Calculation of Purchase Consideration in Different Situations

Given below are the Balance Sheets of A Ltd. and B Ltd. as at 31st March 2017 at which date A Ltd. was taken over by B Ltd.

Liabilities	A Ltd	B Ltd	Assets	A Ltd	B Ltd
Equity shares of 10 each	5,00,000	10,00,000	Fixed Assets	22,00,000	11,00,000
Reserve	26,20,000	5,85,000	Current Assets	9,30,000	4,65,000
12% Debentures	2,20,000	1,10,000	Misc. Expenditure	3,70,000	1,85,000
Creditors	1,60,000	55,000			
	35,00,000	**17,50,000**		**35,00,000**	**17,50,000**

Market price of Share is ₹ 100/- each.

Situation 1
If A Ltd. agrees to take over only the assets and trade liabilities of B Ltd. and to discharge the purchase consideration by issuing equity shares of ₹ 10 each, ₹ 8 paid up at a premium of ₹ 47 per share, to the extent 60% and the balance in cash.

Situation 2
If A Ltd. absorbs B Ltd. on the basis of intrinsic value of shares of both the companies as per their respective Balance Sheets.

Situation 3
If A Ltd. absorbs B Ltd. and the holder of every 8 shares in B Ltd. is to receive 2 shares in A Ltd. plus as much cash as is necessary to adjust the rights of shareholders of both the companies in accordance with the intrinsic values of the shares as per their respective Balance Sheets.

Situation 4
If A Ltd. absorbs B Ltd. and agrees:
(a) To issue such an amount of fully paid 15% Debentures at 96 per cent as is sufficient to discharge 12% Debentures in B Ltd. at a premium of 10%.
(b) To issue 1 equity share of ₹ 10 each at a premium of ₹ 45 per share for 4 equity shares in B Ltd.
(c) To reimburse the expenses of liquidation to the extent of ₹ 10,000. Actual Expenses amounted to ₹ 15,000.

Questions No. 1

S. Ltd. is absorbed by P. Ltd. The draft balance sheet of S. Ltd. is as under:

Balance Sheet

	₹		₹
Share Capital:		Sundry Assets	13,00,000
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		
	13,00,000		**13,00,000**

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.

(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%;

(iii) To pay ₹ 20 per share in cash and to issue six equity shares of ₹ 100 each (market value ₹ 125) in lieu of every five shares held in S. Ltd.; and

(iv) To assume the liability to trade payables.

You are required to calculate the purchase consideration.

Question No. 2

P Ltd. and Q Ltd. agreed to amalgamate their business. The scheme envisaged a share capital, equal to the combined capital of P Ltd. and Q Ltd. for the purpose of acquiring the assets, liabilities and undertakings of the two companies in exchange for share in PQ Ltd.

The Balance Sheets of P Ltd. and Q Ltd. as on 31st March, 2017 (the date of amalgamation) are given below:

Summarised balance sheet as at 31-03-2017

Liabilities	**P Ltd. ₹**	**Q Ltd. ₹**	**Assets**	**P Ltd. ₹**	**Q Ltd. ₹**
Equity & liabilities:			Assets:		
Shareholders Fund			Non-current Assets:		
a. Share Capital	6,00,000	8,40,000	Fixed Assets (excluding Goodwill)	7,20,000	10,80,000
b. Reserves	10,20,000	6,00,000	Current Assets		
Current Liabilities			a. inventories	3,60,000	6,60,000

Bank Overdraft	-	5,40,000	b. Trade receivables	4,80,000	7,80,000
Trade payables	2,40,000	5,40,000	c. Cash at Bank	3,00,000	-
	18,60,000	25,20,000		18,60,000	25,20,000

The consideration was to be based on the net assets of the companies as shown in the above Balance Sheets, but subject to an additional payment to P Ltd. for its goodwill to be calculated as its weighted average of net profits for the three years ended 31st March, 2017. The weights for this purpose for the years 2014-15, 2015-16 and 2016-17 were agreed as 1, 2 and 3 respectively.

The profit had been:

2014-15 ₹ 3,00,000; 2015-16 ₹ 5,25,000 and 2016-17 ₹ 6,30,000.

The shares of PQ Ltd. were to be issued to P Ltd. and Q Ltd. at a premium and in proportion to the agreed net assets value of these companies.

In order to raise working capital, PQ Ltd. increased its authorized capital by ₹ 12,00,000 and proceeded to issue 72,000 shares of ₹ 10 each at the same rate of premium as issued for discharging purchase consideration to P Ltd. and Q Ltd.

You are required to:

(i) Calculate the number of shares issued to P Ltd. and Q Ltd; and

(ii) Prepare the Balance Sheet of PQ Ltd. as per Schedule III after recording its journal entries.

Question No. 3

Y Ltd. decides to absorbn X Ltd. The draft Balance Sheet of X Ltd. is as follows:

	₹		₹
3,000 Equity shares of		Net assets	2,90,000
₹ 100 each (fully paid)	3,00,000	Profit and Loss Account	70,000
Preference shares	60,000		
	3,60,000		**3,60,000**

Y Ltd. agrees to take over the net assets of X Ltd. An equity share in X Ltd., for purposes of absorption, is valued @ ₹ 70. Y Ltd. agrees to pay ₹ 60,000 in cash for payment to preference shareholders equity shares will be issued at value of ₹ 120 each. Calculate purchase consideration to be paid by Y Ltd. and how will it be discharged?

Question No. 4

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

Liabilities	Neel	Gagan	Assets	Neel	Gagan
	₹	₹		₹	₹
Capital	7,75,000	8,55,000	Plant & Machinery	4,85,000	6,14,000
Current liabilities	6,23,500	5,57,600	Building	7,50,000	6,40,000
			Current assets	1,63,500	1,58,600
	13,98,500	**14,12,600**		**13,98,500**	**14,12,600**

Following are the additional information:

(i) The authorised capital of the new company will be ₹ 25,00,000 divided into 1,00,000 equity shares of ₹ 25 each.

(ii) Liabilities of Neel Ltd. includes ₹ 50,000 due to Gagan Ltd. for the purchases made. Gagan Ltd. made a profit of 20% on sale to Neel Ltd.

(iii) Neel Ltd. had purchased goods costing ₹ 10,000 from Gagan Ltd. All these goods are included in the current asset of Neel Ltd. as at 31st March, 20X1.

(iv) 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

(v) 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.

b) Profits for the preceding 2 years are given below:

	Neel	Gagan
	₹	₹
1st year	2,62,800	2,75,125
2nd year	2,12,200	2,49,875
Total	**4,75,000**	**5,25,000**

Issue 12% preference shares of ₹ 10 each fully paid up at par to provide income equivalent to 8% return on net assets in the business as on 31.3.20X1 after revaluation of assets of Neel Ltd. and Gagan Ltd. respectively.

You are required to compute the

(i) Equity and preference shares issued to Neel Ltd. and Gagan Ltd.,

(ii) Purchase consideration.

Question No. 5

The following draft Balance Sheets are given as on 31st March, 20X1:

	(₹ in lakhs)			(₹ in lakhs)	
	Best Ltd. ₹	**Better Ltd. ₹**		**Best Ltd. ₹**	**Better Ltd. ₹**
Share Capital:			Fixed Assets	25	15
Shares of ₹ 100, each fully paid	20	10	Investments	5	-
Reserve and Surplus	10	8	Current Assets	20	5
Other Liabilities	20	2			
	50	**20**		**50**	**20**

The following further information is given —

a) Better Limited issued bonus shares on 1st April, 20X1, in the ratio of one share for every two held, out of Reserves and Surplus.
b) It was agreed that Best Ltd. will take over the business of Better Ltd., on the basis of the latter's Balance Sheet, the consideration taking the form of allotment of shares in Best Ltd.
c) The value of shares in Best Ltd. was considered to be ₹ 150 and the shares in Better Ltd. were valued at ₹ 100 after the issue of the bonus shares. The allotment of shares is to be made on the basis of these values.
d) Liabilities of Better Ltd., included ₹ 1 lakh due to Best Ltd., for purchases from it, on which Best Ltd., made profit of 25% of the cost. The goods of ₹ 50,000 out of the said purchases, remained in stock on the date of the above Balance Sheet.

Make the closing ledger in the Books of Better Ltd. and the opening journal entries in the Books of Best Ltd., and prepare the Balance Sheet as at 1st April, 20X1 after the takeover.

Question No. 6

The following are the summarized Balance Sheets of P Ltd. and Q Ltd. as on 31st March, 20X1:

Liabilities	**P Ltd. ₹**	**Q Ltd. ₹**	**Assets**	**P Ltd. ₹**	**Q Ltd. ₹**
Share Capital			Fixed Assets	7,00,000	2,50,000
Equity Shares of ₹ 10 each	6,00,000	3,00,000	Investment	80,000	80,000
10% Pref. Shares of ₹ 100 each	2,00,000	1,00,000	Current Assets:		
Reserves and Surplus	3,00,000	2,00,000	Inventory	2,40,000	3,20,000
Secured Loans:			Trade receivables	4,20,000	2,10,000

12% Debentures	2,00,000	1,50,000	Cash at Bank	1,10,000	40,000
Current Liabilities:					
Trade payables	2,50,000	1,50,000			
	15,50,000	**9,00,000**		**15,50,000**	**9,00,000**

Details of Trade receivables and trade payables are as under:

Trade receivables	P Ltd. (₹)	Q Ltd. (₹)
Debtors	3,60,000	1,90,000
Bills Receivable	60,000	20,000
	4,20,000	2,10,000
Trade payables		
Sundry Creditors	2,20,000	1,25,000
Bills Payable	30,000	25,000
	2,50,000	1,50,000

Fixed Assets of both the companies are to be revalued at 15% above book value. Inventory 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, P Ltd. will absorb Q Ltd. on the following terms:

(i) 8 Equity Shares of ₹ 10 each will be issued by P Ltd. at par against 6 shares of Q Ltd.

(ii) 10% Preference Shareholders of Q Ltd. will be paid at 10% discount by issue of 10% Preference Shares of ₹ 100 each at par in P Ltd.

(iii) 12% Debenture holders of Q Ltd. are to be paid at 8% premium by 12% Debentures in P Ltd. issued at a discount of 10%.

(iv) ₹ 30,000 is to be paid by P Ltd. to Q Ltd. for Liquidation expenses. Sundry Creditors of Q Ltd. includes ₹ 10,000 due to P Ltd.

Prepare:

(a) Journal entries in the books of P Ltd.

(b) Statement of consideration payable by P Ltd.

Question 7

The following were the summarized Balance Sheets of P Ltd. and V Ltd. as at 31st March, 2015:

Liabilities	P Ltd. (₹ in lakhs)	V Ltd. (₹ in lakhs)
Equity Share Capital (Fully paid shares of ₹10 each)	15,000	6,000
Securities Premium	3,000	-
Foreign Project Reserve	-	310
General Reserve	9,500	3,200
Profit and Loss Account	2,870	825
12% Debentures	-	1,000
Trade payables	1,200	463
Provisions	1,830	702
	33,400	2,500

Assets	P Ltd. (₹ in lakhs)	V Ltd. (₹ in lakhs)
Land and Buildings	6,000	-
Plant and Machinery	14,000	5,000
Furniture, Fixtures and Fittings	2,304	1,700
Inventory	7,862	4,041
Trade receivables	2,120	1,100
Cash at Bank	1,114	609
Cost of Issue of Debentures	—	50
	33,400	2,500

All the bills receivable held by V Ltd. were P Ltd.'s acceptances.

On 1st April 2015, P Ltd. took over V Ltd in an amalgamation in the nature of merger. It was agreed that in discharge of consideration for the business P Ltd. would allot three fully paid equity shares of ₹10 each at par for every two shares held in V Ltd. It was also agreed that 12% debentures in V Ltd. would be converted into 13% debentures in P Ltd. of the same amount and denomination.

Details of trade receivables and trade payables as under:

Assets	P Ltd. (₹ in lakhs)	V Ltd. (₹ in lakhs)
Trade payables		
Bills Payable	120	-
Creditors	1,080	463
	1,200	463
Trade receivables		
Trade receivables	2,120	1,020
Bills Receivable	—	80
	2,120	1,100

Expenses of amalgamation amounting to ₹1 lakh were borne by P Ltd.

You are required to :

(i) Pass journal entries in the books of P Ltd. and

(ii) Prepare P Ltd.'s Balance Sheet immediately after the merger.

Question 8

The following is the summarized Balance Sheet of A Ltd. as at 31st March, 2015:

Liabilities	₹	Assets	₹
8,000 equity shares of ₹100 each	8,00,000	Building	3,40,000
10% debentures	4,00,000	Machinery	6,40,000
Loan from A	1,60,000	Inventory	2,20,000
Trade payables	3,20,000	Trade receivables	2,60,000
General Reserve	80,000	Bank	1,36,000
		Goodwill	1,30,000
		Share issue Expenses	34,000
Total	**17,60,000**	**Total**	**17,60,000**

B Ltd. agreed to absorb A Ltd. on the following terms and conditions:

(1) B Ltd. would take over all assets, except bank balance at their book values less 10%. Goodwill is to be valued at 4 year's purchase of super profits, assuming that the normal rate of return be 8% on the combined amount of share capital and general reserve.

(2) B Ltd. is to take over trade payables at book value

(3) The purchase consideration is to be paid in cash to the extent of ₹6,00,000 and the balance in fully paid equity shares of ₹100 each at ₹125 per share.

The average profit is ₹1,24,400. The liquidation expenses amounted to ₹16,000. B Ltd. sold prior to 31st March, 2015 goods costing ₹1,20,000 to A Ltd. for ₹1,60,000. ₹1,00,000 worth of goods are still in Inventory of A Ltd. on 31st March, 2015. Trade payables of A Ltd. include ₹40,000 still due to B Ltd.

Show the necessary Ledger Accounts to close the books of A Ltd. and prepare the Balance Sheet of B Ltd. as at 1st April, 2015 after the takeover.

Question 9

Summarised Balance Sheets as on 31st March, 2015

Liabilities	Gee Ltd.	Pee Ltd	Assets	Gee Ltd.	Pee Ltd.
Equity share capital (₹10 per share)	25,00,000	15,00,000	Buildings	12,50,000	7,75,000
14% Preference share capital (₹100 each)	11,00,000	8,50,000	Plant and machinery	16,25,000	8,50,000
General reserve	2,50,000	2,50,000	Furniture and fixtures	2,87,500	1,75,000
Export profit reserve	1,50,000	1,00,000	Investments	3,50,000	2,50,000
Investment allowance	-	50,000	Inventory	6,25,000	4,75,000
Profit and loss account	3,75,000	1,25,000	Trade receivables	4,50,000	5,15,000

15% Debentures (₹100 each)	2,50,000	1,75,000	Cash at bank	3,62,500	2,60,000
Trade payables	2,25,000	1,75,000			
Other current liabilities	1,00,000	75,000			
	49,50,000	**33,00,000**		**49,50,000**	**33,00,000**

All the bills receivables of Pee Ltd. were having Gee Ltd.'s acceptances.

Gee Ltd. takes over Pee Ltd. on 1st April, 2015. The purchase consideration is discharged as follows:

1) Issued 1,65,000 equity shares of ₹10 each at par to the equity shareholders of Pee Ltd.
2) Issued 15% preference shares of ₹100 each to discharge the preference shareholders of Pee Ltd. at 10% premium.
3) The debentures of Pee Ltd. will be converted into equivalent number of debentures of Gee Ltd.
4) The statutory reserves of Pee Ltd. are to be maintained for two more years.
5) Expenses of amalgamation amounting to ₹10,000 will be borne by Gee Ltd.
6) Details of trade receivables and trade payables as under:

Particulars	**Gee L td.**	**Pee Ltd.**
Trade payables		
Trade payables	1,50,000	75,000
Bills payables	75,000	1,00,000
	2,25,000	**1,75,000**
Trade receivables		
Debtors	4,00,000	4,60,000
Bills receivables	50,000	55,000
	4,50,000	**5,15,000**

Show the opening Journal entries and the opening balance sheet of Gee Ltd. as at 1st April, 2015 after amalgamation, on the assumption that the amalgamation is in the nature of the merger.