Absorption

April - 2013

(24) Following are the Balance Sheets of Honest Limited and Faithful Limited as on 31st March, 2012: (15)

Liabilities	Honest Ltd. ₹	Faithful Ltd. ₹	Assets	Honest Ltd. ₹	Faithful Ltd. ₹
Equity Share Capital (Shares of ₹ 100 each fully paidup)	12,00,000	18,00,000	Goodwill	90,000	1,50,000
7% Preference Share Capital (Shares of ₹ 100 each fully paidup)	6,75,000	9,00,000	Premises	9,75,000	10,50,000
General Reserve	1,05,000	1,20,000	Plant and Machinery	9,00,000	12,30,000
Profit and Loss Account	67,500	93,000	Stock	2,70,000	3,75,000
Statutory Reserve	40,500	72,000	Sundry debtors	2,10,000	5,02,500
10% Debentures	2,25,000	1,26,000	Bank	18,000	36,000
Sundry creditors	1,50,000	2,32,500			
Total	**24,63,000**	**33,43,500**	**Total**	**24,63,000**	**33,43,500**

On the above date, Faithful Limited takes over Honest Limited on the following terms and conditions:

(a) All the Assets and Liabilities are taken over at book value except the following which were revalued as follows:

(b) Premises ₹ 8,50,000 and Plant and Machinery ₹ 7,00,000.

(c) Equity Shareholders of Honest Limited to be issued 10,000 equity shares of ₹ 100 each at 10% premium.

(d) 7% Preference shareholders of Honest Limited to be discharged at 10% premium by issuing 8% Preference Shares of ₹ 100 each (at par) in Faithful Limited.

(e) Debentures of Honest Limited to be converted into equivalent number of debentures of Faithful Limited.

(f) Sundry debtors of Faithful Limited include ₹ 25,000 due from Honest Limited.

(g) Cost of liquidation amounting to ₹ 4,000 were borne by Faithful Limited.

You are required to:

(i) Calculate purchase consideration.

(ii) Show workings for Goodwill/Capital Reserve.

(iii) Prepare Balance Sheet of Faithful Limited after Amalgamation.

Solution:

1. Calculation of Purchase Consideration

Particulars	Rs	Rs
Goodwill		90,000
Premises		8,50,000
Plant and Machinery		7,00,000
Stock		2,70,000
Sundry Debtors		2,10,000
Bank		18,000
Total assets		**21,38,000**
Less: Debentures		2,25,000
Sundry creditors		1,50,000
Net assets		**17,63,000**
Less: Discharge of PC		
10,000 Equity shares of Rs.110		11,00,000
7425, 8% Preference shares of Rs.100 each		7,42,500
Goodwill		**79,500**

7% Pref shares	6,75,000
Premium @10%	67,500
Total	**7,42,500**
8% Pref shares of Rs.100 each	

In the Books of Faithful Ltd.

Journal Entries

Date	Particulars		Dr. Rs	Cr. Rs
1	Business Purchase A/c	Dr.	18,42,500	
	To Liq. Of Honest Ltd			18,42,500
	(Being Business purchased)			
2	Goodwill (90,000+79,500)	Dr	1,69,500	
	Premises	Dr	8,50,000	
	Plant and Machinery	Dr	7,00,000	
	Stock	Dr	2,70,000	
	Sundry Debtors	Dr.	2,10,000	
	Bank	Dr	18,000	
	To 10% Debentures			2,25,000
	To Sundry Creditors			1,50,000
	To Business Purchase			18,42,500
	(Being assets and liabilities taken over)			
3	Liq. Of Honest Ltd. A/c	Dr	18,42,500	
	To Equity share Capital			11,00,000
	To Pref. share capital			7,42,500
	(Being PC discharge)			
4	Creditors A/c	Dr	25,000	
(f)	To Debtors			25,000
	(Being Inter co. dues settled)			
5	Amalgamation Adjustment A/c	Dr	40,500	
	To Statutory Reserve			40,500
	(Being statutory reserve maintained)			
6	Goodwill a/c	Dr	4,000	
	To cash/ bank			4,000
	(Being liq. Expenses paid)			

In the Books of Faithful Ltd

Balance sheet (After Amalagamtion)

Particulars	Note No.	Rs.	Rs.
A. Equity and Liabilities			
Share Capital	1		44,42,500
Reserves and Surplus	2		4,25,500
Non current Liabilities	3		3,51,000
Current Liabilities			

Trade payables	4	3,57,500	
Short term provisions	5	--	
Other Current Liabilities	6	--	3,57,500
Total			**55,76,500**
B. Assets			
Non Current Assets			
Tangible Fixed Assets	7	38,30,000	
Intangible Fixed Assets	8	3,23,500	
Other Non Current assets	9	40,500	41,94,000
Non current Investments	10		
Current Assets			
Inventories	11	6,45,000	
Trade Receivables	12	6,87,500	
Cash and Cash and Equivalent	13	50,000	
Loans and Advances	14	--	
Other Current Assets	15	--	13,82,500
Total			**55,76,500**

Notes to Account:

1. Share Capital			**2. Reserves and Surplus**	
Particulars	Rs		Particulars	Rs
Authorized share Capital	?		General reserve	1,20,000
Issued and Sub. Share capital			Profit and Loss Acc	93,000
28,000 Equity shares of Rs.100	28,00,000		Statutory Res. (72,000+40,500)	1,12,500
7% Pref. share capital	9,00,000		Securities Premium	1,00,000
8% Pref. share capital	7,42,500			
Total	**44,42,500**		**Total**	**4,25,500**

3. Non Current Liabilities			**4. Trade Payables**		
Particulars	Rs		Particulars		Rs
10% debentures			S. Creditors	3,82,500	
(1,26,000+2,25,000)	**3,51,000**		Less: Inter Co. Dues	25,000	**3,57,500**

5. Short term Provisions			**6.Other Current Liabilities**	
Particulars	Rs		Particulars	Rs
--	--		--	--

7. Tangible Fixed Assets			**8. Intangible Fixed Assets**	
Particulars	Rs		Particulars	Rs
Premises (10,50,000+8,50,000)	19,00,000		Goodwill	
Plant and Machinery			(1,50,000+90,000+79,500+4,000)	**3,23,500**
(12,30,000+7,00,000)	19,30,000			
Total	**38,30,000**			

9.Other Non Current assets			**10.Non Current Investments**	
Particulars	Rs		Particulars	Rs
Amalgamation Adj.	**40,500**		--	--

11. Inventories			**12. Trade Receivables**	
Particulars	Rs		Particulars	Rs
Stock (3,75,000+2,70,000)	**6,45,000**		Debtors 7,12,500	
			Less: Inter Co. dues 25,000	**6,87,500**

13. Cash and Cash Equivalent			**14. Loans and Advances**	
Particulars	Rs		Particulars	Rs
Bank 54,000			--	--
Less: Liq. Expenses 4,000	**50,000**			

15. Other Current assets	
Particulars	Rs
--	--

******