

Absorption of Companies

Q.1 Solve the following: (2 to 3 marks questions.)

1. The capital structure of Gajanana Ltd. consisted following:

- i. 80,000 Equity shares of Rs.10 each fully paid
- ii. 20,000, 8% Preference shares of Rs.100 each fully paid
- iii. 5000, 12% Debentures of Rs.100 each

Besides, its sundry creditors and bills payable were Rs.60,000 & 50,000 respy. The company is absorbed by Ganesh Ltd. The purchase consideration being made as:

- a. The payment of debentures at a premium of 10%.
- b. The issue of similar number of 10% preference shares of Rs.50 each.
- c. The issue of 2 equity shares of Rs.10 each in the new company for every 4 shares held in Gajanana Ltd. Calculate purchase consideration. (Nov-2018)

2. Strong Ltd. agreed to absorb Weak Ltd. as on 31/03/2019. Net assets of Strong Ltd. & Weak Ltd. were Rs.3,00,000 & Rs.1,80,000 respy. No. of shares of Strong Ltd. is 15,000 & Weak Ltd. has 12,000 shares. Calculate ratio of exchange of shares. (Nov-2018)

3. Ram Ltd. is absorbed by Shyam Ltd. on the following terms & conditions:

- a. The assets of Ram Ltd. are valued at Rs.1,60,000. Goodwill is valued at Rs.50,000.
 - b. The liabilities of Ram Ltd. are valued at Rs.60,000
 - c. Rs.20,000 Cash is paid for the shareholders of Ram Ltd.
 - d. The balance of purchase consideration is discharged by issue of shares of Rs.10 each at price of Rs.20 each. Show the calculation of purchase consideration discharged by Shyam Ltd. (Nov.- 2015)
4. Net assets of X co. For purchase consideration are worth Rs. 4,00,000. At the time of absorption, the company has paid 30,000 equity shares of Rs.10 each at 10% premium. Find out remaining cash.
5. Intrinsic value of each equity shares of the vendor company is Rs. 250 and that of the purchasing company is Rs. 400. Calculate the exchange ratio of shares on the basis of intrinsic value?

6. From the following information prepare Reconstruction Account:

(1) Balances as per old company's Balance Sheet.

(i) Debit balance of Profit and Loss Account ₹ 20,000

(ii) 12% Pref. share capital ₹ 1,75,000

(iii) Bills payable ₹ 15,000

(2) Bills payable is not taken over by the new company and 90% amount paid for bills payable as full settlement.

(3) Realisation Account profit ₹ 22,000.

Q.2 Solve the following:

1. Following are the balance sheets of Shiva Ltd. & Parvati Ltd. as on 31-03-2025.

| Particulars | Note | Shiva | Parvati |
|---|------|-----------------------|-----------------------|
| I. Equity and Liabilities | | | |
| 1.Share Holders' Fund | | | |
| a.Share Capital | | | |
| Equity Shares of Rs.200 each, Rs.150 paid per share | | 15,00,000 (10,000) | |
| Equity shares of Rs.100 each, Rs.80 paid per share | | | 12,00,000 (15,000) |
| b. Reserve & Surplus | | | |
| General Reserve | | 2,00,000 | 1,50,000 |
| a. Non-Current Liabilities | | | |
| Long term borrowings | | | |
| 6% Debentures | | 1,00,000 | |
| b. Current Liabilities | | | |
| a. Trade payable- Creditors | | 70,000 | 80,000 |
| Bill payables | | 30,000 | 20,000 |
| Total | | 19,00,000 | 14,50,000 |
| II. Assets | | | |
| 1.Non-Current Assets | | | |
| a. Fixed Assets- Tangible Assets | | 16,50,000 | 12,50,000 |
| 2.Current Assets | | | |
| a. Inventories: stock | | 1,00,000 | 1,00,000 |
| a. Trade Receivables- Debtors | | 80,000 | 50,000 |
| Bills Receivables | | 40,000 | 20,000 |
| b. Cash & Cash Equivalents- Cash balance | | 30,000 | 30,000 |
| Total | | 19,00,000 | 14,50,000 |

The fixed assets of Shiva Ltd. include Patents. The value of patents is to be written off by Rs.1,00,000. The business of Shiva Ltd. was absorbed by the Parvati Ltd. According to the agreement, for every four shares of the Shiva Ltd. seven shares of Parvati Ltd. are to be given and balance of purchase price on the basis of intrinsic value of both the companies is to be paid in cash.

In the debtors of the Shiva Ltd. Rs.10,000 due from the Parvati Ltd. is included. The bills payable of Rs.15,000 of the Parvati Ltd. are drawn by the Shiva Ltd. Write journal entries in the books of the Parvati Ltd. for the Purchase of business and prepare its new balance sheet.

2. Following are the balance sheets of Naziyz Ltd. & Mahera Ltd. as on 31-03-2025.

| Particulars | Note | Naziyz Ltd. | Mahera Ltd. |
|---|------|-------------|-------------|
| I. Equity and Liabilities | | | |
| 1.Share Holders' Fund | | | |
| a.Share Capital | | | |
| Equity Shares of Rs.10 each | | 3,20,000 | 4,00,000 |
| b.Reserve & Surplus | | | |
| General Reserve | | 3,00,000 | 1,00,000 |
| P & L A/c | | 1,80,000 | 60,000 |
| 2. Non-Current Liabilities | | | |
| 10% Debentures | | 4,00,000 | 4,80,000 |
| 3. Current Liabilities | | | |
| a. Trade payable- Creditors | | 1,00,000 | 2,00,000 |
| Bills payable | | 60,000 | 40,000 |
| Total | | 13,60,000 | 12,80,000 |
| II. Assets | | | |
| 1.Non-Current Assets | | | |
| a. Fixed Assets- Plant & Machinery | | 6,00,000 | 5,00,000 |
| Goodwill | | 1,00,000 | 2,00,000 |
| b. Non-current Investments | | 1,24,000 | 1,00,000 |
| 2.Current Assets | | | |
| a. Inventories: stock | | 1,50,000 | 80,000 |
| b.Trade Receivables- Debtors | | 2,00,000 | 2,50,000 |
| Bills receivable | | 76,000 | 70,000 |
| c. Cash & Cash Equivalent- Cash balance | | 1,10,000 | 80,000 |
| Total | | 1360,000 | 12,80,000 |

On the above date Naziya Ltd. absorbed the business of Mahera Ltd. As per the contract Naziya Ltd. has to issue equity shares to Mahera Ltd. in such a manner that the intrinsic value of shares of both the companies happen to be equal.

The face value of shares of Mahera Ltd. is Rs.10 per share on which Rs.5 per share was paid up. The face value of shares of Naziya Ltd. is Rs.10 per share on which Rs.4 per share was paid up.

Stock of Mahera ltd. includes goods worth Rs.5000 purchased from Naziya Ltd. where in Naziya Ltd. added a profit of 20% on selling price.

From the above information prepare new balance-sheet of Naziya Ltd. and also write entries in the books of Naziya Ltd.

3.The following is the balance sheet of M Ltd. as on 31-03-2025:

| Particulars | Note No. | Amount |
|----------------------------------|----------|--------|
| I. Equity and Liabilities | | |
| 1. Share Holders' Fund | | |
| a. Share Capital | | |

| | | |
|---|--|------------|
| 5200, Equity Shares of Rs.100 each fully paid | | 5,20,000 |
| 1600, 12% Preference shares of Rs.100 each | | 1,60,000 |
| b. Reserve & Surplus: P & L A/c | | (2,48,400) |
| 2. Non-Current Liabilities | | |
| a. Long term borrowing: 12% Debentures | | 1,20,000 |
| 3. Current Liabilities | | |
| a. Trade payable- Creditors | | 1,80,000 |
| Bill payables | | 4,000 |
| Total | | 7,35,600 |
| II. Assets | | |
| 2. Non-Current Assets | | |
| a. Fixed Assets- Tangible Assets | | 68,000 |
| b. Other Non-current Assets | | 6000 |
| 3. Current Assets | | |
| a. Inventories- Stock | | 5,76,000 |
| b. Trade Receivables- Debtors | | 85,600 |
| Total | | 7,35,600 |

C Ltd. takes over the company on the terms that it would:

1. Take fixed assets after depreciating by 10%, Stock at 5,49,480 and debtors subject to a provision of 5% bad debts.
2. Take 10% debentures.
3. Discharge purchase consideration by allotment of 16,000 equity shares of Rs.10 each at an agreed value of Rs.12 each, and balance in cash.
4. Preference dividend is in arrears of 3 years. Preference share holders of M Ltd. agreed to accept Rs.1,44,000 in full settlement of their claim. Close the books of M Ltd.

4. Following are the balance sheets of P Ltd. & V Ltd. as on 31-03-2025.

| Particulars | Note | P Ltd. | V Ltd. |
|--|------|-----------|----------|
| I. Equity and Liabilities | | | |
| 1. Share Holders' Fund | | | |
| a. Share Capital | | | |
| Equity Shares of Rs.10 each | | 9,00,000 | 3,00,000 |
| 12% Preference shares of Rs.100 each | | 5,00,000 | 1,00,000 |
| b. Reserve & Surplus | | | |
| General Reserve | | 60,000 | 80,000 |
| 2. Non-Current Liabilities | | | |
| 4. Current Liabilities | | | |
| a. Trade payable- Creditors | | 40,000 | 20,000 |
| Total | | 15,00,000 | 5,00,000 |
| II. Assets | | | |
| 1. Non-Current Assets | | | |
| a. Fixed Assets- Plant & Machinery | | 5,00,000 | 1,00,000 |
| Other Fixed Assets | | 5,00,000 | 1,00,000 |
| 2. Current Assets | | | |
| a. Inventories: stock | | 1,40,000 | 90,000 |
| b. Trade Receivables- Debtors | | 1,95,000 | 1,20,000 |
| c. Cash & Cash Equivalents- Cash balance | | 1,65,000 | 90,000 |
| Total | | 15,00,000 | 5,00,000 |

On the above date P Ltd. absorbed the business of V ltd. on the following terms:

1. Plant & Machinery & Other fixed assets are valued at Rs.90,000 & 80,000 respy.
2. Issue 15% preference shares of Rs. 100 each to discharge the liabilities of preference shares at 10% premium.
3. Rs.1,15,000 cash paid to equity share holders of V ltd.
4. Remaining amount of purchase consideration was discharged by the issue of equity shares of R.10 each at Rs.15 per share.

Prepare necessary accounts in the books of V Ltd. and new balance sheet of P Ltd.

(Nov.2018)

5. The Balances of Shine Ltd. as on 31st March 2025 was as follows:

| Liabilities | ₹ | Assets | ₹ |
|--|------------|---------------------------------|-----------|
| 300,000 Equity shares of ₹ 10 each | 30,00,000 | Goodwill | 8,00,000 |
| 100,000, 10% Pref. shares of ₹ 10 each | 10,00,000 | Plant and Machinery | 14,00,000 |
| 10% Debentures | 6,00,000 | Furniture | 4,00,000 |
| Sundry Creditors | 4,00,000 | Patents | 3,00,000 |
| Profit and Loss Account | (5,60,000) | Stock | 9,80,000 |
| | | Sundry Debtors | 5,10,000 |
| | | Cash at Bank | 10,000 |
| | | Discount on Issue of Debentures | 40,000 |
| | 50,00,000 | | 50,00,000 |

On the following terms and conditions the scheme of external reconstruction agreed upon:

- (1) A new company Sun Ltd. is to be formed with an authorized share capital of ₹ 65,00,000 in equity shares of ₹ 10 each.
- (2) Each equity share of old company is issued one equity share of new company at ₹ 5 each.
- (3) Each pref. share in old company is allotted two pref. shares in new company at ₹ 5 each.
- (4) Debenture holders are to be issued 60,000 equity shares of the new company as fully paid up.
- (5) Creditors are taken over by the new company.
- (6) The remaining unissued shares of new company are issued to the directors as fully paid up.
- (7) All the assets of the old company are taken over by the New Company except patents.

Plant and Machinery at 8,20,000 and Stock at 8,60,000.

- (8) Patents realised 20,000.
- (9) Dissolution expenses 20,000.

Prepare necessary ledger accounts in the books of Shine Ltd. and pass journal entries in the books of Sun Ltd.