Paper Solution November 2021

Example - 1:

(a) Amalgamation is in the nature of Purchase:

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

Total Assets		**Gaurang Ltd.**		**Gopi Ltd.**
Fixed Tangible Assets (M.V.)		3,250,000		2,600,000
Non-Current Investment		800,000		400,000
Current Assets		400,000		300,000
		4,450,000		3,300,000
Less: Total Liabilities:				
15% Debentures (W.N.)	320,000		240,000	
Current Liabilities	400,000	720,000	200,000	440,000
Net Assets		**3,730,000**		**2,860,000**

W.N.: 15% Debentures

Here, Vivansh 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 ₹ 48,000 (400,000 × 12%)

Percentage	Interest	
15	48,000	So, New Debentures are ₹ 3,20,000
100	(?)	(100 × 48,000 / 15)

and Old Debenture Interest of Gopi Ltd. is ₹ 36,000 (3,00,000 × 12%)

Percentage	Interest	
15	36,000	So, New Debentures are ₹ 2,40,000
100	(?)	(100 × 36,000 / 15)

Step - 2: Purchase Consideration

Particulars	**Gaurang Ltd.**		**Gopi Ltd.**
Equity Share Capital	2,000,000		1,500,000
Security Premium			
(200,000 × ₹ 3)	600,000	(150,000 × ₹ 3)	450,000
Total	**2,600,000**		**1,950,000**

Step - 3: Goodwill or Capital Reserve:

Gaurang Ltd.

Capital Reserve = Net Assets - Purchase Consideration
= ₹ 37,30,000 - ₹ 26,00,000
= **₹ 11,30,000**

Gopi Ltd.

Capital Reserve = Net Assets - Purchase Consideration
= ₹ 28,60,000 - ₹ 19,50,000
= **₹ 9,10,000**

Balance Sheet of Vivansh Ltd. as on 1-4-2021 (After Amalgamation)

Particulars	Note	Amount (₹)
I. EQUITY AND LIABILITIES:		
(1) Shareholder's Funds:		
(a) Share Capital	1	3,500,000
(b) Reserves and Surplus	2	3,240,000
(2) Non-current Liabilities:		
(a) Long term borrowings:		
15% Debentures (₹ 3,20,000 + ₹ 2,40,000)		560,000
(3) Current Liabilities:		
(₹ 4,00,000 + ₹ 2,00,000)		600,000
TOTAL		**7,900,000**
II. ASSETS:		
(1) Non-Current Assets:		
(a) Fixed Assets		
(₹ 32,50,000 + ₹ 26,00,000)		5,850,000
(b) Non-Current Investment		
(₹ 8,00,000 + ₹ 4,00,000)		1,200,000
(c) Amalgamation Adjustment A/c	3	150,000
(2) Current Assets:		
(₹ 4,00,000 + ₹ 3,00,000)		700,000
TOTAL		**7,900,000**

Note - 1: Share Capital

Particulars	**Amount (₹)**
Equity Share Capital of ₹ 10 each	3,500,000
(₹ 20,00,000 to Gaurang + ₹ 15,00,000 to Gopi)	
TOTAL	**3,500,000**

Note - 2: Reserves and Surplus:

Particulars		**Amount (₹)**
Security Premium (Step - 2)	(₹ 6,00,000 + ₹ 4,50,000)	1,050,000
Capital Reserve (Step - 3)	(₹ 11,30,000 + ₹ 9,10,000)	2,040,000
Investment Allowance Reserve	(₹ 1,00,000 + ₹ 50,000)	150,000
TOTAL		**3,240,000**

Note - 3: Amalgamation Adjustment A/c

Particulars	**Amount (₹)**
Investment Allowance Reserve of both companies	150,000
TOTAL	**150,000**

(a) Amalgamation is in the nature of Merger:

Step - 1: Share capital issued by Vivansh Ltd. to Gaurang Ltd. and Gauri Ltd.

Particulars	Gaurang Ltd.		Gopi Ltd.
Equity Share Capital	2,000,000		1,500,000
Security Premium			
(200,000 × ₹ 3)	600,000	(150,000 × ₹ 3)	450,000
Total	**2,600,000**		**1,950,000**
Less: Share Capital taken over	2,000,000		1,500,000
Transferred to Gen. Res.	**600,000**		**450,000**

Total amount transferred to General Reserve are **₹ 10,50,000.**

W.N.: 15% Debentures

Here, Vivansh 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 ₹ 48,000 (400,000 × 12%)

Percentage	Interest	
15	48,000	So, New Debentures are ₹ 3,20,000
100	(?)	(100 × 48,000 / 15)

and Old Debenture Interest of Gopi Ltd. is ₹ 36,000 (3,00,000 × 12%)

Percentage	Interest	
15	36,000	So, New Debentures are ₹ 2,40,000
100	(?)	(100 × 36,000 / 15)

So, Profit on issue of New Debentures to Gaurang Ltd. is ₹ 80,000
and Profit on issue of New Debentures to Gopi Ltd. is ₹ 60,000.

Step - 2: Amount of General Reserve shown in B/S:

General Reserve of Gaurang Ltd.	500,000
Add: General Reserve of Gopi Ltd.	400,000
Add: Profit on Issue of New Debentures	140,000
	1,040,000
Less: Amount on issue of Share Capital	1,050,000
	-10,000
Add: Profit & Loss Account (₹ 300,000 + ₹ 250,000)	550,000
P & L A/c Shown in B/S	**540,000**

Balance Sheet of Vivansh Ltd. as on 1-4-2021 (After Amalgamation)

Particulars		Note	Amount (₹)
I. EQUITY AND LIABILITIES:			
(1) Shareholder's Funds:			
(a) Share Capital		1	3,500,000
(b) Reserves and Surplus		4	1,740,000
(2) Non-current Liabilities:			
(a) Long term borrowings:			
15% Debentures	(₹ 3,20,000 + ₹ 2,40,000)		560,000
(3) Current Liabilities:			
(₹ 4,00,000 + ₹ 2,00,000)			600,000
TOTAL			**6,400,000**
II. ASSETS:			
(1) Non-Current Assets:			
(a) Fixed Assets			
(₹ 25,00,000 + ₹ 20,00,000)			4,500,000
(b) Non-Current Investment			
(₹ 8,00,000 + ₹ 4,00,000)			1,200,000
(2) Current Assets:			
(₹ 4,00,000 + ₹ 3,00,000)			700,000
TOTAL			**6,400,000**

Note - 4: Reserves and Surplus:

Particulars		Amount (₹)
Security Premium (Step - 1)	(₹ 6,00,000 + ₹ 4,50,000)	1,050,000
Profit & Loss Account (Step - 2)		540,000
Investment Allowance Reserve	(₹ 1,00,000 + ₹ 50,000)	150,000
TOTAL		**1,740,000**

Example - 2:

Dev Co. Ltd.

A statement, as required under section 212 of the Indian Companies Act, to be attached by Dev Co. Ltd. to its accounts, for the year ending on 31-3-2021.

(1) Copy of the Balance Sheet of Meet Ltd., as on 31-3-2021.

(2) Copy of the Profit & Loss Account of Meet Ltd., for the year ending on 31-3-2021.

(3) Copy of the Report of the Board of Directors of Meet Ltd., for the year ending on 31-3-2021.

(4) Copy of the Report of the Auditors of Meet Ltd., for the year ending on 31-3-2021.

(5) Interest of Dev Co. Ltd.'s interest in Meet Ltd. are as follows:

Year	Shares at beginning	New Purchase and	Sales	Shares at end	Total Shares	Percentage
2018-19	1,20,000	--	--	1,20,000	2,00,000	**60%**
2019-20	1,20,000	48,000 (Bonus)	--	1,68,000	2,80,000	**60%**
2020-21	1,68,000	--	--	1,68,000	2,80,000	**60%**

and also held 5,000 12% preference share capital out of 7,500 shares issued by Meet Ltd. i.e., held **66.67%** interest in Meet Ltd. in all three years.

Appropriation of Profit of Meet Ltd.:

Year	Profit	Pref. Div. (12%)	Profit after Pref. Div.	Rate of Eq. Div.	Equity Dividend	Undistributed Profit
2018-19	1,200,000	90,000	1,110,000	14%	280,000	830,000
2019-20	1,500,000	90,000	1,410,000	16%	448,000	962,000
2020-21	1,800,000	90,000	1,710,000	18%	504,000	1,206,000

Total Preference Dividend = 7,500 shares of ₹ 100 each
= ₹ 750,000 × 12%
= ₹ 90,000

Total Equity Share Capital

2018-19	200,000 shares of ₹ 10 each	= ₹ 20,00,000
2019-20	280,000 shares of ₹ 10 each	= ₹ 28,00,000
2020-21	280,000 shares of ₹ 10 each	= ₹ 28,00,000

(6) Profit Dealt with :

C.Year	2020-21:	Equity Dividend = 5,04,000 × 60%	= ₹ 3,02,400	
		Pref. Dividend = 90,000 × 66.67%	= ₹ 60,000	
				₹ 3,62,400
P. Years	2018-19:	Equity Dividend = 4,48,000 × 60%	= ₹ 2,68,800	
		Pref. Dividend = 90,000 × 66.67%	= ₹ 60,000	
				₹ 3,28,800
	2019-20:	Equity Dividend = 2,80,000 × 60%	= ₹ 1,68,000	
		Pref. Dividend = 90,000 × 66.67%	= ₹ 60,000	
				₹ 2,28,000
				₹ 5,56,800

(7) Profit Not Dealt with:

C.Year	2020-21:	Undistributed Profit = 8,30,000 × 60%	=	**₹ 4,98,000**
P.Years	2018-19:	Undistributed Profit = 9,62,000 × 60%	=	**₹ 5,77,200**
	2019-20:	Undistributed Profit = 12,06,000 × 60%	=	**₹ 7,23,600**
				₹ 13,00,800