

## Quadrant II - Notes

**Paper Code:** COD117

**Module Name:** Acquisitions- Problem 2 - Calculation of Purchase Consideration & Preparation of Ledgers in Books of Transferor Company, Journal entries in the books of transferee company

**Module No:** 33

### PROBLEM:

Dinesh Ltd., agreed to acquire the business of Kirti Ltd., as on 31st March 2021. The summary of assets and liabilities of Kirti Ltd., as on that date was as given below:

Particulars	Note No.	Amt.(Rs.)
<b>I. EQUITIES AND LIABILITIES</b>		
<b>1.Shareholders Funds</b>		
a. Share Capital	1	7,50,000
b. Reserves & Surplus		1,25,000
<b>2. Share application money pending allotment</b>		
<b>3. Non-current liabilities</b>		
a. Long term borrowings	2	2,40,000
<b>4. Current Liabilities</b>		
a. Trade Payables-Creditors		3,67,000
<b>TOTAL</b>		<b>14,82,000</b>
<b>II. ASSETS</b>		
<b>1. Non-current assets</b>		
a. Fixed Assets		
Tangible assets	3	7,49,500
b. Other non current assets-discount on issue of debentures		20,000
<b>2. Current Assets</b>		
a. Current investments		
b. Inventories		5,00,000
c. Trade receivables-Debtors		1,40,000
d. Cash and cash equivalents- Bank		72,500
<b>TOTAL</b>		<b>14,82,000</b>

Notes to accounts

Particulars	Amt(Rs.)
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1. Share Capital	
50,000 equity shares of Rs. 10 each	5,00,000
25,000 9% preference shares of Rs. 10 each	<u>2,50,000</u>
	<b><u>7,50,000</u></b>
2. Long term borrowings	
8% Debentures	2,40,000
	<b><u>2,40,000</u></b>
3. Tangible Assets	
Plant & Machinery	5,40,000
Land & Building	2,09,500
	<b><u>7,49,500</u></b>

The Purchase consideration payable by Dinesh Ltd. was agreed as under:

- The preference shareholders of Kirti Ltd. were to be allotted 12% preference shares of Rs. 2,80,000.
- The equity shareholders to be allotted 6 equity shares of Rs. 10 each and Rs. 6 in cash against every 5 shares held.
- 8% Debentures of Kirti Ltd. are to be discharged at 15% premium by 11% Debentures of Dinesh Ltd., issued at 10% discount.

While arriving at the Purchase consideration, the directors of Dinesh Ltd., valued land & building at Rs. 4,50,000, stock at Rs. 5,20,000 and debtors at their book value subject to an allowance of 5% to cover doubtful debts.

It was agreed that before acquisition Kirti Ltd., will pay dividend at 11% on equity shares. The liquidation expenses were Rs. 10,000.

Calculate Purchase consideration, prepare ledger accounts in the books of Kirti Ltd and Journal entries in the books of Dinesh Ltd.

### Solution:

Solution

#### Calculation of Purchase Consideration

**Amt(Rs.)**

#### **i. Preference Shareholders**

12% preference shares 2,80,000

#### **ii. Equity Shareholders**

Equity shares(for 5 shares held-----6 shares in Harsh Ltd.)

50,000 x 6/5x Rs.10 6,00,000

Cash

50,000 X 6/5 60,000

<b>Purchase Consideration</b>	<b>9,40,000</b>
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In the books of Kirti Ltd.

REALISATION A/C

Particulars	Amt(Rs.)	Particulars	Amt(Rs.)
To Assets:		By Liabilities:	
Plant & Machinery	5,40,000	8% Debentures	2,40,000
Land & Building	2,09,500	Creditors	3,67,000
Stock	5,00,000	By Dinesh Ltd.	9,40,000
Debtors	1,40,000		
Bank(72,500-55,000-10,000)	7,500		
To Preference shareholders A/c	30,000		
To Bank(liquidation expenses)	10,000		
To Equity shareholders A/c(profit)	1,10,000		
	<b>15,47,000</b>		<b>15,47,000</b>

Equity Shareholders A/c

Particulars	Amt(Rs.)	Particulars	Amt(Rs.)
To Discount on issue of Debentures	20,000	By Equity Share Capital	5,00,000
To Equity shares in Dinesh Ltd.	6,00,000	By Reserves(1,25,000-55,000)	70,000
To Bank	60,000	<b>By Realisation A/c</b>	<b>1,10,000</b>
	<b>6,80,000</b>		<b>6,80,000</b>

Preference Shareholders A/c

Particulars	Amt(Rs.)	Particulars	Amt(Rs.)
To 12% Preference shares in Dinesh Ltd.	2,80,000	By Preference Share Capital	2,50,000
		By Realisation A/c	30,000
	<b>2,80,000</b>		<b>2,80,000</b>

Dinesh Ltd

Particulars	Amt(Rs.)	Particulars	Amt(Rs.)
To Realisation A/c	9,40,000	By equity shares in Dinesh Ltd	6,00,000
		By 12% preference shares in Dinesh Ltd	2,80,000
		By Bank A/c	60,000
	<b>9,40,000</b>		<b>9,40,000</b>

**In the books of Dinesh Ltd.**

**Journal Entries**

Sr. No.	Particulars	I/f	Debit(Rs.)	Credit(Rs.)
1	Business Purchase Dr.		9,40,000	
	To Liquidators of Kirti Ltd.			9,40,000
2	Plant & Machinery Dr		5,40,000	
	Land & Building Dr		4,50,000	
	Stock Dr		5,20,000	
	Debtors Dr		1,40,000	
	Bank Dr		7,500	
	To Capital Reserve*			63,000
	To RDD(5% of 1,40,000)			3,500
	To 8% Debentures (2,40,000+ 36,000)			2,76,000
	To Creditors			3,75,000
	To Business Purchase			9,40,000
3	Liquidators of Kirti Ltd. Dr		9,40,000	
	To Equity Share Capital A/c			6,00,000
	To 12% Preference Shares			2,80,000
	To Bank			60,000
4	8% Debentures in Kirti Ltd. Dr		2,76,000	
	Discount on issue of Debentures Dr		24,000	
	To 11% Debentures A/c			3,00,000