CMA Students Newsletter (For Final Students)

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Dematerialisation & Rematerialisation

Dematerialisation is the process of converting physical certificates to an equivalent number of securities in electronic form and credited into the investor's account with his / her Depository Participant (DP). In simple terms, it refers to paperless trading.

Similar to keeping money in a bank account, securities can be kept with a depository participant in a demat account. A depository is similar to a bank, an analogy can be drawn as under:

A Bank- Depository Analogy	
BANK	**DEPOSITORY**
Holds funds in an account.	Hold securities in an account.
Transfers funds between accounts on the instruction of the account holder.	Transfers securities between accounts on the instruction of the account holder.
Facilitates transfers without having to handle money.	Facilitates transfers of ownership without having to handle securities
Facilitates safekeeping of money.	Facilitates safekeeping of shares.

Process of Dematerialisation

- Surrender certificates for dematerialisation to your DP.
- DP intimates to the Depository regarding the request through the system.
- DP submits the certificates to the registrar of the Issuer Company.
- Registrar confirms the dematerialisation request from depository.
- After dematerialising the certificates, Registrar updates accounts and informs depository regarding completion of dematerialization.
- Depository updates its accounts and informs the DP.
- DP updates the demat account of the investor.

Difference between trading of securities held in Physical and Dematerialised form

Trading of Physical Shares	Trading of Dematerialised Shares
Actual delivery of share is to be exchanged.	Actual delivery of shares is not needed.
Open delivery can be kept.	Not possible to keep Delivery open.
Processing time is long.	Processing time is less.
Stamp charges are levied for transfer.	No Stamp charges are required for transfer.
For sales transaction, no charges other than brokerage are levied.	Sales transactions are also charged.
For buy transaction, document is to be sent to company for Registration.	No need to send the document to the company for Registration.

Rematerialisation is the process by which a Client/ Shareholder can get his electronic holdings converted into physical certificates.

Features of Rematerialisation:

(a) A client can rematerialise his dematerialised holdings at any point of time.

(b) The rematerialisation process is completed within 30 days.

(c) The securities sent for rematerialisation cannot be traded.

Process of Rematerialisation

- Make a request for rematerialisation.
- Depository participant intimates depository regarding the request through the system.
- Depository confirms rematerialisation request to the registrar.
- Registrar updates accounts and prints certificates.
- Depository updates accounts and downloads details to depository participant.
- Registrar dispatches certificates to investor.

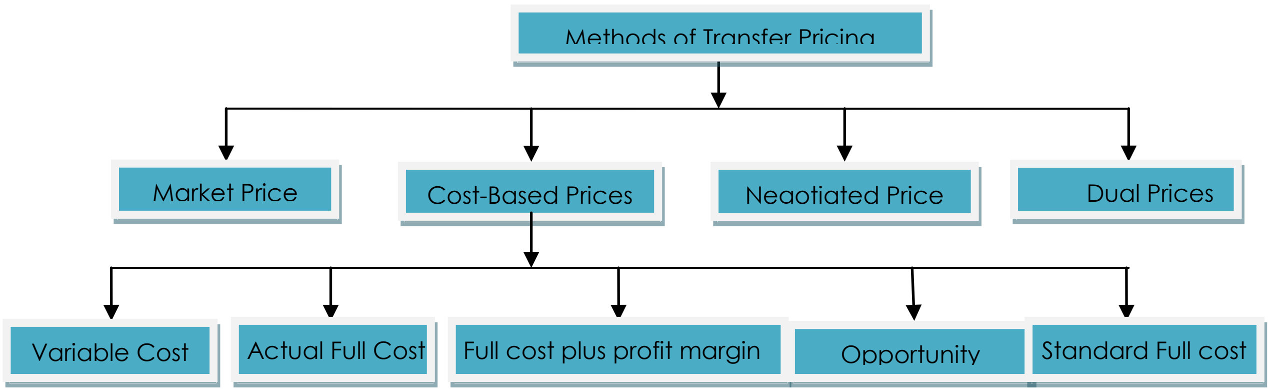
Transfer Pricing

The price at which divisions of a company transact with each other. Transactions may include the trade of supplies or labour between departments. Transfer prices are used when individual entities of a larger multi-entity firm are treated and measured as separately run entities.

The price charged to the interdivisional transfer of goods and services is revenue to the selling division and cost to the buying division. Therefore the price charged will affect the profit of both divisions; benefit to one division can create only at the expense of the profit of other division.

For example, the selling division will benefit from charging higher prices for such transfers of goods and services. However, for the buying division this will result into higher costs. The transfer prices, thus, can have impact on the evaluation of each division's performance and measures applied for such measurements of performance.

- **Requisites of Sound Transfer Pricing System**
- It should be simple to understand and easy to operate.
- It should enable fixation of Fair transfer prices for the output transferred or service rendered. A divisional manager who considers the transfer price to be unfair to the division would be de motivated.
- It is profitable to allow the divisional managers to sell a small quantity (5-10 percent) to customers outside the organizations or to buy small quantities from sources outside it.
- The business unit / division should have free access to various sources of market information.
- There should be a negotiation for transfer prices between the business unit/ divisional managers of the selling business unit/division and the buying unit/ division.
- Top management should discourage prolonged arguments between business unit/ divisional managers.
- Transfer prices can be reviewed annually or as dictated by the demand and supply conditions in the market. Transfer pricing guidelines must state the circumstances under which a revision of transfer prices can be made during the year.
- When transfer prices are based on market price, long-term competitive/ normal prices must be considered.



The Methods of Transfer Pricing can be understood by the fallowing example:-

The XY division of Amco Products manufactures batteries that it sells primarily to the AB division for inclusion with that division's main product. In 2014 half batteries were sold to outside companies at a price of ₹200 each, the remaining batteries went to AB division. Cost data for 2015 for XY division are given below

Production	1,20,00,000
Variable Cost	1,20,00,000
Fixed Overhead	60,00,000
Selling expenses (all variable)	30,00,000
Administration expenses	20,00,000

What should be the transfer price for the batteries if company uses:

(i) Market Price

(ii) Variable Cost

(iii) A negotiated transfer price that will yield a markup of 20% on its product cost for XY?

Solution:

(i) Markup price= ₹200 per unit

(ii) Variable cost: =(₹1,20,00,000+₹30,00,000)/1,20,000 unit
=₹125 per unit

(iii) Absorption cost= ₹1,20,00,000+₹60,00,000 =₹1,80,00,000
=₹1,80,00,000/1,20,000 units =₹150 per unit
Thus the Negotiated transfer price is:
=₹150+20% (₹150)
=₹150+₹30
=₹180 per unit

We can explain by a Case:-

Supreme Industries Ltd. started as a single plant that produced the major components of electric motors, the Company's main product, and then assembled them. Supreme later expanded by developing outside markets for some of the components used in motors.

Eventually, Supreme recognized into four manufacturing divisions: Bearing, Casing, Switch, and motor. Each of the four manufacturing divisions operates as an autonomous unit.

Supreme's transfer pricing policy permits the manufacturing divisions to sell externally to outside customers as well as internally to the other divisions. The price for goods transferred between divisions to be negotiated between the buying and selling divisions without any reference from top management.

Supreme's profits have dropped for the current year even though sales have increased, and the drop in profits can be traced almost entirely to the Motor Division. Ashok, chief financial officer, has determined that the Motor Division has purchased switches for its motors from an outside supplier during the current year rather than buying them from the Switch Division. The Switch Division is at capacity and has refused to sell the switches to the Motor Division because it can sell them to outside customers at a price higher than the actual full (absorption) manufacturing cost that has always been negotiated in the past with the Motor Division. When the motor division refused to meet the price the switch divisions were receiving from its outside buyer, the Motor Division had to purchase the switches from an outside supplier at an even higher price.

Ashok is reviewing Supreme's transfer pricing policy because he believes that sub optimization has occurred. While the Switch Division made the correct decision to maximize its divisional profit by not transferring the Switches at actual full manufacturing cost, this decision was not necessarily in the best interest of the Company. The Motor Division paid more for the switches than the selling price the Switch Division charged its outside customers. The Motor Division has always been Supreme's largest division and has tended to dominate the smaller division. Ashok has learned that the Causing and Bearing Divisions are also resisting the Motor Division's desires to continue using actual full manufacturing cost as the negotiated price.

Liability in Special Cases

(1). Who may be regarded as an agent in relation to a non-resident [Section 163]

The person who may be regarded as an agent of non-resident in India may belong to one of the following five categories:

(i) one who is employed by or on behalf of the non-resident; or

(ii) one who has any business connection with the non-resident; or

(iii) one, from or through whom the non-resident is in receipt of any income, whether directly or indirectly; or

(iv) one who is the trustee of the non-resident; or

(v) one, whether a resident or non-resident, who has acquired by means of a transfer, a capital asset in India.

In the first four cases, it is further necessary that the person sought to be assessed as an agent should be in India, whereas this condition is not necessary in the fifth case.

It is the Assessing Officer who has jurisdiction to decide the question whether a particular person should or should not be treated as an agent of the non-resident. Amongst these five categories of persons, the Assessing Officer should select the particular person who is connected with the particular income to be assessed as enumerated in section 9(1) and treat him as the agent of the non-resident for that particular income. The principle is that the person who helps the non-resident to make income in India should be saddled with the responsibility of payment of tax due by the non-resident in respect of that income. There is, of course, the added facility of easier assessment and collection of tax from the agent so treated, who is a person in India.

However, a broker in India who, in respect of any transactions, does not deal directly with or on behalf of a non-resident principal but deals with or through a non-resident broker shall not be deemed to be an agent under this section in respect of such transactions, if the following conditions are fulfilled, namely:—

(i) the transactions are carried on in the ordinary course of business through the first mentioned broker; and

(ii) the non-resident broker is carrying on such transactions in the ordinary course of his business and not as a principal.

Sub-section (2) lays down that a person cannot be treated as the agent of a nonresident unless and until he has had an opportunity of being heard by the Assessing Officer as to his liability. Since an order under this section is appealable, a written order is essential.

Power of attorney does not answer the description of agent in relation to a non resident, as envisaged under section 163(3)(i), hence, the assessment order framed in the case of NRI in the name of power of attorney treating as an agent held to be illegal and void. **[CIT v Mukesh B. Shah (2010) 40 DTR 297 (Guj)]**

(2). Succession to business otherwise than on death [Section 170]

This section applies to cases of succession to a business profession or vocation and not cases of succession to any other income producing source.

a. **What constitutes succession:** Succession involves change of ownership; that is, the transferor goes out and the transferee comes in. It connotes that the whole business is transferred; it also implies that substantially the identity and the continuity of the business are preserved.

The expression "succession" has acquired a somewhat artificial meaning. In ***CIT* v *Chambers (KH)*** **[(1965) 55 ITR 674 (SC)]**, the Supreme Court held that the tests of change of ownership, integrity, identity and continuity of business have to be satisfied before it can be said that a person "succeeded" to the business of another.

Succession on death fails outside the ambit of section 170 because succession on death falls under specific provisions of sections 159 and 168.

b. **Succession and discontinuance:** Where a person is carrying on a business or profession, such business or profession may come to an end so far as he is concerned in one of the following ways:

(i) It may come to end by the business changing hands by way of sale, gift or any other kind of transfer so that the business, considered an integral whole, continues to be carried on, though by a different person. That situation is called "succession" dealt with by the present section.

(ii) It may come to end in the manner that there is no succession but the business or profession as such ceases to be carried on by the assessee or any one else. This is called discontinuance. In this case, a charge would arise on the person concerned at the Assessing Officers discretion under the provisions of, and in accordance with the procedure laid down in, section 176. Should the Assessing Officer choose not to take action under section 176, the charge would be levied in the assessment year following the previous year of discontinuance. The consequence of a finding of discontinuance would also involve that any business which is found to be carried on by the successor after the discontinuance would be a fresh and new business.

The second eventuality is not provided for in section 170.

1. **Assessment on predecessor & successor [Section 170(1)]:** Where a person carrying on any business or profession (such person hereinafter in this section being referred to as the predecessor) has been succeeded

therein by any other person (hereinafter in this section referred to as the successor) who continues to carry on that business or profession,—

(a) the predecessor shall be assessed in respect of the income of the previous year in which the succession took place up to the date of succession (including any gain accruing from the transfer of business as a result of succession);

(b) the successor shall be assessed in respect of the income of the previous year after the date of succession.

The effect of this section is that the predecessor in business is assessable in respect of the income of the year of succession upto the date of succession, while the successor is assessable in respect of the income of that year after the date of succession. The predecessor and the successor would each be liable to tax at the rate applicable to each. The income of the predecessor and the successor must be computed separately and each must be granted the deduction and allowances appropriate to his case. The assessment on each must be separate and distinct.

The successor is not allowed to carry forward and set off the losses incurred by his predecessor. He has also no right to carry forward the unabsorbed depreciation allowance of the years prior to his succession to the business.

2. **Assessment when predecessor cannot be found [Section 170(2)]:** Notwithstanding anything contained in sub-section (1), when the predecessor cannot be found, the assessment of—

(a) the income of the previous year in which the succession took place up to the date of succession, and

(b) the previous year preceding the year of succession

shall be made on the successor in like manner and to the same extent as it would have been made on the predecessor, and all the provisions of this Act shall, so far as may be, apply accordingly.

3. **Tax of predecessor can be recovered from successor [Section 170(3)]:** When any sum payable under this section in respect of the income of such business or profession for the previous year in which the succession took place up to the date of succession or for *the previous year preceding that year,* assessed on the predecessor, cannot be recovered from him, the Assessing Officer shall record a finding to that effect and the sum payable by the predecessor shall thereafter be payable by and recoverable from the successor, and the successor shall be entitled to recover from the predecessor any sum so paid.

Example: A firm RG is succeeded by R Ltd on 15-11-2013 and the tax cannot be recovered from the firm RG. In this case the tax relating to previous year 1-4-2013 to 15-11-2013 and the preceding previous year i.e. 2012-

13 can only be recovered from the successor provided the Assessing Officer records a finding to that effect. However R Ltd shall be entitled to recover such income-tax from the firm RG.

4. **Recovery of tax of a HUF on succession thereto [Section 170(4)]:** Where the predecessor is a Hindu undivided family, and there is a partition in the family either simultaneously with the succession or sometime later, the tax due by the family in respect of its income from the business or profession succeeded to, up to the date of the succession, shall be recoverable from the members of the divided family in accordance with the proportions of the property allotted to them on partition. The liability of such members is joint and several. In respect of such taxes owing by the divided members, the liability of the successor under sub-section (2) and (3) of section 170 would continue. Consequently, if any of the divided members cannot be found or the tax levied upon any of the divided members cannot be recovered from them, the same can be recovered from the successor, subject to the restrictions and qualifications discussed above.
5. **Predecessor's income includes capital gains by virtue of succession:** The explanation to section 170, states that any capital gain accruing to the transferor from the transfer which has resulted in the succession is treated as a category of the predecessors income to which this provision is applicable. One consequence is that, if the predecessor cannot be found, the successor would be liable to pay the tax on the sum of the capital gains.
6. **Section 41(1) vis-a-vis [Section 170]:** Section 41(1) provides that where an allowance or deduction has been made in the assessment for any year in respect of loss, expenditure or trading liability incurred by the assessee (hereinafter referred to as the first mentioned person) and subsequently during any previous year, the successor in business has obtained, whether in cash or in any other manner whatsoever any assessment in respect of which the successor in business has obtained, whether in cash or in any other manner whatsoever, any amount in respect of which loss or expenditure was incurred by the first-mentioned person or some benefit in respect of the trading liability by way of remission or cessation thereof, the amount obtained by the successor in business or the value of benefit accruing to the successor in business shall be deemed to be profits and gains of the business or profession, and accordingly chargeable to income-tax as the income of that previous year.

(3). Liability of partners of limited liability partnership in liquidation [Section 167C]

As per section 167C, notwithstanding anything contained in the Limited Liability Partnership Act, 2008, where any tax due from a limited liability partnership in respect of any income of any previous year or from any other person in respect of any income of any previous year during which such other person was a limited liability partnership cannot be recovered, in such case, every person who was a partner of the limited liability partnership at any time during the relevant previous year, shall be jointly and severally liable for the payment of such tax unless he proves that the non-recovery cannot be attributed to any gross neglect, misfeasance or breach of duty on his part in relation to the affairs of the limited liability partnership.

For the purpose of this section, the expression "tax due" includes penalty, interest or any other sum payable under the Act **[Explanation to section 167C] [Inserted by the Finance Act, 2013, w.e.f. 1-6-2013]**.

(4). Discontinuance of business [Section 176]

The cessation of the business of the assessee may occur in 2 ways:—

(i) Where the business is no longer in existence i.e. there is complete closing down of the business or profession and a cessor of all the operations immediately. This would amount to "discontinuance" used in that context under section 176.

(ii) Where the business is in existence but has been transferred by the assessee as a going concern to another entity.—In this case, there is a mere change in the ownership or change in the constitution of firm. A change in ownership may amount to succession and this does not mean the discontinuance of the business. Similarly, there is no discontinuance when a partner of a firm ceases to be a partner.

Since succession and discontinuance are two mutually exclusive concepts there cannot be discontinuance in cases where there is a succession. Further, if a part of the business of an assessee is dropped owing to non-profitable nature, either permanently or temporarily it will not imply that the business has been discontinued.

In the case of dissolutions of a firm or the liquidation of a company, sometimes the trade may be carried on even after such dissolution or liquidation.

Other cases of discontinuance of business:

(a) Amalgamation of two separate and independent business belonging to distinct owners may result in the discontinuance of those business.

(b) Partition of a joint family business and the business is divided amongst the members. In this case, there will be a discontinuance of the old business even if some or all the members carry on their business in the same premises and take the advantage of the old business connections.

(c) In case a firm is split up into two different firms and the old business is also divided amongst the different firms, the original firm shall be deemed to have discontinued the business. **[Sait Nagjiu Purushotam and Co. v CIT (1969) 51 ITR 849 (SC)]**

(d) If a professional person ceases to excise his profession a vocation then there would be discontinuance. The question whether a professional person discontinued his profession depends upon the state of his mind at the time of cessor. Merely because he takes to the profession once again it cannot be said that there is no discontinuance at the time of cessor.

a. **Accelerated assessment [Section 176(1)]:** Section 176(1) enacts that notwithstanding any thing contained in section 4, where any business or profession is discontinued in any assessment year, the income of the period from the expiry of the previous year for that assessment year up to the date of such discontinuance may at the discretion of the Assessing Officer be charged to tax in that assessment year, that is to say, the pace of assessment may be accelerated. Now this period may cover either a fraction of an accounting year (a broken period, to coin a phrase) or completed accounting year plus a broken period. Thus if the accounting year of an assessee be the financial year and the business is discontinued on, say, the 15-9-2013, i.e., during the assessment year 2014-15, the income of the period between the 1-4-2013 and 15-9-2013 will be income of a broken period. The income of the period contemplated by sub-section (1) of section 176 is that of the entire period between 1-4-2013 to 15-9-2013 being the date of discontinuance. This, as would be seen, includes a completed accounting year commencing from 1-4-2012 and ending with 31-3-2013 and in addition a broken period being 1-4-2013 to 15-9-2013.

b. **Manner of assessment [Section 176(2)]:** Section 176(2) states as to how the incomes of these two periods should be dealt with. It provides that separate assessments shall be made, one with reference to the income of the completed accounting year, and another with reference to the total income of the broken period. Applying the aforesaid principles to the above illustration, there shall have to be two separate computations of income for the two periods, viz., 1-4-2012 to 31-3-2013 and 1-4-2013 to 15-9-2013. Further such separate income shall be chargeable to tax at the rate or rates in force in that assessment year.

c. **Notice to the Assessing Officer [Section 176(3)]:** In order to enable the Assessing Officer to make the accelerated assessment, sub-section (3) provides that the assessee discontinuing the business or profession should give to the Assessing Officer notice of the discontinuance within 15 days thereof.

d. **Taxability of sum received after the discontinuance of business [Section 176(3A)]:** Where any business is discontinued in any year, any sum received after the discontinuance shall be deemed to be the income of the recipient and charged to tax accordingly in the year of receipt, if such sum would have been included in the total income of the person who carried on the business had such sum been received before such discontinuance.

e. **Taxability of sum received after the discontinuance of profession [Section 176(4)]:** Where any profession is discontinued in any year on account of the cessation of the profession by, or the retirement or death of, the person carrying on the profession, any sum received after the discontinuance shall be deemed to be the income of the recipient and charged to tax accordingly in the year of receipt, if such sum would have been included in the total income of the aforesaid person had it been received before such discontinuance. Section 176(4) applies only to a profession and not to a business discontinued.

Fees earned by a professional person which are collected after his death by the executor are part of the estate and not the income of the estate within section 168, therefore such fees cannot be taxed in the hands of the executor under section 168 or be clubbed with the income of the estate, but the executor may be separately taxed in respect of such fees as the recipient thereof within section 176(4). **[CIT v Estate of Late A.V. Viswanatha Sastri (1980) 121 ITR 270 (Mad)]**

f. **Procedure for accelerated assessment [Section 176(5)|:** Sub-section (5) enacts that the Assessing Officer may, where he decides to complete an accelerated assessment, serve—

(a) on the person whose income is to be assessed, or

(b) in the case of a firm, on any of its partners at the time of its discontinuance, or

(c) in the case of a company, on the principal officer thereof,

a notice calling for the return of the income of the assessee for the completed previous year and/or broken period.

The above procedure in relation to charge of income for a completed previous year or for a broken period is left to the discretion of the Assessing Officer. If the Assessing Officer opts to take action under this section, the sum of the tax would be ascertained and levied under this section. If he does not so opt, the assessment will be made in the normal course under section 4, when the relevant assessment year arrives. The above procedure applies where an assessee has several kinds of business or profession and he discontinues one or more of them and not all. The accelerated assessment would then apply only to the particular business or business or profession or professions discontinued.

g. **Provision is supplementary [Section 176(6)|:** Sub-section (6), clarifies that the special assessment for the completed and/or broken period is in addition to any other assessment on the assessee that may be started under any other provisions of this Act in respect of that assessment year, for example, in respect of a representative assessment to be made on the assessee under Chapter XV, sections B, C and E, or regular assessments to be made on him in the usual course of any assessment to be started in respect of escaped incomes.

h. **Restriction of time limit:** Sub-section (7), enacts that where the Assessing Officer proceeds to assess the income of the completed previous year and/or the broken period in the year of discontinuance itself, any notice that he issues to the assessee calling for a return either for a regular assessment, or for an escaped assessment or for representative assessment on the assessee, need not grant the normal time of thirty days from the date of service, as specified in section 142(1)(i) or 148, but, it can fix a shorter time of seven days or more as the Assessing Officer may think proper.

(5). Liability of an Association dissolved or business discontinued [Section 177]

This section covers discontinuance of the business of AOP as well as dissolution of AOP.

Where any business or profession carried on by an association of persons—

(a) has been discontinued; or

(b) is dissolved,

the Assessing Officer shall make an assessment of the total income of the association of persons as if no such discontinuance or dissolution had taken place, and all the provisions of this Act, including the provisions relating to the levy of a penalty or any other sum chargeable under any provision of this Act shall apply, so far as may be, to such assessment.

Without prejudice to the generality of the above provisions, if the Assessing Officer or the Commissioner (Appeals) in the course of any proceedings under this Act in respect of such association of persons is satisfied that the AOP was guilty of any acts specified in Chapter XXI (relating to penalty), he may impose or direct the imposition of a penalty in accordance to provisions of that Chapter.

Every person who was at the time of such discontinuance or dissolution a member the association of persons, and the legal representative of any such person who deceased, shall be jointly and severally liable for the amount of tax, penalty or other sum payable, and all the provisions of this Act, so far as may be, shall apply to any such assessment or imposition of penalty or other sum.

Where such discontinuance or dissolution takes place after any proceedings respect of an assessment year have commenced, the proceedings may be continued against the persons referred above from the stage at which the proceedings stood at the time of such discontinuance or dissolution, and all the provisions of this Act shall, so far as may be, apply accordingly.

A society registered under the Societies Registration Act is a legal entity. Its members are not personally liable for the tax levied on the society as an association of persons, so long as the society is not dissolved and its business is not discontinue. **[Swami Satchitanand and Others v Second Addl. ITO (1964) 53 ITR 533 (Ker)]**

(6). Liability of liquidator/receiver of a company in liquidation [Section 178]

A company in liquidation is still a Company within the meaning of the charging provisions of the Act and the liquidator/receiver is merely an agent of the Company to administer the property of the company for purpose prescribed by the statute. Thus the liquidator/receiver (hereinafter called as liquidator) would have to act in regard to the submission of the return, etc. after the company goes into liquidation, whether under the orders of a court or otherwise.

a. **Notice by liquidator [Section 178(1)]:** Section 178 of the Income-tax Act 1961 casts a duty on the liquidator/receiver to give notice to the Assessing Officer who entitled to assess the income of the company within 30 days of his appointment.

b. **The Assessing Officer to inform the tax due [Section 178(2)]:** The Assessing Officer shall, after making such enquiries or calling for such information as he may deem fit, notify to the liquidator within three months from the date on which he receives notice of the appointment of the liquidator the amount which, in the opinion of the Assessing Officer, would be sufficient to provide for any tax which is then, or is likely thereafter to become, payable by the company.

c. **Restriction on liquidator to part with assets [Section 178(3)]:** The liquidator —

   (i) shall not, without the leave of the Chief Commissioner or Commissioner, pa with any of the assets of the company or the properties in his hands until he has been notified by the Assessing Officer under sub-section (2); and

   (ii) on being so notified, shall set aside an amount equal to the amount notified am until he so sets aside such amount, shall not part with any of the assets of the company or the properties in his hands.

   However, nothing contained in this sub-section shall debar the liquidator from parting with such assets or properties for the purpose of (a) the payment of the tax payable by the company or (b) for making any payment to secured creditors whose debts are entitled under law to priority of payment over debts due to Government on the date c liquidation or (c) for meeting such costs and expenses of the winding up of the company as are in the opinion of the Chief Commissioner or Commissioner reasonable.

d. **Consequences of failure to give notice by the liquidator [Section 178(4))**

   If the liquidator fails to give the notice in accordance with section 178(1) or fails to set aside the amount as required by section 178(3) or parts with any of the assets of the company or the properties in his hands in contravention of the provisions of that subsection, he shall be personally liable for the payment of the tax which the company would be liable to pay.

   However, if the amount of any tax payable by the company is notified under subsection (2), the personal liability of the liquidator under this sub-section shall be to the extent of such amount.

   Where there are more liquidators than one, the obligations and liabilities attached to the liquidator under this section shall attach to all the liquidators jointly and severally.

The provisions of this section shall have effect notwithstanding anything to the contrary contained in any other law for the time being in force.

(7). Liability of directors of private company in liquidation [Section 179]

As per section 179, where any tax due from a private company in respect of any income of any previous year or from any other company in respect of any income of any previous year during which such other company was a private company cannot be recovered, then, every person who was a director of the private company at any time during the relevant previous year shall be jointly and severally liable for the payment of such tax unless he proves that the non-recovery cannot be attributed to any gross neglect, misfeasance or breach of duty on his part in relation to the affairs of the company.

Although, provisions of section 179(1) cannot be applied to a public company but where a public company was only a conduit for creation of unaccounted money and appropriating, its directors-cum-shareholders who were 7 in numbers and all of them being family members, it was held that if these facts are duly established, principle of lifting corporate veil should be applied and by application of section 179 of the Act, the recovery of tax due of the company can be sought from the directors. **[Pravinbhai M. Khem v ACIT (2013) 213 Taxman 81 (Guj)]**

Liability of directors for the tax dues of a private limited company arises only when the arrears cannot the recovered from the company: As per section 179 of the Income-tax Act, 1961, every person who was a director of the private company during the relevant year can be made jointly and severally liable to pay the arrears of tax provided the Income-tax Department is unable to realise the arrears from the company. In the absence of any reasons recorded by the Assessing Officer to the effect that the arrears could not be recovered from the company, recovery cannot be made from the directors. **[Dipak Dutta v Union of India (2004) 268 ITR 302 (Cal). Also see Indu Bhai T. Vasa (HUF) v ITO (2006) 282 ITR 120 (Guj)]**

Section 179 permits recovery of tax due from a company from the director only when revenue is able to establish the it had taken appropriate step for recovery from the company as the expression used in section 179 is that tax cannot be recovered from the company. Where the revenue has failed to establish the same, the proceedings under section 179 would not be valid. **[Amit Suresh Bhatnagar v ITO (2009) 308 ITR 113 (Guj)]**

For invoking section 179 it is not necessary that all three ingredients, viz, gross neglect, misfeasance and breach of duty are satisfied; it is sufficient if it is held that there is a gross neglect or misfeasance or breach of duty on part of directors in relation to affairs of company. Thus where a company did not file its return of income for more than 10 year & was not in a position to pay tax demanded, it could be said that there was a gross neglect on part of directors of company and, hence, all ingredients of section 179 were satisfied. **[H. Ebrahim v Dy. CIT (Kar) (2009) 185 Taxman 11 (Kar)]**

"Tax" for the purposes of section 179 does not include penalty, therefore, directors of the company cannot be called upon to pay penalty of the company under section 179. Order passed by the Assessing Officer under section 179 without examining the question as to whether the non recovery of tax from the assessee company was or not a result of gross neglect, misfeasance or breach of duty on the part of the assessee in relation to affairs of the company, Assessing Officer was directed to pass fresh order after giving a reasonable opportunity to the assessee. **[Dinesh T. Tailor v Tax Recovery Officer (2010) 326 ITR 85/41 DTR 6/192 Taxman 152 (Bom)]**

While deciding, if the nomenclature 'tax' would include other components such as penalty as well as interest, the High Court placed reliance on the judgement in the case of **Soma Sundarams Ltd. v CIT 116 ITR 620**, which had held that the Court has decidedly stated that the component 'income tax' does not include payment of penalty as well as interest. **[H. Ebrahim and Others v Dy. CIT (2011) 332 ITR 122 (Karn)]**

Amendment made by the Finance Act, 2013, w.e.f. 1-6-2013

For this purpose of this section, the expression "tax due" includes penalty, interest or any other sum payable under the Act. **[Explanation to section 179] [Inserted by the Finance Act, 2013, w.e.f. 1-6-2013].**

Valuation of Excisable Goods based on Retail Sale Price (RSP)

Retail Sale Price means the maximum price at which the excisable goods in packaged form may be sold to the ultimate consumer and the price is the sole consideration for such sale and includes —

- all taxes, local or otherwise,
- freight,
- transport charges,
- commission payable to dealers,
- all charges towards advertisement, delivery, packing, forwarding and the like

Section 4A of Central Excise Act empowers Central Government to specify goods on which duty will be payable based on 'retail sale price'. This section applies if the following conditions are satisfied:

- There are goods;
- The goods are excisable goods;
- The goods are chargeable to duty with reference to value;
- The goods are sold in package;

- The declaration of RSP on the package of such goods is mandatory as per the provisions of the Legal Metrology Act, 2009 or the rules made thereunder or under any other law for the time being in force.
- The said goods are notified by the Central Government for the purpose of this section.

Section 4A has overriding effect over section 4 (Valuation of excisable goods for purposes of charging of duty of excise).

Valuation in case when more than one RSP declared: where on the package of any excisable goods more than one retail sale price is declared, the maximum of such retail sale prices shall be deemed to be the retail sale price.

Valuation in case when RSP is increased after removal from factory: where the retail sale price, declared on the package of any excisable goods at the time of its clearance from the place of manufacture, is altered to increase the retail sale price, such altered retail sale price shall be deemed to be the retail sale price.

Different RSP on different packages meant for different areas: where different retail sale prices are declared on different packages for the sale of any excisable goods in packaged form in different areas, each such retail sale price shall be the retail sale price for the purposes of valuation of the excisable goods intended to be sold in the area to which the retail sale price relates.

Scored out MRP: if an MRP is scored out (even if remains visible) and another MRP printed on the package, then the scored-out MRP is to be ignored, since scored-out MRP could not be considered as an MRP either by seller or by the consumer.

Valuation in case of Multi-product packs or multi-piece packages:

(a) if individual item(s)—

- have clear markings that that they are not to be sold separately or are packed in such a way that they cannot be sold separately; or,
- have MRP's printed on them but are scored-out; or,
- is supplied free in the multi-pack and has no MRP printed on it

then valuation will be based on MRP indicated on multi-pack.

(b) if —

- the individual items do not contain any such inscription that they are not to be sold separately;
- such individual items are capable of being sold separately at the MRP printed on the individual pieces; and
- each of individual items and MRPs on the multi-pack, both are visible

then valuation will be based on sum of MRP's of pieces comprising the multi-pack.

Determination of Value under RSP provision = RSP – Notified % of abatement

Illustration 1: Alpha Ltd. manufactures Product 'X'. It is a specified product under section 4A of the Central Excise Act. The selling price of the product is ₹ 100. It includes excise duty @12.36% and central sales tax @2%. 1,00,000 units of the product were removed from the factory for sale. 40% abatement is permissible on the product. Calculate excise duty liability of the product.

Solution:

Calculation of excise duty liability

Particulars	Units	Price p. u. (₹)	₹
Retail sale price	1,00,000	100	1,00,00,000
Less: Abatement @40%		40	40,00,000
Assessable Value u/s 4A		60	60,00,000
Duty @12.36%			7,41,600

Valuation in case of Job work of goods falling under section 4A: Since section 4A has overriding effect over section 4, hence if goods falling under section 4A are manufactured on job work basis, value shall be computed as per this section.

Valuation in case of goods falling under section 4A given as free samples / gift / donation: In this case —

Value determined under this section of similar goods = RSP of similar goods – Notified % of abatement

Illustration 2: A Ltd. supplies raw material to a job worker B Ltd. After completing the job work, the finished products of 10,000 packets are returned to A Ltd. putting the RSP as ₹ 50 on each packet. The product is covered under MRP provision and 40% abatement is allowed on it. Determine the assessable value after considering the following details:

Cost of raw materials supplied	₹ 50,000
Job worker's charges including profit	₹ 10,000
Transportation charges for sending raw materials to the job worker	₹ 7,000
Transportation charges for returning finished packets to A Ltd.	₹ 7,000

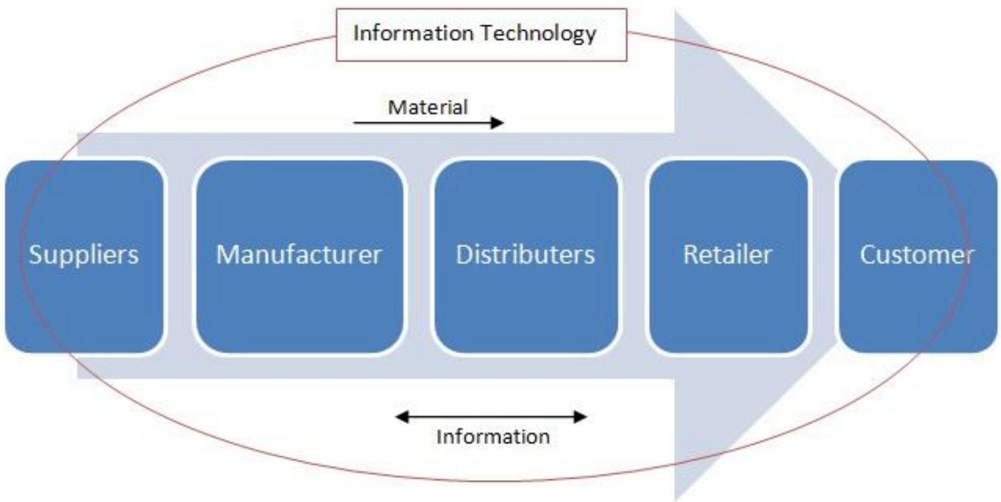
Solution:

As the product is under MRP scheme, the duty shall be payable as per provisions of section 4A and not on the basis of material cost plus job work charges etc. Section 4A overrides section 4 of the Central Excise Act.
Hence, assessable value in this case shall be determined as follows —

RSP of 10,000 packets = 10,000 × ₹ 50 =	₹ 5,00,000
Less: abatement @40%	₹ 2,00,000
Assessable Value	**₹ 3,00,000**

Supply Chain Management (SCM)

Supply chain management (SCM) is "the systemic, strategic coordination of the traditional business functions and the tactics across these business functions within a particular company and across businesses within the supply chain, for the purposes of improving the long-term performance of the individual companies and the supply chain as a whole."It has also been defined as the "design, planning, execution, control, and monitoring of supply chain activities with the objective of creating net value, building a competitive infrastructure, leveraging worldwide logistics, synchronizing supply with demand and measuring performance globally.



Functions

Main functions of Supply Chain Management are as follows:

- Inventory Management
- Distribution Management
- Channel Management
- Payment Management
- Financial Management
- Supplier Management
- Transportation Management
- Customer Service Management

SCM Process

Supply chain activities aren't the responsibility of one person or one company. Multiple people need to be actively involved in a number of different processes to make it work. Each supply chain player must understand his or her role, develop winning strategies, and collaborate with their supply chain teammates. By doing so, the SCM team can flawlessly execute the following processes.

- **Planning** – the *plan* process seeks to create effective long- and short-range supply chain strategies. From the design of the supply chain network to the prediction of customer demand, supply chain leaders need to develop integrated supply chain strategies.
- **Procurement** – the *buy* process focuses on the purchase of required raw materials, components, and goods. As a consumer, you're pretty familiar with buying stuff!
- **Production** – the *make* process involves the manufacture, conversion, or assembly of materials into finished goods or parts for other products. Supply chain managers provide production support and ensure that key materials are available when needed.
- **Distribution** – the *move* process manages the logistical flow of goods across the supply chain. Transportation companies, third party logistics firms, and others ensure that goods are flowing quickly and safely toward the point of demand.
- **Customer Interface** – the *demand* process revolves around all the issues that are related to planning customer interactions, satisfying their needs, and fulfilling orders perfectly.

Objectives of SCM

- Greater efficiency, lower costs
- Enhance flexibility, agility
- Improve customer service

- Optimize the value chain.

Principles of SCM

- **Adapt Supply Chain to Customer's Needs:** Both business people and supply chain professionals are trained to focus on the customer's needs. In order to understand customer better, we divide customers into a different group and we call it "segmentation". Segmentation can also be done by product, industry and trade channel.
- **Customize Logistics Network:** Customize the logistics network to the service requirements and profitability of customer segments
- **Align Demand Planning Across Supply Chain:** Listen to market signals and align demand planning accordingly across the supply chain, ensuring consistent forecasts and optimal resource allocation.
- **Differentiate Products Close to Customer**: Differentiate product closer to the customer and speed conversion across the supply chain
- **Outsource Strategically:** Manage sources of supply strategically to reduce the total cost of owning materials and services.
- **Develop IT that Support Multi-Level Decision Making:** Develop a supply chain-wide technology strategy that supports multiple levels of decision making and gives a clear view of the flow of products, services, and information.
- **Adopt Both Service and Financial Metrics:** Adopt channel-spanning performance measures to gauge collective success in reaching the end-user effectively and efficiently.

Importance of SCM

Supply Chain Strategies are the critical backbone to Business Organizations today. Effective Market coverage, Availability of Products at locations which hold the key to revenue recognition depends upon the effectiveness of Supply Chain Strategy rolled out. When a product is introduced in the market and advertised, the entire market in the country and all the sales counters need to have the product where the customer is able to buy and take delivery. Transportation network design and management assume importance to support sales and marketing strategy.

Inventory control and inventory visibility are two very critical elements in any operations for these are the cost drivers and directly impact the bottom lines in the balance sheet. Inventory means value and is an asset of the company. The health of the inventory turn relates to the health of business.

In a global scenario, the finished goods inventory is held at many locations and distribution centers, managed by third parties. A lot of inventory would also be in the pipeline in transportation, besides the inventory with distributors and retail stocking points. Since any loss of inventory anywhere in the supply chain would result in loss of value, effective control of inventory and visibility of inventory gains importance as a key factor of Supply Chain Management function.

Purchase Consideration in case of Amalgamation

In case of amalgamation as the transferee company (purchasing company) is purchasing the business of Transferor Company, the transferee company shall pay purchase consideration to the transferor company.

Consideration for the amalgamation means total of the shares and other securities issued and payment made in form of cash or other assets by the transferee company to shareholders of the transferor company.

It can be paid in any form viz., cash, shares, debentures etc.

Purchase consideration does not vary with the methods of accounting used. Whether it is pooling of interest method or it is purchase method.

Computation of Purchase Consideration:

Example 1:

A Ltd. and B Ltd. were amalgamated on and from 31st March, 2014. A new company X Ltd. was formed to take over the business of the existing companies. The Balance sheet of A Ltd and B Ltd as on 31st March, 2014 are given below:

(₹ in Lakhs)

Liabilities	A Ltd.	B Ltd.	Assets	A Ltd.	B Ltd.
Share capital:			Fixed assets:		
Equity Shares of ₹ 100	850	725	Land and Building	460	275
each			Plant and Machinery	325	210
10% Preference Share of			Investments	75	50
₹ 100 each	320	175	Current Asset and		
Reserves and surplus:			Loans and Advances:		
Revaluation Reserve	125	80	Stock	325	269
General reserve	240	160	Sundry Debtors	305	270

Investment Allowance Reserve	50	30	Bills receivable	25	—
			Cash and Bank	385	251
Profit and Loss Account	75	52			
Secured Loans:					
13% Debentures (₹100 each)	50	28			
Unsecured Loan:					
Public Deposits	25	—			
Current liabilities and Provision:					
Sundry creditors	145	75			
Bills Payable	20	—			
	1,900	1,325		1,900	1,325

Other Information:

i. **13% debentures of A Ltd and B Ltd are discharged by X Ltd. by issuing such number of its 15% debentures of ₹ 100 each so as to maintain the same amount to interest.**

ii. **Preference shareholders of the two companies are issued equivalent number of 15% preference shares of X Ltd. at a price of ₹ 125 per share (face value ₹ 100)**

iii. **X Ltd. will issue 4 equity shares for each equity share of A Ltd. and 3 equity shares for each equity share of B Ltd. The shares are to be issued @ ₹ 35 each, having a face value of ₹10 per share.**

iv. **Investment allowance reserve is to be maintained for two more years.**

Compute the purchase consideration.

Note: Unsecured Loans in assumed to be of less than 12 months hence treated on short term borrowings ignoring interest.

Solution:

Method 1: Amalgamation in the Nature of Merger

WN # 1 : Calculation of Purchase Consideration

	Particulars	A Ltd.	B Ltd.
a.	**Equity Shares:**		
i.	No. of Shares outstanding	8.50	7.25
ii.	Exchange Ratio	4:1	3:1
iii.	No. of Shares to be issued	34	21.75
iv.	Issue price per share (₹)	35	35
v.	Purchase Consideration	1190	761.25
	• Share capital	340	217.50
	• Securities Premium	850	543.75

b.	**Preference Shares:**		
i.	No. of Shares outstanding	3.2	1.75
ii.	Exchange Ratio	1:1	1:1
iii.	No. of Shares to be issued	3.2	1.75
iv.	Issue price per share (₹)	125	125
v.	Purchase Consideration	400	218.75
	• Share capital	320	175.00
	• Securities Premium	80	43.75
c.	Total Considertion {a(iv) + b(iv)}	1590	980.00
			₹ 2,570 Lakhs

Example 2:

The summarized Balance Sheets of P Ltd. and R Ltd. for the year ended 31.3.2014 are as under :

	P Ltd. ₹	R Ltd. ₹		P Ltd. ₹	R Ltd. ₹
Equity Share capital (in shares of ₹ 100 each)	**24,00,000**	**12,00,000**	**Fixed Assets**	**55,00,000**	**27,00,000**
8% Preference Share capital (in share of ₹ 100 each)	**8,00,000**	**—**	**Current Assets**	**25,00,000**	**23,00,000**
10% Preference Share capital (in shares of ₹ 100 each)	**—**	**4,00,000**			
Reserves	**30,00,000**	**24,00,000**			
Current liabilities	**18,00,000**	**10,00,000**			
	80,00,000	**50,00,000**		**80,00,000**	**50,00,000**

1. The following information is provided:

	P Ltd. ₹	R Ltd. ₹
a) Profit before tax	**10,64,000**	**4,80,000**
b) Taxation	**4,00,000**	**2,00,000**
c) Preference dividend	**64,000**	**40,000**
d) Equity dividend	**2,88,000**	**1,92,000**

2. The Equity shares of both the companies are quoted in the market. Both the companies are carrying on similar manufacturing operations.

3. **P. Ltd. proposes to absorb R Ltd. as on 31.3.2014. The terms of absorption are as under :**

   a. **Preference shareholders of R Ltd. will receive 8% preference shares of P. Ltd. sufficient to increase the income of preference shareholders of R Ltd. by 10%**

   b. **The equity shareholders of R Ltd. will receive equity shares of P Ltd. on the following basis :**

      i. **The equity shares of R Ltd. will be valued by applying to the earnings per share of R Ltd. 75% of price earnings ratio of P Ltd. based on the results of 2013-2014 of both the companies.**

      ii. **The market price of equity shares of P Ltd. is ₹ 400 per share.**

      iii. **The number of shares to be issued to the equity shareholders of R Ltd. will be based on the above market value.**

      iv. **In addition to equity shares, 8% preference share of P Ltd. will be issued to the equity shareholders of R Ltd. to make up for the loss in income arising from the above exchange of shares based on the dividends for the year 2013-2014.**

4. **The assets and liabilities of R Ltd. as on 31.3.2014 are revalued by professional valuer as under :**

	Increased by ₹	*Decreased by* ₹
Fixed assets	**1,60,000**	**—**
Current assets	**—**	**2,00,000**
Current liabilities		**40,000**

5. **For the next two years, no increase in the rate of equity dividend is expected.**

   You are required to calculate the purchase consideration.

Solution:

I. Purchase Consideration

A. Preference Shareholders

8% preference shares of P Ltd. sufficient to increase income by 10%.

Particulars	₹
Current income from Preference shares of R Ltd. (₹ 4,00,000 × 10%)	40,000
Add : 10% increase	4,000
Income from Preference Share of P Ltd.	44,000
Value of 8% Preference Shares of R Ltd. To be issued [44,000×100/8]	**₹5,50,000**

B. Equity Shareholders

i. Consideration by way of Equity shares

Valuation of shares of P Ltd.

(12,000 shares × ₹ 240 [WN # 3]

₹ 28,80,000

Share Capital

[7,200 shares* ×₹ 100]

₹ 7,20,000

Share Premium

[7,200 shares* × ₹ 300]

₹ 21,60,000

* No. of shares to be issued = ₹ 28,80,000 ÷ ₹ 400

= 7,200 Shares

ii. Consideration by way of Preference Shares

	Particulars	₹
i.	Current equity dividend from R Ltd.	1,92,000
ii.	Expected Equity dividend from P Ltd.	86,400
iii.	Loss in income	1,05,600
iv.	Value of 8% Preference Shares to be issued (1,05,600 ÷ 8%)	**13,20,000**

C. Total Purchase Consideration

[5,50,000 + 28,80,000 + 13,20,000] ₹ 47,50,000

WN # 1 : Computation of EPS ₹

Particulars	**P Ltd.**	**R Ltd**
Profit before tax (PBT)	10,64,000	4,80,000
Less : Tax (given)	(4,00,000)	(2,00,000)
Profit after tax (PAT)	6,64,000	2,80,000
Less : Preference dividend	(64,000)	(40,000)
Profit available to equity shareholders	6,00,000	2,40,000
Earnings per share (Profit for Equity Shareholders ÷ No of Shares)	25	20

WN # 2 : P/E ratio of R Ltd.

P/E ratio = $\frac{\text{Market Price}}{\text{EPS}} = \frac{400}{25}$ = ₹ 16

75% of P/E ratio = (16×0.75) = ₹ 12

WN # 3 : Value per share of P Ltd.

= EPS × P/E ratio

= ₹ 20 × 12

= ₹ 240.

Computation of Purchase Consideration when the Purchasing Company is holding shares in Selling Company —

Example 3.

The Balance Sheets of S Ltd. and H Ltd. as on 31.3.14 were as follows.

(₹ in Lakhs)

Liabilities		*S Ltd.*		*H Ltd.*
Equity Share capital		80		25
Reserves and surplus		400		75
10% 25,000 Debentures of ₹ 100 each		–		25
Other Liabilities		120		–
		600		125
Assets				
Fixed assets at cost	200		75	
Less: Depreciation	100	100	50	25
Investments in H Ltd.				
2 Lakhs Equity shares of ₹ 10				
each at cost	32			
10% 25,000 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 lakhs. The liabilities were taken over at par. Outside shareholders of 'H' Ltd. were allotted equity shares in S Ltd. at a premium of ₹ 90 per share in satisfaction of other claims in 'H' Ltd. for purposes of recording in the books of 'S' Ltd. Fixed assets taken over from 'H' Ltd. were revalued at ₹ 40 lakhs.

The scheme was put through on 1st April, 2014.

Compute the purchase consideration.

Solution:

Actual purchase consideration is already agreed as ₹130 lakhs.

Purchase Consideration ₹ 130 lakhs

Debentures
₹ 25 lakhs

Equity Share holders
₹ 105 lakhs

Worth of shares belonging to S Ltd.

[2/2.5]×₹105 = ₹84 lakhs

Amount Pertaining to outsiders
105-84 = ₹ 21 lakhs*

Computation of Purchase Consideration when the Selling Company is holding shares in Purchasing Company —

Example 4.

Following are the Balance sheets of two companies, A Ltd. and B Ltd. as at December 31, 2014.

Liabilities	A Ltd. ₹	B Ltd. ₹	Assets	A Ltd. ₹	B Ltd. ₹
Equity Share Capital:			Sundry Assets	7,50,000	3,50,000
(Shares of ₹ 10 each)	5,00,000	3,00,000	10,000 Shares in		
Reserve	1,00,000	55,000	A Ltd.	—	1,00,000
Creditors	1,50,000	95,000			
Total	7,50,000	4,50,000	Total	7,50,000	4,50,000

A Ltd. was to absorb B Ltd. on the basis of intrinsic value of the shares, the purchase consideration was to be discharged in the form of fully paid shares, entries to be made at par value only. A sum of ₹ 20,000 is owed by A Ltd. to B Ltd. Also included in the stocks of A Ltd. ₹ 30,000 goods supplied by B Ltd. cost plus 20%.

Compute the purchase consideration.

Solution:

Calculation of Purchase consideration - Net Assets Method

WN # 1: Intrinsic value of share

	Particulars	A Ltd (₹)	B Ltd. (₹)
a)	Sundry Assets	7,50,000	3,50,000
b)	Investments in A Ltd. 10,000 shares @ ₹ 12 each	—	1,20,000
c)	Creditors	(1,50,000)	(95,000)

d)	Net Assets	6,00,000	3,75,000
e)	No. of shares outstanding	50,000	30,000
f)	Intrinsic Value of shares [d ÷ e]	12	12.5

WN # 2: Purchase Consideration

	Particulars	Amount
a)	No. of shares of B Ltd.	30,000
b)	Value of shares @ ₹ 12.50	₹ 3,75,000
c)	No. of shares issuable based on intrinsic value of ₹ 12 (3,75,000 ÷ 12)	31,250
d)	No. of shares held by B Ltd.	(10,000)
e)	Net shares to be issued	21,250
f)	**Total consideration at par (21,250 x ₹ 10)**	**₹ 2,12,500**

Cross Holding —

Computation of purchase consideration when both transferor and transferee companies are holding the shares of each other.

Example 5.

The following are the Balance Sheets of A Ltd. and B Ltd. as on 31st December 2014.

Liabiltiies	A Ltd. ₹	BLtd. ₹	Assets	A Ltd. ₹	BLtd. ₹
Share capital			Fixed Assets	7,00,000	2,50,000
Equity shares of ₹ 10 each	6,00,000	3,00,000	Investment:		
10% Preference shares of ₹ 10 each	2,00,000	1,00,000	6,000 shares of B Ltd.	80,000	-
			5,000 shares of A Ltd.	-	80,000
Reserves and surplus	3,00,000	2,00,000	Current Assets:		
			Stock	2,40,000	3,20,000
Secured loans:			Debtors	3,60,000	1,90,000
12% Debentures	2,00,000	1,50,000	Bills receivable	60,000	20,000
Current liabilities			Cash at bank	1,10,000	40,000
Sundry creditors	2,20,000	1,25,000			
Bills payable	30,000	25,000			
	15,50,000	9,00,000		15,50,000	9,00,000

Fixed assets of both the companies are to be revalued at 15% 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, 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. **8 Equity shares of ₹ 10 each will be issued by A Ltd. at par against 6 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.**

Compute the Purchase Consideration.

Solution:

Part - I Purchase consideration payable by A Ltd.

A.	**Equity share holders:**	
	No of equity shares of B Ltd.	30,000
	Less: Held by A Ltd.	6,000
	No. of equity shares held by outsiders	24,000
	Exchange ratio	8:6
	No. of equity shares to be issued by A Ltd. (24,000 × 8/6)	32,000
	Less: Already held by B Ltd. in A Ltd.	(5,000)
	No. of equity shares to be issued now	27,000
	Value of shares to be issued 27,000 × 10 =	₹ 2,70,000
B.	**Preference share holders:**	
	Preference Share capital of B Ltd.	1,00,000
	Payable at discount of 10% [100,000 - (10% of 100,000)]	90,000
	10% Preference shares to be issued at par by A Ltd. to B Ltd.	₹ 90,000
C.	**Purchase consideration (A+B)**	**₹ 3,60,000**