	Non-Current Investment A/c	Dr.		125,000	
	Current Assets A/c	Dr.		562,500	
	To Capital Reserve A/c				362,500
	To 15% Debentures A/c				50,000
	To Current Liabilities A/c				125,000
	To Liq. of Gopi Ltd.				1,650,000
	(For assets and liabilities taken over of Gopi Ltd.)				
4	Liq. of Gopi Ltd. A/c	Dr.		1,650,000	
	To Equity Share Capital A/c				1,000,000
	To 12% Pref. Share Capital A/c				375,000
	To Security Premium A/c				275,000
	(For payment of purchase consideration to Gopi Ltd.)				
5	Amalgamation Adjustment A/c	Dr.		125,000	
	To Investment Allowance Reserve				125,000
	(Investment Allowance Reserve of both companies are maintained for 2 more years)				

Amalgamation in nature of Purchase:

Balance Sheet of Misha Ltd. as on 1-4-2020 (After Amalgamation)

Particulars	Note	Amount (₹)
I. EQUITY AND LIABILITIES:		
(1) Shareholder's Funds:		
(a) Share Capital	1	3,250,000
(b) Reserves and Surplus	2	1,912,500
(2) Non-current Liabilities:		
(a) Long term borrowings:		
15% Debentures (₹ 1,00,000 + ₹ 50,000)		150,000
(3) Current Liabilities:		
(₹ 3,75,000 + ₹ 1,25,000)		500,000
TOTAL		**5,812,500**
II. ASSETS:		
(1) Non-Current Assets:		
(a) Fixed Assets		
(₹ 30,00,000 + ₹ 15,00,000)		4,500,000
(b) Non-Current Investment		
(₹ 2,50,000 + ₹ 1,25,000)		375,000
(c) Amalgamation Adjustment A/c	3	125,000
(2) Current Assets:		
(₹ 2,50,000 + ₹ 5,62,500)		812,500
TOTAL		**5,812,500**

Note - 1: Share Capital

Particulars	Amount (₹)
Equity Share Capital of ₹ 10 each	2,250,000
(₹ 12,50,000 to Gaurang + ₹ 10,00,000 to Gopi)	
12% Preference Share Capital of ₹ 100 each	1,000,000
(₹ 6,25,000 to Gaurang + ₹ 3,75,000 to Gopi)	
TOTAL	**3,250,000**

Note - 2: Reserves and Surplus:

Particulars		Amount (₹)
Security Premium (Step - 2)	(₹ 3,75,000 + ₹ 2,75,000)	650,000
Capital Reserve (Step - 3)	(₹ 7,75,000 + ₹ 3,62,500)	1,137,500
Investment Allowance Reserve	(₹ 1,00,000 + ₹ 25,000)	125,000
TOTAL		**1,912,500**

Note - 3: Amalgamation Adjustment A/c

Particulars	Amount (₹)
Investment Allowance Reserve of both companies	125,000
TOTAL	**125,000**

Example - 2:

Holding Company - **Niraj Ltd.**
Subsidiary Company - **Niyati Ltd.**
Share of Holding Co. = 24,000 / 40,000 × 100 = **60%**
Minority Interest = **40%**

Working Notes:

(1) Capital Profit:

Profit & Loss A/c (On 1-4-2019)	**₹ 30,000**

(2) Revenue Profit:

Profit & Loss A/c (60,000 - 30,000)	**₹ 30,000**

(3) Goodwill or Capital Reserve:

Share Capital (₹ 4,00,000 × 60%)	240,000
Capital Profit (₹ 30,000 × 60%)	18,000
Intrinsic Value	258,000
Purchase price (Value of Invest.)	288,000
Goodwill	**₹ 30,000**

(4) Minority Interest:

Share Capital (₹ 4,00,000 × 40%)	160,000
Capital Profit (₹ 30,000 × 40%)	12,000
Revenue Profit (₹ 30,000 × 40%)	12,000
	₹ 184,000

(5) Profit & Loss Account shown in B/S:

P & L A/c of Niraj Ltd.	80,000
P & L A/c of Niyati Ltd.	
Revenue Profit (₹ 30,000 × 60%)	18,000
	98,000
Less: Unrealized profit on stock (₹ 30,000 × 25% × 60%)	4,500
	93,500

Consolidated Balance Sheet of Niraj Ltd. as on 31-3-2020

Particulars	Note	Amount (₹)
I. EQUITY AND LIABILITIES:		
(1) Shareholder's Funds:		
(a) Share Capital		800,000
(b) Reserves and Surplus: P & L A/c	5	93,500
(2) Non-current Liabilities:		
(a) Minority Interest	4	184,000
(3) Current Liabilities:		
(a) Trade Payable: Creditors		
(₹ 40,000 + ₹ 50,000 - ₹ 10,000)		80,000
TOTAL		**1,157,500**
II. ASSETS:		
(1) Non-Current Assets:		
(a) Fixed Assets		
(i) Tangible Assets: Land & Building		
(₹ 3,60,000 + ₹ 3,50,000)		710,000
(ii) Intangible Assets: Goodwill	3	30,000
(2) Current Assets:		
(a) Inventories: Stock		
(₹ 80,000 + ₹ 60,000 - ₹ 4,500)		135,500
(b) Trade receivable: Debtors		
(₹ 50,000 + ₹ 40,000 - ₹ 10,000)		80,000
(c) Cash & Cash Equivalents: Cash and Bank		
(₹ 142,000 + ₹ 60,000)		202,000
TOTAL		**1,157,500**