506 - Financial A/c (Paper Solution November 2023)

Example - 1:

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

Total Assets		**Krunal Ltd.**		**Ojas Ltd.**
Land & Building (M.V.)		2,500,000		1,875,000
Machinery		400,000		500,000
Non-Current Investment		350,000		100,000
Current Assets		250,000		200,000
		3,500,000		2,675,000
Less: Total Liabilities:				
15% Debentures (W.N.)	200,000		160,000	
Creditors	160,000	360,000	80,000	240,000
Net Assets		**3,140,000**		**2,435,000**

W.N.: 15% Debentures

Here, Niya Ltd. issued 15% new debentures for Krunal Ltd. and Ojas Ltd. so that they can receive same interest.

Now, Old Debenture Interest of Krunal Ltd. is ₹ 30,000 (250,000 × 12%)

Percentage	Interest	
15	30,000	So, New Debentures are ₹ 2,00,000
100	(?)	(100 × 30,000 / 15)

and Old Debenture Interest of Ojas Ltd. is ₹ 24,000 (200,000 × 12%)

Percentage	Interest	
15	24,000	So, New Debentures are ₹ 1,60,000
100	(?)	(100 × 24,000 / 15)

Step - 2: Purchase Consideration

Particulars	Krunal Ltd.		Ojas Ltd.
Equity Share Capital	1,200,000		1,000,000
Security Premium			
(1,20,000 × ₹ 5)	600,000	(1,00,000 × ₹ 5)	500,000
12% Pref. Share Capital	800,000		600,000
Security Premium			
(8,000 × ₹ 25)	200,000	(6,000 × ₹ 25)	150,000
Total	**2,800,000**		**2,250,000**

Step - 3: Goodwill or Capital Reserve:

Krunal Ltd.

Capital Reserve = Net Assets - Purchase Consideration
= ₹ 31,40,000 - ₹ 28,00,000
= **₹ 3,40,000**

Ojas Ltd.

Capital Reserve = Net Assets - Purchase Consideration
= ₹ 24,35,000 - ₹ 22,50,000
= **₹ 1,85,000**

Journal Entries in the books of Niya Ltd.

Date	Particulars	L.F.	Debit	Credit
1	Land & Building A/c Dr.		2,500,000	
	Machinery A/c Dr.		400,000	
	Non-Current Investment A/c Dr.		350,000	
	Current Assets A/c Dr.		250,000	
	To Capital Reserve A/c			340,000
	To 12% Debentures A/c			200,000
	To Creditors A/c			160,000
	To Liquidator of Niya Ltd. A/c			2,800,000
	(For assets and liabilities taken over of Krunal Ltd.)			
2	Liquidator of Niya Ltd. A/c Dr.		2,800,000	
	To Equity Share Capital A/c			1,200,000
	To 12% Pref. Share Capital A/c			800,000
	To Security Premium A/c			800,000
	(For payment of purchase consideration to Krunal Ltd.)			
3	Land & Building A/c Dr.		1,875,000	
	Machinery A/c Dr.		500,000	
	Non-Current Investment A/c Dr.		100,000	
	Current Assets A/c Dr.		200,000	
	To Capital Reserve A/c			185,000
	To 12% Debentures A/c			160,000
	To Current Liabilities A/c			80,000
	To Liquidator of Niya Ltd. A/c			2,250,000
	(For assets and liabilities taken over of Ojas Ltd.)			
4	Liquidator of Niya Ltd. A/c Dr.		2,250,000	
	To Equity Share Capital A/c			1,000,000
	To 12% Pref. Share Capital A/c			600,000
	To Security Premium A/c			650,000
	(For payment of purchase consideration to Ojas Ltd.)			
5	12% Debentures A/c Dr.		360,000	
	To 15% Debentures A/c			360,000
	(12% debentures are converted into 15% debentures so as to maintain same amount of interest)			

6	Amalgamation Adjustment A/c Dr. To Export Profit Reserve A/c To Investment Allowance Reserve (Statutory Reserves of both companies are maintained for 2 more years)		60,000	 50,000 10,000

Amalgamation in nature of Purchase:

Balance Sheet of Niya Ltd. as on 1-4-2023 (After Amalgamation)

Particulars	Note	Amount (₹)
I. EQUITY AND LIABILITIES:		
(1) Shareholder's Funds:		
(a) Share Capital	1	3,600,000
(b) Reserves and Surplus	2	2,035,000
(2) Non-current Liabilities:		
(a) Long term borrowings:		
15% Debentures		360,000
(₹ 200,000 + ₹ 160,000)		
(3) Current Liabilities:		
Creditors (₹ 1,60,000 + ₹ 80,000)		240,000
TOTAL		**6,235,000**
II. ASSETS:		
(1) Non-Current Assets:		
(a) Fixed Assets		
Tangible Assets		
Land & Building		4,375,000
(₹ 25,00,000 + ₹ 18,75,000)		
Machinery		900,000
(₹ 4,00,000 + ₹ 5,00,000)		
(b) Non-Current Investment		
(₹ 3,50,000 + ₹ 1,00,000)		450,000
(c) Amalgamation Adjustment A/c	3	60,000
(2) Current Assets:		
(₹ 2,50,000 + ₹ 2,00,000)		450,000
TOTAL		**6,235,000**

Note - 1: Share Capital

Particulars	Amount (₹)
Equity Share Capital of ₹ 10 each	2,200,000
(₹ 12,00,000 to Krunal + ₹ 10,00,000 to Ojas)	
12% Preference Share Capital of ₹ 100 each	1,400,000
(₹ 8,00,000 to Krunal + ₹ 6,00,000 to Ojas)	
TOTAL	**3,600,000**

Note - 2: Reserves and Surplus:

Particulars		Amount (₹)
Security Premium (Step - 2)	(₹ 8,00,000 + ₹ 6,50,000)	1,450,000
Capital Reserve (Step - 3)	(₹ 3,40,000 + ₹ 1,85,000)	525,000
Export Profit Reserve	(₹ 30,000 + ₹ 20,000)	50,000
Investment Allowance Reserve		10,000
TOTAL		**2,035,000**

Note - 3: Amalgamation Adjustment A/c

Particulars		Amount (₹)
Export Profit Reserve	(₹ 30,000 + ₹ 20,000)	50,000
Investment Allowance Reserve		10,000
TOTAL		**60,000**

OR Example - 1 (A):

Step - 1: Calculation of Intrinsic Value of Shares:

Total Assets	**M Ltd.**	**N Ltd.**
Fixed Tangible Assets	1,200,000	500,000
Goodwill	250,000	50,000
Investment in M Ltd.	---	100,000
Current Assets	300,000	250,000
	1,750,000	900,000
Less: Total Liabilities:		
Current Liabilities	250,000	50,000
Net Assets	**1,500,000**	**850,000**
Intrinsic Value of Shares	**15**	**14.17**
(Net Assets ÷ Number of Shares)		
	(15,00,000 / 1,00,000)	(8,50,000 / 60,000)

Step - 2: Total Purchase Consideration

Net Assets of N Ltd. **850,000**

Step - 3: Total Number of Shares to be issued by M Ltd.:
for purchase consideration

	(₹ 8,50,000 ÷ 15)	56,666.67	shares
Less:	Shares held by M Ltd.	6,000.00	shares
	Shares to be issued by M Ltd.	**50,666.67**	**shares**

Purchase Consideration:
(Other than Shares of M Ltd. held as investment)
50,666.67 Shares at ₹ 15 per share **760,000**

OR Example - 2:

Holding Company - **Raghav Ltd.**
Subsidiary Company - **Kishan Ltd.**
Share of Holding Co. = 48,000 / 60,000 × 100 = **80%**
Minority Interest = **20%**

Working Notes:

→ Increase in value of Plant & Machinery:

Book value as on 1-4-22	200,000
Less: Depreciation (1-4-22 to 30-6-22)	5,000
Depreciated value as on 30-9-22	195,000
New value as on 1-7-22	225,000
Increase in value of Plant & Machinery	**30,000**

→ Additional Depreciation:

Depreciation on Machinery on new value for 9 months (1-7-22 to 31-3-23) (2,25,000 × 10% × 9/12)	16,875
Less: Depreciation on Machinery on old value for 9 months (1-7-22 to 31-3-23) (200,000 × 10% × 9/12)	15,000
Additional Depreciation	**1,875**

(1) Capital Profit:

Profit & Loss A/c (On 1-7-22)	60,000
General Reserve (On 1-7-22)	50,000
Increase in value of P & M	30,000
Total	**₹ 140,000**

(2) Revenue Profit:

P & L A/c (1,50,000 - 60,000)	90,000	
Less: Additional Depreciation	1,875	88,125
General Reserve (2,00,000 - 50,000)		150,000
Total		**₹ 238,125**

(3) Goodwill or Capital Reserve:

Share Capital (₹ 600,000 × 80%)	480,000
Capital Profit (₹ 140,000 × 80%)	112,000
Intrinsic Value	592,000
Purchase price (Value of Investment)	600,000
Goodwill	**₹ 8,000**

(4) Minority Interest:

Share Capital (₹ 600,000 × 20%)	120,000
Capital Profit (₹ 140,000 × 20%)	28,000
Revenue Profit (₹ 88,125 × 20%)	17,625
Revenue Reserve (₹ 150,000 × 20%)	30,000
	₹ 195,625

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

P & L A/c (₹ 88,125 × 80%)	70,500
Less: Unrealized Profit on Stock	6,000
(₹ 30,000 × 25% × 80%)	
P & L A/c shown in B/s	**64,500**
General Reserve (₹ 150,000 × 80%)	120,000

Consolidated Balance Sheet of Raghav Ltd. as on 31-3-2023

Particulars			Note	Amount (₹)
I. EQUITY AND LIABILITIES:				
(1) Shareholder's Funds:				
(a) Equity Share Capital				1,000,000
100,000 shares of ₹ 10 each				
(b) Reserves and Surplus:				
Profit & Loss A/c				
	Raghav	200,000		
	Kishan	64,500	5	264,500
General Reserve				
	Raghav	300,000		
	Kishan	120,000	5	420,000
(2) Non-current Liabilities:				
(a) Minority Interest			4	195,625
(3) Current Liabilities:				
(a) Trade Payable: Creditors				
(₹ 100,000 + ₹ 50,000 - ₹ 10,000)				140,000
TOTAL				**2,020,125**
II. ASSETS:				
(1) Non-Current Assets:				
(a) Fixed Assets				
(i) Tangible Assets: Land & Building				810,000
(₹ 4,50,000 + ₹ 3,60,000)				
Plant & Machinery				478,125
(₹ 2,70,000 + ₹ 2,25,000 - Dep. 16,875)				
(ii) Intangible Assets: Goodwill			3	8,000
(b) Non-current Investment: Investment				260,000
(2) Current Assets:				
(a) Inventories: Stock				
(₹ 120,000 + ₹ 80,000 - ₹ 6,000)				194,000
(b) Trade receivable: Debtors				
(₹ 100,000 + ₹ 90,000 - ₹ 10,000)				180,000
(c) Cash & Cash Equivalents: Cash and Bank				
(₹ 60,000 + ₹ 30,000)				90,000
TOTAL				**2,020,125**