

Welcome students to the Advanced Co Accounts course a semester 6 subject of the degree of the Bachelor of Commerce.

In this unit, or that is Unit 4 mergers, acquisitions, and external reconstruction, we will be studying a module titled external reconstruction problem, three journal entries and balance sheet in the books of the transferee company. Part 2. I'm Nicole Marie Coutinho and I will be assisting you and guiding you through this module

In this module, we will be studying the journal entries in the books of the transferee company and the preparation of the balance sheet in the books of the transferee company.

So, after this, after studying this module, you will be able to prepare both journal entries as well as balance sheet in the books of the transferee company.

So in continuation of problem three of the previous module. We will be preparing. The journal entries in the books of the transferee company, that is DHE Limited and we will be preparing the balance sheet of DHE Limited as on the 31st of March 2021.

In the previous problem, we studied about the purchase consideration. though that is the amounts that are paid only to the equity shareholders and the preference shareholders. In case of the equity shareholders, there were two situations, one where $\frac{3}{4}$ th of equity Shareholders agree with the scheme of reconstruction and one where in the equity shareholders do not agree to the scheme of reconstruction. The discharge of the obligations to the preference shareholders was also told to us. we then passed the journal entries in the books of the Transferrer company, that is Dishtavo Limited.

We also now we come to the journal entries in the books of the transferee company, that is DHE Limited.

Now first thing first is we record the purchase consideration in the books of the new company. So business purchase account debited to the liquidator of Dishtavol limited account and we will refer to the purchase consideration that is ₹ 5,92,000 so this is the amount that we are going to record.

Next is we record the assets and liabilities that are taken over by the new company. Now remember there are certain agreed upon values that these assets and liabilities are going to be taken over by the new company. So let us look at the see.

So starting off with Point #6 that is land and building. land and building is going to be valued at a rate of 20% more so if you look at land and building Presently it is worth ₹ 5,00,000 but when the new company is taking it over it is taking it over at a rate of 20% more. So ₹ 5,00,000 plus 20% will give you ₹ 6,00,000. The next. Asset, that is machinery is taken over at a value of 33.33 or 33, one third percent less. So machinery is currently worth ₹ 2,70,000 but we are going to take it at a rate of 33.33% less so that works out to be one ₹ 1,80,000. The next asset we look at is debtors debtors is to be valued at 10% less, so your debtors is presently ₹ 3,60,000 10% you get ₹ 3,24,000. The value of stock or inventory is to be reduced to ₹ 3,20,000 So we can see here that the value of our stock is ₹ 3,20,000 And so we are going to record stock at the rate of ₹ 3,20,000. Nothing is mentioned to us about the bank balance that was taken over, so we will record the bank balance as it is. That is ₹ 1,00,000.

Let us see if there are any other adjustments in relation to the assets that are taken over.

Let us have a look at the liabilities that are taken over. We are told about debentures and the accrued interest on the debentures. We are also told about creditors and how they are going to be taken over.

Nothing is mentioned to us about the other liabilities that are taken over like your unsecured loan. so suppose if it is not mentioned so then we directly record the unsecured loan as it is at the rate of two lacs. Also, debentures as well as the accrued interest on debentures are taken over by the company and they are fully discharged so we have to record debentures of ₹ 4,00,000 and the accrued interest on them at 60,000. Now, when it comes to our creditors. It is said that In point #5, creditors of Dishtavo will get from DHE 50% of their dues in cash and 25% in equity shares. What is not mentioned to you is that what is foregone by the creditors is the remaining balance of 25%. So when we are recording our creditors in the books of the new company, we have to prepare a small working note. we start off with the balance of creditors that is 3 lacs. The cash that will be paid to these creditors, that is 50% of ₹ 3,00,000 which is ₹ 1,50,000. The equity shares in the new company that will be issued for 25% of the creditors, that is 25% of ₹ 3,00,000 which is ₹ 75,000 and we are going to find out the balance that is ₹ 3,00,000 – ₹ 1,50,000 – ₹ 75,000. So the balancing figure of ₹ 75,000 is the balance that will be forgone by the creditors. So when we are recording our creditors in the journal Of the new company: To creditors account ₹ 3,00,000 – ₹ 75,000 This 75,000 is the balance that is foregone by the creditors. So only an amount of ₹ 2,25,000 is taken over or discharged by the new company, one in terms of cash and the other in terms of the equity shares.

The next thing we did record is that business purchase or the purchase consideration of ₹ 5,92,000. So if your Net assets are greater than your net liabilities or greater than the purchase consideration in that particular case, you will have a balancing figure as capital reserve.

So if you total ₹ 6,80,000 ₹ 3,24,000, ₹ 3,20,000 and ₹ 1,00,000 this total is greater than the liabilities. That is, ₹ 4,60,000 ₹ 2,25,000 and ₹ 5,92,000. So what is the balancing figure that remains 47,000? This will be shown in the capital reserve account.

Now the next step is to discharge or record the purchase consideration. Now your purchase consideration is ₹ 5,92,000. You have issued equity shares worth Rupees 160 paid up. It works out to be ₹ 2,76,000. The shareholders who did not agree to the scheme were paid rupees 20 per share in cash. So that is 16,000 and the preference shareholders have been issued three hundred 11% preference shares of Rupees 10 each, which is ₹ 3,00,000. So you would now when you total it, you will get ₹ 5,92,000. This is your. purchase consideration, which you have discharged.

The next is the recording of preliminary expenses and we will put this preliminary expenses in capital reserve account. Capital reserve account will be debited and bank account will be credited. So an amount of 10,000 is incurred as preliminary expenses and paid out through the reserves of the company.

The next is the recording of the settlement of our debenture holders. So, first and foremost, we have to record the debenture taken over 15% debentures of ₹ 4,00,000 and the interest on debentures that was taken over by the new company which works out to be 60,000. The amount of ₹ 4,00,000 plus ₹ 60,000 is settled by issuing equity shares of the new company. so 4000. equity shares are worth rupees 100 each to debentureholders. You can see this point in point #4 where your debentures and the interest accrued is taken over and discharged by the issue of equity shares of Rupees 100 each. So. This amount of ₹ 4,60,000 is taken over and you are going to get equity or rather the debenture holders are going to get equity shares. Of rupees 100 each. So four X 60,000 / 100 you will get 4600 equity shares which will be issued in settlement of the debentures and the interest thereon.

Next we talk about the settlement of the creditors. So if you look at our problem point #5, creditors get 50% of their dues in cash and 25% in equity shares. We have not recorded or not carried forward the

amount that is foregone by the creditors, so. Sundry creditors account debit to equity share capital 75,000 and to bank account which is 1,50,000. So we have settled a creditor.

Now it is time for us to prepare our balance sheet. So you will record the balance sheet of the new company DHE Limited as on 31st March 2021.

Shareholders funds issued subscribed and paid-up share capital. 8110 shares of Rupees 100 each rupees 60 paid up. The reason I have written this 60 paid up is because there is one portion of shares which includes rupees 60 paid up.

So now let us prepare the balance sheet of DHE limited as on 31st of March 2021.

Let us start off by recording our equity and liabilities, issued a subscribed and paid-up share capital. We have 8110 shares of Rupees 100 each. That is works out to be ₹ 8,11,000 three hundred 11 % preference shares are issued to the preference shareholders of Rupees 10 which is worth ₹ 3,00,000. In when you add ₹ 8,11,000 and ₹ 3,00,000 you get ₹ 11,11,000.

In case of reserves and surplus, we generated a capital reserve of 47,000 because the net assets were greater than the purchase consideration. ₹ 10,000 is used to pay off our preliminary expenses, so your reserve and surplus balance is 37,000. That is, the capital reserve is equal to 37,000.

We won't have any debentures because these have been settled by the issue of equity shares. Unsecured loans are carried forward as they are record them at the rate of ₹ 2,00,000. There are no creditors because the creditors also have been settled.

The next thing we look at, the assets are taken over at the agreed upon values. In case of land and building, it is Rs 6,00,000 in case of machinery, it is ₹ 1,80,000 inventories ₹ 3,20,000 and Trade Receivables i.e., Sundry Debtors ₹ 3,24,000. Now when we come to the cash account, we had an opening balance of ₹ 1,00,000. There were other expenses also, so on the debit side we started off with the opening balance of 1 Lac. Then we. Had the amount that we paid to the liquidator of Dish Double Limited of ₹ 16,000. We also had the preliminary expenses that were paid off rupees 10,000. We had ₹ 1,50,000 which was paid to in settlement of a sundry creditors. So, the balancing figure which remained appeared on the debit side. That means your debit side of the cash account was heavier than the credit was lower than the credit side, so this gave rise to something called a bank overdraft, and this bank overdraft is recorded under short term borrowings rupees

so we have prepared both the journal entries in the books of the Transferrer Co, Transferee Company as well as the balance sheet of the new company that is DHE Limited.

I have taken the problem or based the problem upon examples from this book. Thank you.