Paper Solution Nov 2022

Example - 1:

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

Total Assets		**Niraj Ltd.**		**Niyati Ltd.**
Fixed Tangible Assets (M.V.)		50,00,000		37,50,000
Non-Current Investment		3,00,000		2,00,000
Current Assets		7,00,000		4,00,000
		60,00,000		43,50,000
Less: Total Liabilities:				
15% Debentures (W.N.)	3,20,000		2,40,000	
Current Liabilities	5,00,000	8,20,000	4,00,000	6,40,000
Net Assets		**51,80,000**		**37,10,000**

W.N.: 15% Debentures

Here, Devarsh Ltd. issued 15% new debentures for Niraj Ltd. and Niyati Ltd. so that they can receive same interest.

Now, Old Debenture Interest of Niraj 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 Niyati Ltd. is ₹ 36,000 (300,000 × 12%)

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

Step - 2: Purchase Consideration

Particulars	**Niraj Ltd.**		**Niyati Ltd.**
Equity Share Capital	20,00,000		15,00,000
Security Premium			
(2,00,000 × ₹ 4)	8,00,000	(1,50,000 × ₹ 4)	6,00,000
12% Pref. Share Capital	12,00,000		7,00,000
Security Premium			
(12,000 × ₹ 30)	3,60,000	(7,000 × ₹ 30)	2,10,000
Total	**43,60,000**		**30,10,000**

Step - 3: Goodwill or Capital Reserve:

Niraj Ltd.

Capital Reserve = Net Assets - Purchase Consideration

= ₹ 51,80,000 - ₹ 43,60,000

= **₹ 8,20,000**

Niyati Ltd.

Capital Reserve = Net Assets - Purchase Consideration

= ₹ 37,10,000 - ₹ 30,10,000

= **₹ 7,00,000**

Journal Entries in the books of Devarsh Ltd.

Date	Particulars		L.F.	Debit	Credit
1	Fixed Tangible Assets A/c	Dr.		50,00,000	
	Non-Current Investment A/c	Dr.		3,00,000	
	Current Assets A/c	Dr.		7,00,000	
	To Capital Reserve A/c				8,20,000
	To 12% Debentures A/c				3,20,000
	To Current Liabilities A/c				5,00,000
	To Liq. of Niraj Ltd.				43,60,000
	(For assets and liabilities taken over of Niraj Ltd.)				
2	Liq. of Niraj Ltd. A/c	Dr.		43,60,000	
	To Equity Share Capital A/c				20,00,000
	To 12% Pref. Share Capital A/c				12,00,000
	To Security Premium A/c				11,60,000
	(For payment of purchase consideration to Niraj Ltd.)				
3	Fixed Tangible Assets A/c	Dr.		37,50,000	
	Non-Current Investment A/c	Dr.		2,00,000	
	Current Assets A/c	Dr.		4,00,000	
	To Capital Reserve A/c				7,00,000
	To 12% Debentures A/c				2,40,000
	To Current Liabilities A/c				4,00,000
	To Liq. of Niyati Ltd.				30,10,000
	(For assets and liabilities taken over of Niyati Ltd.)				
4	Liq. of Niyati Ltd. A/c	Dr.		30,10,000	
	To Equity Share Capital A/c				15,00,000
	To 12% Pref. Share Capital A/c				7,00,000
	To Security Premium A/c				8,10,000
	(For payment of purchase consideration to Niyati Ltd.)				
5	12% Debentures A/c	Dr.		5,60,000	
	To 15% Debentures A/c				5,60,000
	(12% debentures are converted into 15% debentures so as to maintain same interest)				
6	Amalgamation Adjustment A/c	Dr.		2,00,000	
	To Investment Allowance Reserve				2,00,000
	(Investment Allowance Reserve of both companies are maintained for 2 more years)				

Amalgamation in nature of Purchase:

Balance Sheet of Devarsh Ltd. as on 1-4-2022 (After Amalgamation)

Particulars	Note	Amount (₹)
I. EQUITY AND LIABILITIES:		
(1) Shareholder's Funds:		
(a) Share Capital	1	54,00,000
(b) Reserves and Surplus	2	36,90,000
(2) Non-current Liabilities:		
(a) Long term borrowings:		
15% Debentures (₹ 320,000 + ₹ 240,000)		5,60,000
(3) Current Liabilities:		
(₹ 5,00,000 + ₹ 4,00,000)		9,00,000
TOTAL		**1,05,50,000**
II. ASSETS:		
(1) Non-Current Assets:		
(a) Fixed Assets		
(₹ 50,00,000 + ₹ 37,50,000)		87,50,000
(b) Non-Current Investment		
(₹ 3,00,000 + ₹ 2,00,000)		5,00,000
(c) Amalgamation Adjustment A/c	3	2,00,000
(2) Current Assets:		
(₹ 7,00,000 + ₹ 4,00,000)		11,00,000
TOTAL		**1,05,50,000**

Note - 1: Share Capital

Particulars	**Amount (₹)**
Equity Share Capital of ₹ 10 each	35,00,000
(₹ 20,00,000 to Niraj + ₹ 15,00,000 to Niyati)	
12% Preference Share Capital of ₹ 100 each	19,00,000
(₹ 12,00,000 to Niraj + ₹ 7,00,000 to Niyati)	
TOTAL	**54,00,000**

Note - 2: Reserves and Surplus:

Particulars		**Amount (₹)**
Security Premium (Step - 2)	(₹ 11,60,000 + ₹ 8,10,000)	19,70,000
Capital Reserve (Step - 3)	(₹ 8,20,000 + ₹ 7,00,000)	15,20,000
Investment Allowance Reserve	(₹ 1,00,000 + ₹ 1,00,000)	2,00,000
TOTAL		**36,90,000**

Note - 3: Amalgamation Adjustment A/c

Particulars	**Amount (₹)**
Investment Allowance Reserve of both companies	2,00,000
TOTAL	**2,00,000**

Example - 2: Holding Company - **Misha Ltd.**

Subsidiary Company - **Vivansh Ltd.**

Share of Holding Co. = 32,000 / 40,000 × 100 = **80%**

Minority Interest = **20%**

Working Notes:

→ Increase in value of Machinery:

Book value as on 1-4-21	1,00,000
Less: Depreciation (1-4-21 to 30-9-21)	5,000
Depreciated value as on 30-9-21	95,000
New value as on 1-10-21	1,20,000
Increase in value of Machinery	**25,000**

→ Additional Depreciation:

Depreciation on Machinery on new value for 6 months (1-10-21 to 31-3-22) (120,000 × 10% × 6/12)	6,000
Less: Depreciation on Machinery on old value for 6 months (1-10-21 to 31-3-22) (100,000 × 10% × 6/12)	5,000
Additional Depreciation	**1,000**

(1) Capital Profit:

Profit & Loss A/c (On 1-10-2021)	70,000
General Reserve (On 1-10-2021)	60,000
Increase in value of Machinery	25,000
Total	**₹ 155,000**

(2) Revenue Profit:

P & L A/c (1,00,000 - 70,000)	30,000	
Less: Additional Depreciation	1,000	29,000
General Reserve (80,000 - 60,000)		20,000
Total		**₹ 49,000**

(3) Goodwill or Capital Reserve:

Share Capital (₹ 4,00,000 × 80%)	3,20,000
Capital Profit (₹ 155,000 × 80%)	1,24,000
Intrinsic Value	4,44,000
Purchase price (Value of Invest.)	5,00,000
Goodwill	**₹ 56,000**

(4) Minority Interest:

Share Capital (₹ 4,00,000 × 20%)	80,000
Capital Profit (₹ 155,000 × 20%)	31,000
Revenue Profit (₹ 49,000 × 20%)	9,800
	₹ 120,800

(5) Share of holding co. in Revenue Profit:

P & L A/c (₹ 29,000 × 80%)	23,200
General Reserve (₹ 20,000 × 80%)	16,000

Consolidated Balance Sheet of Misha Ltd. as on 31-3-2022

Particulars		Note	Amount (₹)
I. EQUITY AND LIABILITIES:			
(1) Shareholder's Funds:			
(a) Equity Share Capital			6,00,000
60,000 shares of ₹ 10 each			
(b) Reserves and Surplus: P & L A/c			
Misha	2,00,000		
Vivansh	23,200		2,23,200
General Reserve			
Misha	1,50,000		
Vivansh	16,000		1,66,000
(2) Non-current Liabilities:			
(a) Minority Interest		4	1,20,800
(3) Current Liabilities:			
(a) Trade Payable: Creditors			
(₹ 150,000 + ₹ 120,000 - ₹ 20,000)			2,50,000
TOTAL			**13,60,000**
II. ASSETS:			
(1) Non-Current Assets:			
(a) Fixed Assets			
(i) Tangible Assets: Land & Building			3,00,000
(₹ 2,00,000 + ₹ 1,00,000)			
Machinery			2,49,000
(₹ 1,35,000 + ₹ 1,20,000 - Dep. 6,000)			
(ii) Intangible Assets: Goodwill		3	56,000
(b) Non-current Investment: Investment			3,00,000
(2) Current Assets:			
(a) Inventories: Stock			
(₹ 65,000 + ₹ 60,000)			1,25,000
(b) Trade receivable: Debtors			
(₹ 120,000 + ₹ 100,000 - ₹ 20,000)			2,00,000
(c) Cash & Cash Equivalents: Cash and Bank			
(₹ 80,000 + ₹ 50,000)			1,30,000
TOTAL			**13,60,000**