Systematic Studies for Professionals

(where your quest for quality education ends)

Max. marks 60 | **Corporate Restructuring** | **Max. Time 2 Hrs.**

Ques.1 The Balance Sheet of A Limited as at 31st March, 2012 was as under:

Liabilities	Amount	Assets	Amount
Paid up Capital:		Goodwill	30,000
10,000 6% pref. shares of ` 10 each	1,00,000	Fixed Assets	3,00,000
20,000 Equity shares of ` 10 each	2,00,000	Stock	80,000
Reserve	10,000	Debtors	70,000
Profit and loss Account	20,000	Bank balance	15,000
6% Debentures	1,20,000	Preliminary Expenses	5,000
Sundry Creditors	50,000		----
	5,00,000		**5,00,000**

A new company P Limited was formed to acquire the business of A Limited, which was to be wound up. P Limited acquired the assets of A Limited, with the exception of book debts and cash, but took over no liabilities, agreeing, however, to collect the debts and pay the creditors as an agent of A Limited. Commission is to be given @ 5% on collection from Debtors & 3% on payments to Creditors.

The purchase consideration was to be satisfied as follows:

(1) The Preference shareholders of A Limited were to be allotted five 10% Preference shares of ` 10 each in P Limited for every four shares held, and the Equity shareholders of A Limited were to be allotted three equity shares of ` 10 each credited as ` 9 paid for every four shares held.

(2) Sufficient 7% Debentures in P Limited would be issued to enable the liquidator of A Limited to satisfy the existing debenture holders at a premium of 10 per cent by new debentures.

The expenses of liquidation were ` 5,000.

Of the debtors, ` 2,000 proved bad and a discount of 2 per cent had to be allowed on settlement.

Creditors were paid off subject to a 4 per cent discount on ` 20,000.

Fixed assets are having market value of 10% above book value.

Show the ledger accounts necessary to close the books of A Limited and prepare the balance sheet of P Ltd.

Ques.2 R Ltd. & K Ltd. had the following financial position at 31st March 2012:

Liabilities	R Ltd	K Ltd	Assets	R Ltd.	K Ltd.
Equity-share Capital of ₹ 100 each fully paid	8,00,000	6,00,000	Goodwill	5,00,000	1,00,000
General Reserve	3,00,000	2,00,000	Fixed Assets	4,00,000	7,00,000
Investment All. Reserve	---	3,00,000	Investment at cost	3,00,000	2,00,000
Liabilities	4,00,000	1,50,000	Current Assets	3,00,000	2,50,000
	15,00,000	12,50,000		15,00,000	12,50,000

It was decided that R Ltd. will take over the business of K Ltd. on that date, on the basis of the respective share values adjusting, wherever necessary, the book values of assets and liabilities on the strength of information given below:

1) Investments of K Ltd. included 2,000 shares in R Ltd. acquired at a cost of ₹ 80 per share. The other investments of K Ltd. have a market value of ₹ 45,000.
2) Investment Allowance Reserve was in respect of additions made to fixed assets by K Ltd. in the years 2005 - 2006 on which income tax relief has been obtained. In terms of the Income Tax Act, the company has to carry forward till 2015, reserve of ₹ 1,50,000 for utilization;
3) Goodwill of R Ltd. and K Ltd. are to be taken at ₹ 4,00,000 and ₹ 2,00,000 respectively;
4) Fixed assets of R Ltd. and K Ltd. are valued at ₹ 5,00,000 and ₹ 7,50,000 respectively.
5) The market value of investments of R Ltd. was ₹ 2,50,000.
6) Current assets of R Ltd. included ₹ 80,000 of stock in trade obtained from K Ltd. which company normally sold its goods at a profit of 25% over cost;

Suggest the scheme of absorption and ***show*** the journal entries necessary in the books of R Ltd. Also prepare the Balance Sheet of that company after taken over of the business.

Ques.3 The following are the Balance Sheet of A Ltd. & B Ltd. as on 31st December, 2011:

Liabilities	A Ltd.	B Ltd.	Assets	A Ltd.	B Ltd.
Share Capital			Fixed assets	7,00,000	2,50,000
Eq. Shares ₹ 10 each	6,00,000	3,00,000	**Investment:**		
10% Pref. Sh. of ₹ 100 each	2,00,000	1,00,000	6,000 Sh. in B Ltd.	80,000	---
Reserved & Surplus	3,00,000	2,00,000	5,000 Sh. in A Ltd.	---	80,000
Secured Loans:			**Current assets:**		
12% Debentures	2,00,000	1,50,000	Stock	2,40,000	3,20,000
Current Liabilities			Debtors	3,60,000	1,90,000
Sundry Creditors	2,20,000	1,25,000	Bills Receivable	60,000	20,000
Bills Payable	30,000	25,000	Cash at Bank	1,10,000	40,000
	15,50,000	9,00,000		15,50,000	9,00,000

Fixed Assets of both the companies are to be revalued at 25% above book value. Stock in Trade and Debtors are taken over at 5% lesser than their book value. Both the companies are to pay 10% Equity dividend with CDT @17%, Preference dividend having been already paid.

After the above transactions are given effect to, A Ltd. will absorb B Ltd. on the following terms:

(i) 5 Equity Shares of ₹ 10 each will be issued by A Ltd. at ₹ 11 against 4 shares of B Ltd.

(ii) 10% Preference Shareholders of B Ltd. will be paid at 10% discount by issue of 10% Preference Shares of ₹ 100 each at par in A Ltd.

(iii) 12% Debenture holders of B ltd. are to be paid at 8% premium by 12% Debentures in A Ltd. issued at a discount of 10%.

(iv) ₹ 30,000 is to be paid by A Ltd. to B Ltd. for Liquidation expenses. Sundry Creditors of B Ltd. include ₹ 10,000 due to A Ltd.

Prepare:

(a) Absorption entries in the books of A Ltd.

(b) Statement of consideration payable by A Ltd.

Ques.4 The Balance Sheets of 'S' Ltd. and 'H' Ltd. as on 30th June, 2012 were as follows:

(` in crores)

Particulars	Details	'S' Ltd.	Details	'H' Ltd.
Equity Share Capital		80		25
Reserves and Surplus		400		75
10% 25 lakhs Deb. of ₹ 100 each.		--		25
Other Liabilities		120		--
		600		**125**
Fixed Assets at cost	200		75	
Less: Depreciation	100	100	50	25
Investment in 'H' Ltd.:				
1 crore Equity Shares of ₹ 10 each at cost	32			
10% 25 lacs Debentures of ₹ 100 each at cost	24	56		
Current Assets	800		300	
Less: Current Liabilities	(356)	444	(200)	100
		600		**125**

In a scheme of absorption duly approved by the court, the assets of 'H' Ltd. were taken over at an agreed value of ₹ 130 crores. The liabilities were taken over at par. Outside shareholders of 'H' Ltd. were allotted equity shares in 'S' Ltd. at a premium of ₹ 25 per share in satisfaction of their claims in 'H' Ltd. For purpose of recording in the books of 'S' Ltd. Fixed assets taken over from 'H' Ltd. were revalued at ₹ 40 crores. The scheme was put through on Ist July, 2012.

i. ***Give*** journal entries in the books of 'S' Ltd. to record the transactions.

ii. Show the Balance Sheet of 'S' Ltd. after absorption of 'H' Ltd.