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

P V

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.

A 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

Questions (Class Notes)

Payment Method

Vendor Co.	kya	kitna
Owners (ESH)	12% Deb.	N.A.
	ESC (T Co.)	CAP - NA

Calculation of Purchase Consideration

1. To Equity SH of Vendor Companies

a. 12% Debentures = Net Assets

Particulars	Brahma	Vishnu	Shiva
1. Tangible Fixed Assets	620000	480000	360000
2. Goodwill		x	
3. Other Assets	30000	280000	85000
4. less: 10% Debentures	(70000)	–	(40000)
5. less: Sundry Creditors	(80000)	(130000)	(35000)
Net Assets	500000	630000	370000

12% Debentures to be Issued 500000 630000 370000

b. Equity share Capital = Capitalised Average Profits − Net Assets

P = 500000

ROI = 10%

Capital = 5000000

Invest × Return = Profit

x × 10% = 500000

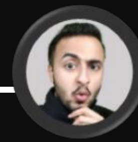
x = 5000000

Capital Invested.

Particulars	Brahma	Vishnu	Shiva
1. Average Profits before D.I.	90000	120000	50000
2. - Debenture Interest	(7000)	–	(4000)
3. Average Profits after Deb. Int	83000	120000	46000
4. Capitalisation Rate	10%	10%	10%
5. Capital Invested (Cap. Av. Profits)	830000	1200000	460000
6. less: Net Assets	(500000)	(630000)	(370000)
7. Equity Shares Capital Issued	330000	570000	90000

Total Purchase Consideration

1. 12% Debentures Issued	500000	630000	370000
2. Equity Share Capital Issued	330000	570000	90000
	830000	1200000	460000



Question 6 (classbook)

Calculation of Purchase Consideration (Payment)

1. To Equity Shareholders of Bhakta ltd.

79985 ES : Cash : 79985 × 5 = 399925

Preference S.C : 15997 × 10 = 159970

A	B
1	5
x	79985

= 15997

Equity S.C. = 31994 × 15 = 479910

A	B
2	5
x	79985

= 31994

Remaining 15 shares Cash :- $\frac{15 \times 65}{5}$ = ₹ 195

For every 5 sh :- Cash = 5 × 5 = 25
(79985 sh.) P.S = 1 × 10 = 10
ES = 2 × 15 = 30
65

Total Purchase Consideration = 1040 000

5 x 5 = 25
5 2ES x 15 = 30
1 PS x 10 = 10
65 → 40 Sh, 25 cash

1 sh = ₹5 Cash
5 sh = 2 ES, 1 PS

The Consideration was agreed to be paid as follows:

- A payment of ₹ 5 per Share in Bhakta Ltd, and
- The issue of ₹ 10 each in Avinashi Ltd on the basis of 2 Equity Shares (valued at ₹ 15) and one 10% Cumulative Preference Share (valued at ₹ 10) for every 5 Shares held in Bhakta Ltd. The whole of the Share Capital consists of Shareholding in exact multiple of five except the following holdings -

(i) Ananthu - 116 Shares, → 1
(ii) Bindu - 76 Shares, → 1
(iii) Chandru - 72 Shares, → 2
(iv) Dandu - 28 Shares, → 3
(v) Other Individuals – 8 Shares (eight members holding one Share each). → 8
Total of such fractional holding = 300 Shares.

15 → cash
5 → 2 ES, 1 PS
115

It was agreed that Avinashi Ltd will pay in cash for fractional shares equivalent at agreed value of Shares in Bhakta Ltd, i.e. ₹ 65 for 5 shares of ₹ 50 paid.

Prepare a statement showing the Purchase Consideration receivable in Shares and Cash.

ACCOUNTING FOR AMALGAMATION

Question 7 **Category:-**

Super Express Ltd. and Fast Express Ltd. were in competing business. They decided to form a new company named Superfast Express Ltd. The summarized balance sheets of both the companies were as under:

Super Express Ltd.
Balance Sheet as at 31st December, 2014

	₹		₹
20,000 Equity shares of		Buildings	10,00,000
₹ 100 each	20,00,000	Machinery	4,00,000
Provident fund	1,00,000	Inventory	3,00,000
Trade Payables	60,000	Trade receivables	2,40,000
Insurance reserve	1,00,000	Cash at bank	2,20,000
		Cash in hand	1,00,000
Total	22,60,000	Total	22,60,000

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

1. PSC of A ltd. :. 170000 + 10%(170000) = 187000
(No. of sh = 1870 sh.) 100
607000

Solution

Particulars	**₹**
Equity Shares (42,000 x 10)	4,20,000
15% Preference Share Capital	1,70,000
Add: Premium on Redemption	17,000
Purchase Consideration	6,07,000

Note: As per AS 14, consideration for the amalgamation means the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company. Thus, payment to debenture holders are not covered by the term 'consideration'.

Illustration 2

A Ltd. and B Ltd. were amalgamated on and from 1st April, 20X1. A new company C Ltd. was formed to take over the business of the existing companies. A Ltd. and B Ltd. have the following ledger balances as on 31st March, 20X1:

	A Ltd. (₹ in lakhs)	***B Ltd. (₹ in lakhs)***
Land and Building	*550*	*400*
Plant and Machinery	*350*	*250*
Investments (Non-current)	*150*	*50*
Inventory	*350*	*250*
Trade Receivables	*300*	*350*
Cash and Bank	*300*	*200*
Share Capital:		
Equity Shares of ₹ 100 each	*800*	*750*
12% Preference shares of ₹ 100 each	*300*	*200*
Reserves and Surplus:		
Revaluation Reserve	*150*	*100*
General Reserve	*170*	*150*
Investment Allowance Reserve	*50*	*50*

Profit and Loss Account	*50*	*30*
Secured Loans:		
10% Debentures (₹ 100 each)	*60*	*30*
Trade Payables	*420*	*190*

Additional Information:

Not included in P.C.

(1) 10% Debenture holders of A Ltd. and B Ltd. are discharged by C Ltd. issuing such number of its 15% Debentures of ₹ 100 each so as to maintain the same amount of interest.

(2) Preference shareholders of the two companies are issued equivalent number of 15% preference shares of C Ltd. at a price of ₹ 150 per share (face value of ₹ 100).

(3) C Ltd. will issue 5 equity shares for each equity share of A Ltd. and 4 equity shares for each equity share of B Ltd. The shares are to be issued @ ₹ 30 each, having a face value of ₹ 10 per share.

(4) Investment allowance reserve is to be maintained for 4 more years.

Prepare the Balance Sheet of C Ltd. as on 1st April, 20X1 after the amalgamation has been carried out on the basis of Amalgamation in the nature of purchase.

Solution

Calculation of P.C. and the number of debentures issued by C ltd.

Balance Sheet of C Ltd. as at 1st April, 20X1

Particulars	Note No.	(₹ in lakhs)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	1,200
(b) Reserves and Surplus	2	1,650
(2) Non-Current Liabilities		
Long-term borrowings	3	60
(3) Current Liabilities		
Trade payables	8	610
Total		3,520

Illustration 2 (page no. 9.34 - ICAI SM)

Calculation of Purchase Consideration (Payment method)

To shareholders of A ltd.

1. Preference S.C. of C ltd. = 300000 × 150 = 4,50,00,000

$\frac{30000000}{100} = 300000$ P.S.

2. Equity share C. of C ltd. = 4000000 × 30 = 12,00,00,000

C ltd.	A ltd.
5	1
x	800000

x = 4000000 E.S.

Total = 16,50,00,000

To shareholders of B ltd.

1. Preference S.C. of C ltd. = 200000 × 150 = 3,00,00,000

$\frac{20000000}{100} = 200000$ P.S.

2. Equity S.C. of C ltd. = 3000000 × 30 = 9,00,00,000

C ltd.	B ltd.
4	1
y	750000

y = 3000000

Total = 12,00,00,000

Total Purchase Consideration = 28,50,00,000

Number of debentures to be issued by C ltd.

To debentureholders of A ltd.

10% Debentureholders = 6000000

Interest Income = 10%

Interest Amount = 600000

600000 ⟶ 15%

$x \longrightarrow 100\%$

$x = 4000000$

Debentures to be issued to maintain same amount of interest @ 15% Interest Rate = 600000 × 100 / 15

= ₹ 4000000 /-

To debentureholders of B ltd.

10% Debentureholders = 3000000

Interest Income = 10%

Interest Amount = 300000

Debentures to be issued to maintain same amount of interest @ 15% Interest Rate = 300000 × 100 / 15

= 2000000 /-

Number of Debentures

A ltd. = $\frac{4000000}{100}$ = 40000 Deb.

B ltd. = $\frac{2000000}{100}$ = 20000 Deb.

Illustration 1

S. Ltd. is absorbed by P. Ltd. S ltd. gives the following information on the date of absorption:

	₹
Sundry Assets	*13,00,000*
Share capital:	
2,000 7% Preference shares of ₹ 100 each (fully paid-up)	*2,00,000*
5,000 Equity shares of ₹ 100 each (fully paid-up)	*5,00,000*
Reserves	*3,00,000*
6% Debentures	*2,00,000*
Trade payables	*1,00,000*

Additional information: 5mins. self study

P. Ltd. has agreed:

(i) to issue 9% Preference shares of ₹ 100 each, in the ratio of 3 shares of P. Ltd. for 4 preference shares in S. Ltd. → included in PC.

(ii) to issue to the debenture-holders in S Ltd. 8% Mortgage Debentures at ₹ 96 in lieu of 6% Debentures in S. Ltd. which are to be redeemed at a premium of 20%; x → not included in P.C.

(iii) to pay ₹ 20 per share in cash and to issue six equity shares of ₹ 100 each issued at the market value ₹ 125 in lieu of every five shares held in S. Ltd.; and → included in P.C.

(iv) to assume the liability to trade payables.

You are required to calculate the purchase consideration.

S.ltd.	kya	kitna
PSH	PSC	✓
ESH	ESC	✓
	cash	✓

Solution

The purchase consideration will be — Payment method.

	₹	*Form*
Preference shareholders: 2,000 × 3/4 × 100	1,50,000	9% Pref. shares
Equity shareholders: 5,000 × 20	1,00,000	Cash
5,000 × 6/5 × 125	7,50,000	Equity shares
	10,00,000	

Note:

1. According to AS 14, 'consideration' excludes the any amount payable to debenture-holders. The liability in respect of debentures of S Ltd. will be taken by P Ltd., which will then be settled by issuing new 8% debentures.

2. The issue of the equity shares is done at ₹ 125 (market value) as it has been mentioned in the question. The face value shall not be considered for this purpose.

Illustration 2

Following is the balance sheet of A Ltd. as on 31st March, 20X1

		Particulars	Notes	₹ (000)
		Equity and Liabilities		
1		**Shareholders' funds**		
	A	Share capital	1	22,50
	B	Reserves and Surplus	2	9,00
2		**Non-current liabilities**		
	A	Long-term borrowings	3	7,00
3		**Current liabilities**		
	A	Trade Payables		5,00
		Total		43,50
		Assets		
1		**Non-current assets**		
	A	Property, Plant and Equipment	4	32,50
	B	**Non-current investments**	5	6,00
2		**Current assets**		
	a	Inventories		2,00
	b	Trade receivables		2,00
	c	Cash and Cash equivalents		1,00
		Total		43,50

Notes to accounts

1	***Share Capital***		***₹ in ('000)***
	Equity share capital		
	1,50,000 Equity Shares of ₹ 10 each		*15,00*
	7,500 14% Preference Shares of ₹ 100 each		*7,50*
			22,50
2	***Reserves and Surplus***		
	General reserve		*9,00*
3	***Long-term borrowings***		
	Secured		
	15% Debentures		*7,00*
4	***Property, plant and Equipment***		
	Land and Building		*32,50*
5	***Non-current investments***		
	Investments at cost		*6,00*

"Purchasing Co."

B Ltd agreed to take over the assets and liabilities on the following terms and conditions:

(a) Discharge 15% debentures at a premium of 10% by issuing 15% debentures of B Ltd. → Not included in P.C.

(b) PPE at 10% above the book value and investments at par value.

(c) Current assets at a discount of 10% and Current liabilities at book value.

(d) Preference shareholders are discharged at a premium of 10% by issuing 15% preference shares of Rs.100 each. 825000/100 = 8250 PS.

(e) Issue 3 equity shares of ₹ 10 each for every 2 equity shares in A Ltd. and pay the balance in cash.

Calculate Purchase consideration.

Illustration 2 : ICAI SM 13.10

Payment Method

A ltd.	kya	kitna
ESH	ESC	✓
	Cash	×
PSH	PSC (B)	8250

→ Hence, payment method cannot be applied.

Calculation of Purchase Consideration

	Particulars	Amount
1.	PPE : 3250000 + (10% x 3250000)	3575000
2.	Investments	600000
3.	Inventories	180000
4.	Trade Receivables	180000
5.	Cash & Cash equivalents	100000
6.	less : 15% Debentures	(770000)
7.	less : Trade payables	(500000)
	Purchase consideration	3365000

Discharge of Purchase Consideration

Total Purchase Consideration — 3365000

1. To Preference SH of A ltd. — 825000

$$\left(\frac{750000 + 75000}{100} = 8250 \text{ P.S.}\right)$$

2. To Equity SH of A ltd.

a. Equity Share Capital of B ltd. : 225000 x 10 = 2250000

B ltd.	A ltd.
3	2
x	150000

= 225000 E.C.

b. Cash (balancing figure) = 290000

ICAI in their solution has also discounted C & CE by 10%. We have assumed that C & CE doesnot get discounted and hence takenover at book value.

This is the reason for the difference of ₹ 10000 in answer.

* In exam we will follow ICAI assumption. *

Solution

Calculation of Purchase Consideration (Net Asset value Method)

PARTICULARS	***(₹ in '000's)***
Value of assets taken over:	
Property, Plant and Equipment	35,75
Non-Current Investments	6,00
Current Assets 2+2+1 = 500000 - 10% = 450000	4,50
Total Assets (A) 400000 - 10% = 360000 + 100000 = 460000	46,25
Less: **Liabilities taken over:**	
15% Debentures	7,70
Current Liabilities	5,00
Total Liabilities (B)	12,70
Purchase consideration (A -B)	33,55
Mode of Purchase Consideration	
In the form of 15% Preference shares	8,25
In the form of Equity shares	22,50
In the form of Cash (Balance)	2,80
Total	33,55

Illustration 3 → Intrinsic Value Method.

Let us consider the Balance Sheet of X Ltd. as at 31st March, 20X1:

		Particulars	***Notes***	***₹ (000)***
		Equity and Liabilities		
1		***Shareholders' funds***		
	A	*Share capital*	*1*	*100,00*
	B	*Reserves and Surplus*	*2*	*12,50*
2		***Non-current liabilities***		
	A	*Long-term borrowings*	*3*	*40,00*
3		***Current liabilities***		
	A	*Trade Payables*		*20,00*
		Total		*172,50*

Other Information:

(i) P Y Ltd. takes over V X Ltd. on 10th April, 20X1. 4400000/100 = 44000 Deb.

(ii) *Debenture holders of X Ltd. are discharged by Y Ltd. at 10% premium by issuing 15% own debentures of Y Ltd.* → Not Included in P.C.

(iii) *14% Preference Shareholders of X Ltd. are discharged at a premium of 20% by issuing necessary number of 15% Preference Shares of Y Ltd. (Face value ₹ 100 each).* 2500000 + 500000 = 3000000/100 = 30000 P.S.

(iv) *Intrinsic value per share of X Ltd. is ₹ 20 and that of Y Ltd. ₹ 30. Y Ltd. will issue equity shares to satisfy the equity shareholders of X Ltd. on the basis of intrinsic value. However, the entry should be made at par value only. The nominal value of each equity share of Y Ltd. is ₹ 10.*

750000 × 20 = 15000000 / 30 = 500000 E.S

Compute the purchase consideration.

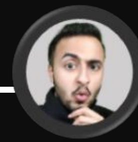
Solution

Computation of Purchase consideration	***(₹ in '000)***	***Form***
For Preference Shareholders of X Ltd.	3,000	30,000 15% Preference shares in Y Ltd.
For equity shareholders of X Ltd. (20/30 × 7,50,000) × ₹ 10 of ₹ 10 each	5,000	5,00,000 Equity shares of Y Ltd.
Total Purchase consideration	8,000	

Note: According to AS 14, amount paid to the debenture holders should not be included in the purchase consideration calculation. Such debentures will be taken over by Y Ltd. and then discharged by them later.

Illustration 4

Neel Ltd. and Gagan Ltd. amalgamated to form a new company on 1.04.20X1. Following is the Balance Sheet of Neel Ltd. and Gagan Ltd. as at 31.3.20X1:



Calculation of Intrinsic Value

		X ltd. Vendor	Y ltd. Purchasing.
1.	A1	MV	MV
	A2	MV	MV
	A3	MV	MV
	A4	MV	MV
	A5	MV	MV
2. less	L1	(MV)	(MV)
	L2	(MV)	(MV)
	L3	(MV)	(MV)
	Net Assets → MV →	___	___
	"Total Intrinsic Value"	1000000	1500000
	÷		
	Number of shares	100000	100000
	Intrinsic value /share	10	15

Total Intrinsic Value of x ltd. = 10 x 100000 = 1000000

Intrinsic Value /share of Y ltd. = 15

Number of shares to be issued = 66667 E.S.

		Particulars	Notes	Neel	Gagan
		Equity and Liabilities			
1		***Shareholders' funds***			
	A	*Share capital*		7,75,000	8,55,000
2		***Current liabilities***		6,23,500	5,57,600
		Total		13,98,500	14,12,600
		Assets			
1		***Non-current assets***			
	A	*Property, Plant and Equipment*	1	12,35,000	12,54,000
2		***Current assets***		1,63,500	1,58,600
		Total		13,98,500	14,12,600

Notes to accounts:

1	***Property, plant and Equipment***			
	Land and Building		7,50,000	6,40,000
	Plant and machinery		4,85,000	6,14,000
			12,35,000	12,54,000

Following is the additional information:

(i) *The assets of Neel Ltd. and Gagan Ltd. are to be revalued as under:*

	Neel	Gagan
	₹	₹
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000

(ii) *The purchase consideration is to be discharged as under:*

(a) *Issue 24,000 equity shares of ₹ 25 each fully paid up in the proportion of their profitability in the preceding 2 years.*

Illustration 4 : ICAI SM : Page 13.14

Calculation of Purchase Consideration (Payment)

1. Equity Shares of New Company.

Particulars	Neel	Gagan
1. Profitability of preceeding 2 years	475000	525000
2. Equity Shares to be issued	11400 ES	12600 ES
	$\left(24000 \times \frac{475}{1000}\right)$	$\left(24000 \times \frac{525}{1000}\right)$
3. F.V. / Equity share	25	25
4. Amount of Equity Share Capital issued	285000	315000

2. Preference Shares of New Company

	Particulars	Neel	Gagan
1.	Plant & Machinery	525000	675000
2.	Land & Building	775000	648000
3.	Current Assets	163500	158600
4. less:	Current Liabilities	(623500)	(557600)
5.	Net Assets	840000	924000
6.	8% on Net Assets	67200	73920
7.	Preference Share Capital to be Issued	560000	616000
		$\left(67200 \times \frac{100}{12}\right)$	$\left(73920 \times \frac{100}{12}\right)$

Neel ⟶ 840000 × 8% = 67200 ⟶ 12%

Income

x ⟶ 100%

560000

Gagan ⟶ 924000 × 8% = 73920 ⟶ 12%

Income

x 100%
$= 616000$

8. Number of Preference Shares to be Issued 56000 PS 61600 PS

Total Purchase Consideration

	Neel	Gagan
1. Equity share Capital issued	285000	315000
2. 12% Preference Share Capital Issued	560000	616000
3. Total Purchase Consideration	845000	931000

1776000/-