CALCULATION OF PURCHASE CONSIDERATION

STUDENT NOTES

Question 1 **Category:-**

Given below are the Balance Sheets of A Ltd and B Ltd as on 31st March, at which date the Companies were amalgamated and a new Company C Ltd was formed, (in ₹ 000's) ~~6000000/11~~ = 5454545

Liabilities ~~7000000/11~~ = 636364	A Ltd	B Ltd	Assets	A Ltd	B Ltd
Equity Shares of ₹ 10 each	70,00	60,00	Sundry Fixed Assets	85,00	70,00
Reserves	20,00	40,00	Sundry Current Assets	20,00	30,00
Sundry Creditors & Other Current Liabilities	15,00	10,00	Miscellaneous Expenditure	-	10,00
Total	105,00	110,00	Total	105,00	110,00

- **It was agreed that Sundry Fixed Assets of A Ltd would be valued at ₹ 100,00 thousand and that of B Ltd at ₹ 95,00 thousand.**
- **C Ltd would issue the requisite number of Equity Shares of ₹ 10 each at 10% premium to discharge claim of the Equity Shareholders of A Ltd & B Ltd.**

How many shares of C ltd. should be issued to take over the business of the two merging Companies? Calculate Purchase Cons and show its discharge.

Payment
1. kya diya
2. kitna diya

P — C; A B
kya — ES ES
kitna — ~~6.36L~~ ~~5.45L~~
(1 ES = 11)

NATO method.

Question 2 **Category:-**

The Balance Sheet of P Ltd as on 31st March is given below - (in ₹ 000's)

Liabilities	Amount	Assets	Amount
Share Capital: Equity Shares of ₹ 10 each	50,50	Sundry Fixed Assets	50,00
8% Preference Shares	9,50	Stock	20,00
12% Debentures	15,00	Debtors	10,00
Sundry Creditors & Other Liabilities	10,00	Cash & Bank	5,00
Total	85,00	Total	85,00

Question 1:- Calculation of Purchase Consideration (NATO)

(₹ 000's)

		Altd.	Bltd.
1.	Fixed Assets	10000	9500
2.	Current Assets	2000	3000
3.	less: Creditors & OCL	(1500)	(1000)
	Total Purchase Consideration	10500	11500

Discharge of Purchase Consideration

1.	Total Purchase Consideration	10500000	11500000
2.	Issue price / equity share	11	11
3.	No. of Equity Shares to be issued	954545	1045455

Question 2:-

① Payment method. → dimag mein solve karna hein.

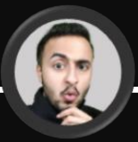
Vendor (Pltd.) owners	kya	kitna
1. Prefer. SH	PSC (Kltd.)	950000 / 10 = 95000 P.S. ✓
2. Equity SH	ESC (Kltd.)	~~5050000 / 10 = 505000 E.S.~~ ✗

↓

Not available → ✗

Payment method cannot be applied.

Logic:- For PSH of Vendor Company, we always repay a fixed amount i.e. the amount of capital contributed by them (and also in some cases a percentage of premium). Hence we can calculate the number of shares to be issued to them by the purchasing company (kitna diya)



Whereas for the equity shareholders of the vendor company we pay them the residual amount and not fixed repayment of capital. Hence we cannot calculate "kitna diya" just by dividing the equity capital contributed by the issue price/share of Purchasing Company.

Calculation of Purchase Consideration (NATO)

1.	Fixed Asset	5000000
2.	Stock	2000000
3.	Debtors	1000000
4.	Cash & Bank	500,000
5.	less: 12% Debentures	(1650000)
	Purchase Consideration =	6850000

Discharge of Purchase Consideration

Total Purchase Consideration 6850000

1. Payment to Preference SH of P ltd. 950000
   (950000 / 10 = 95000 P.S.)
2. Payment to Equity SH of P ltd. 5900000
   (5900000 / 10 = 590000 E.S.)

Question 3 :- Calculation of Purchase Consideration

1. Sundry Assets : (1800000 × 75%) + 12% = 1512000
   (1800000 × 25%) − 8% = 414000
2. less: 10% Debentures = (200000)
3. less : Sundry creditors = (200000)
4. less: Bank overdraft = (50000)
5. less : Bills payable = (40000)
6. less: Unrecorded liability = (25000)

Total Purchase Consideration = 1411000

STUDENT NOTES

P V

- K Ltd agrees to take over P Ltd, by issuing requisite number of Preference Shares of ₹ 10 each at par to the Preference Shareholders of P Ltd, and requisite number of Equity Shares of ₹ 10 each at par to the Equity Shareholders of P Ltd.

1500000
+ 150000
1650000

- Purchase Consideration is settled as per Book Value of the assets, and the Debentures will be taken over by K Ltd on the agreement that these will be paid off at 10% premium after one year. Debenture holders of P Ltd will accept 12% Debentures of K Ltd. Calculate Purchase Consideration

Question 3 **Category:-**

The following is the Balance Sheet of S Ltd as on 31st March

Liabilities	₹	Assets	₹
14,000 Equity Shares of ₹ 100 each fully paid	14,00,000	Sundry Assets	18,00,000
General Reserve	10,000	Discount on issue of Debentures	10,000
10% Debentures	2,00,000	Preliminary Expenses	30,000
Sundry Creditors	2,00,000	Profit & Loss A/c	60,000
Bank Overdraft	50,000		
Bills Payable	40,000		
Total	19,00,000	Total	19,00,000

- R Ltd, agreed to take over the business of S Ltd.
- The Market Value of 75% of the Sundry Assets is estimated to be 12% more than the Book Value and that of the remaining 25% at 8% less than the Book Value.
- The Liabilities are taken over at Book Values.
- There is an unrecorded liability of ₹ 25,000.

Calculate Purchase Consideration under Net Assets Method

SA : 1800000 × 75% = 1350000 + 12% = 1512000
1800000 × 25% = 450000 − 8% = 414000
1926000

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STUDENT NOTES

Question 4 extract **Category:-**

The ~~abstract~~ of the Balance Sheet of the A Ltd as at 31st March, are as follows -

Liabilities	**₹**
Equity Share Capital (₹ 100 each) 15000	15,00,000
12% Preference Share Capital (₹ 100 each) 8000	8,00,000
13% Debentures	3,00,000

On 31st March, B Ltd agreed to take over A Ltd on the following terms:

1. For each Preference Share in A Ltd, ₹ 10 in Cash and one 9% Preference Share of ₹ 100 in B Ltd.

2. For each Equity Share in A Ltd, ₹ 20 in Cash and one Equity Share in B Ltd of ₹ 100 each. It was decided that the Share in B Ltd will be issued at Market Price ₹ 140 . per Share.

3. Liquidation Expenses of A Ltd are to be reimbursed by B Ltd to the extent of ₹ 10,000. Actual Expenses amounted to ₹ 12,500.

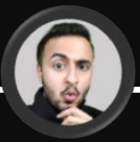
You are required to compute the amount of Purchase Consideration.

Question 5 **Category:-**

Trimurthi Company Ltd was incorporated for the purpose of acquiring Brahma Ltd, Vishnu Ltd and Shiva Ltd. The Balance Sheet of these Companies as on 31st March is as follows:

Particulars	**Brahma Ltd**	**Vishnu Ltd**	**Shiva Ltd**
Tangible Fixed Assets at Cost Less Depreciation	5,00,000	4,00,000	3,00,000
Goodwill	-	60,000	-
Other Assets	2,00,000	2,80,000	85,000
Total Assets	7,00,000	7,40,000	3,85,000
Liabilities:			
Issued Ordinary Share Capital (Shares of ₹ 10 each)	4,00,000	5,00,000	2,50,000

CA Tejas Suchak



Payment Method → ✓

A ltd. owners	Kya	kitna
PSH	Cash	8000 x 10
	PSC	8000 x 100
ESH	Cash	15000 x 20
	ESC	15000 x 140

Question 4 :- Calculation of Purchase Consideration (Payment)

Preference Shareholders of A ltd.

1. Cash paid : 8000 x 10 = 80000
2. Preference share Capital (B ltd.) : 8000 x 100 = 800000

880000

Equity Shareholders of A ltd.

1. Cash paid : 15000 x 20 = 300000
2. Equity Share Capital : 15000 x 140 = 2100000

2400000

Total Purchase Consideration = 3280000