506 - Financial A/c (Paper Solution December 2024)

Example - 1:

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

Total Assets		**Niya Ltd.**		**Naman Ltd.**
Fixed Assets (M.V.)		2,750,000		1,875,000
Non-Current Investment		500,000		400,000
Current Assets		300,000		200,000
		3,550,000		2,475,000
Less: Total Liabilities:				
15% Debentures (W.N.)				
	200,000		120,000	
Current Liabilities	300,000	500,000	250,000	370,000
Net Assets		**3,050,000**		**2,105,000**

W.N.: 15% Debentures

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

Now, Old Debenture Interest of Niya 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 Naman Ltd. is ₹ 18,000 (150,000 × 12%)

Percentage	Interest	
15	18,000	So, New Debentures are ₹ 1,20,000
100	(?)	(100 × 18,000 / 15)

Step - 2: Purchase Consideration

Particulars	Niya Ltd.		Naman Ltd.
Equity Share Capital	1,100,000		800,000
Security Premium			
(1,10,000 × ₹ 5)	550,000	(80,000 × ₹ 5)	400,000
12% Pref. Share Capital	600,000		400,000
Security Premium			
(6,000 × ₹ 20)	120,000	(4,000 × ₹ 20)	80,000
Total	**2,370,000**		**1,680,000**

Step - 3: Goodwill or Capital Reserve:

Niya Ltd.

Capital Reserve = Net Assets - Purchase Consideration

= ₹ 30,50,000 - ₹ 23,70,000

= **₹ 6,80,000**

Naman Ltd.

Capital Reserve = Net Assets - Purchase Consideration

= ₹ 21,05,000 - ₹ 16,80,000

= **₹ 4,25,000**

Journal Entries in the books of Niyati Ltd.

Date	Particulars	L.F.	Debit	Credit
1	Fixed Assets A/c Dr.		2,750,000	
	Non-Current Investment A/c Dr.		500,000	
	Current Assets A/c Dr.		300,000	
	To Capital Reserve A/c			680,000
	To 12% Debentures A/c			200,000
	To Current Liabilities A/c			300,000
	To Liquidator of Niyati Ltd. A/c			2,370,000
	(For assets and liabilities taken over of Niya Ltd.)			
2	Liquidator of Niyati Ltd. A/c Dr.		2,370,000	
	To Equity Share Capital A/c			1,100,000
	To 12% Pref. Share Capital A/c			600,000
	To Security Premium A/c			670,000
	(For payment of purchase consideration to Niya Ltd.)			
3	Fixed Assets A/c Dr.		1,875,000	
	Non-Current Investment A/c Dr.		400,000	
	Current Assets A/c Dr.		200,000	
	To Capital Reserve A/c			425,000
	To 12% Debentures A/c			120,000
	To Current Liabilities A/c			250,000
	To Liquidator of Niyati Ltd. A/c			1,680,000
	(For assets and liabilities taken over of Naman Ltd.)			
4	Liquidator of Niyati Ltd. A/c Dr.		1,680,000	
	To Equity Share Capital A/c			800,000
	To 12% Pref. Share Capital A/c			400,000
	To Security Premium A/c			480,000
	(For payment of purchase consideration to Naman Ltd.)			
5	12% Debentures A/c Dr.		320,000	
	To 15% Debentures A/c			320,000
	(12% debentures are converted into 15% debentures so as to maintain same amount of interest)			
6	Amalgamation Adjustment A/c Dr.		75,000	
	To Investment Allowance Res.			75,000
	(Statutory Reserves of both companies are maintained for 2 more years)			

Amalgamation in nature of Purchase:

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

Particulars	Note	Amount (₹)
I. EQUITY AND LIABILITIES:		
(1) Shareholder's Funds:		
(a) Share Capital	1	2,900,000
(b) Reserves and Surplus	2	2,330,000
(2) Non-current Liabilities:		
(a) Long term borrowings:		
15% Debentures		320,000
(₹ 200,000 + ₹ 120,000)		
(3) Current Liabilities:		
(₹ 3,00,000 + ₹ 2,50,000)		550,000
TOTAL		**6,100,000**
II. ASSETS:		
(1) Non-Current Assets:		
(a) Fixed Assets		
Tangible Assets		4,625,000
(₹ 27,50,000 + ₹ 18,75,000)		
(b) Non-Current Investment		
(₹ 5,00,000 + ₹ 4,00,000)		900,000
(c) Amalgamation Adjustment A/c	3	75,000
(2) Current Assets:		
(₹ 3,00,000 + ₹ 2,00,000)		500,000
TOTAL		**6,100,000**

Note - 1: Share Capital

Particulars	Amount (₹)
Equity Share Capital of ₹ 10 each	1,900,000
(₹ 11,00,000 to Niya + ₹ 8,00,000 to Naman)	
12% Preference Share Capital of ₹ 100 each	1,000,000
(₹ 6,00,000 to Niya + ₹ 4,00,000 to Naman)	
TOTAL	**2,900,000**

Note - 2: Reserves and Surplus:

Particulars		Amount (₹)
Security Premium (Step - 2)	(₹ 6,70,000 + ₹ 4,80,000)	1,150,000
Capital Reserve (Step - 3)	(₹ 6,80,000 + ₹ 4,25,000)	1,105,000
Investment Allowance Reserve	(₹ 50,000 + ₹ 25,000)	75,000
TOTAL		**2,330,000**

Note - 3: Amalgamation Adjustment A/c

Particulars		Amount (₹)
Investment Allowance Reserve	(₹ 50,000 + ₹ 25,000)	75,000
TOTAL		**75,000**

Example - 2:

Holding Company - **Dhaval Ltd.**
Subsidiary Company - **Rajiv Ltd.**
Share of Holding Co. = 6,000 / 8,000 × 100 = **75%**
Minority Interest = **25%**

Working Notes:

General Reserve:

Closing Balance (31-3-24)		100,000
Less: Opening Balance (1-4-23)		40,000
Increase during the year		60,000
Capital Profit		
Opening Balance	40,000	
Add: Increase upto 1-10-23		
(60,000 x 6 / 12)	30,000	**70,000**
Revenue Profit		
Closing Balance	100,000	
Less: Capital Profit	70,000	**30,000**

Profit & Loss Account:

Closing Balance (31-3-24)		200,000
Less: Opening Balance (1-4-23)		100,000
Increase during the year		100,000
Capital Profit		
Opening Balance	100,000	
Add: Increase upto 1-10-23		
(100,000 x 6 / 12)	50,000	**150,000**
Revenue Profit		
Closing Balance	200,000	
Less: Capital Profit	150,000	**50,000**

(1) Capital Profit:

Profit & Loss A/c (On 1-10-23)	150,000
General Reserve (On 1-10-23)	70,000
Total	**₹ 220,000**

(2) Revenue Profit:

P & L A/c	50,000
General Reserve	30,000
Total	**₹ 80,000**

(3) Goodwill or Capital Reserve:

Share Capital (₹ 800,000 × 75%)	600,000
Capital Profit (₹ 220,000 × 75%)	165,000
Intrinsic Value	765,000
Purchase price (Value of Investment)	800,000
Goodwill	**₹ 35,000**

(4) Minority Interest:

Share Capital (₹ 800,000 × 25%)	200,000
Capital Profit (₹ 220,000 × 25%)	55,000
Revenue Profit (₹ 50,000 × 25%)	12,500
Revenue Reserve (₹ 30,000 × 25%)	7,500
	₹ 275,000

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

P & L A/c (₹ 50,000 × 75%)	37,500
Less: Unrealized Profit on Stock (₹ 40,000 × 25% × 75%)	7,500
P & L A/c shown in B/s	**30,000**
General Reserve (₹ 30,000 × 75%)	22,500

Consolidated Balance Sheet of Dhaval Ltd. as on 31-3-2024

Particulars			Note	Amount (₹)
I. EQUITY AND LIABILITIES:				
(1) Shareholder's Funds:				
(a) Equity Share Capital				1,200,000
12,000 shares of ₹ 100 each				
(b) Reserves and Surplus:				
General Reserve				
	Dhaval	200,000		
	Rajiv	22,500	5	222,500
Profit & Loss A/c				
	Dhaval	300,000		
	Rajiv	30,000	5	330,000
(2) Non-current Liabilities:				
(a) Minority Interest			4	275,000
(3) Current Liabilities:				
(a) Trade Payable: Creditors				
(₹ 200,000 + ₹ 100,000)				300,000
TOTAL				**2,327,500**
II. ASSETS:				
(1) Non-Current Assets:				
(a) Fixed Assets				
(i) Tangible Assets: Land & Building				900,000
(₹ 5,00,000 + ₹ 4,00,000)				
Plant & Machinery				700,000
(₹ 4,00,000 + ₹ 3,00,000)				
(ii) Intangible Assets: Goodwill			3	35,000
(b) Non-current Investment: Investment				300,000
(2) Current Assets:				
(a) Inventories: Stock				
(₹ 100,000 + ₹ 90,000 - ₹ 7,500)				182,500
(b) Trade receivable: Debtors				
(₹ 60,000 + ₹ 50,000)				110,000
(c) Cash & Cash Equivalents: Cash and Bank				
(₹ 40,000 + ₹ 60,000)				100,000
TOTAL				**2,327,500**

Example - 5: **Multiple Choice Questions:**

Ans-1: (b) Goodwill

Ans-2: (b) Investment Fluctation Reserve

Ans-3: (b) Fictitious Assets

Ans-4: (a) Debentures

Ans-5: (a) To the extent of share of holding company

Ans-6: (a) 75%

Ans-7: (c) Constitutional Funds of India

Ans-8: (c) CPU

Ans-9: (c) 3

Ans-10: (b) The Central Government

Ans-11: (a) The Central Government with a copy to the Company

Ans-12: (d) All of the above