

AMALGAMATION – Purchase Consideration Workings**ANSWER KEY****Question 1**

Yes Ltd absorbed No Ltd. The members of No Ltd. are to get one equity share of Yes Ltd. issued at a premium of Rs 2 per share for every five equity shares held by them in No Ltd. The necessary approvals are obtained. The Paid up capital of No Ltd is 5 Crs and for Yes Ltd is 12 Crs.

SOLUTION:

Purchase Consideration

Rs. in crores

$$\frac{50\text{lakhs}}{5} \times \text{Rs. } 12$$

i.e., 10 lakhs equity shares at Rs. 12 per share

1.20

Less: Belonging to Yes Ltd. $\left[\frac{3}{5} \times 1.20 \right]$ 0.72

Payable to other equity shareholders

0.48Number of equity shares of Rs. 10 each to be issued $\left[\frac{48\text{lakhs}}{12} \right] = 4 \text{ lakhs}$ **Question 2**

The following are the extract of Balance Sheet for P Ltd and V Ltd

		Particulars	Notes	P Ltd(Rs. in Lakhs)	V Ltd (Rs.in Lakhs)
1		Equity and Liabilities			
		Shareholders' funds			
		Share capital	1	15,000	6,000
2		Non-current liabilities			
		Long term borrowings (12% Debentures)	3	--	1,000

On 1st April 20X1, 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.

Calculate Purchase Consideration

SOLUTION:**Computation of purchase consideration**

The purchase consideration was discharged in the form of three equity shares of P Ltd. for every two equity shares held in V Ltd.

$$\text{Purchase consideration} = \text{Rs. } 6,000 \text{ lacs} \times \frac{3}{2} = \text{Rs. } 9,000 \text{ lacs.}$$

Note : The question is silent regarding the treatment of fictitious assets and therefore they are not transferred to the amalgamated company. Thus the cost of issue of debentures shown in the balance sheet of the V Ltd. company is not transferred to the P Ltd. company.

Question 3

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:

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 issued at the 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.

SOLUTION:

The purchase consideration will be

	₹	Form
Preference shareholders: $2,000 \times \frac{3}{4} \times 100$	1,50,000	9% Pref. shares
Equity shareholders: $5,000 \times 20$	1,00,000	Cash
$5,000 \times \frac{6}{5} \times 125$	<u>7,50,000</u>	Equity shares
	<u>10,00,000</u>	

Question 4

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

	Particulars	Rs in (000)
	Equity and Liabilities	
1	Shareholders' funds	
	Share capital (150,000 Eq shares of Rs. 10 each + 7,500 14% pref shares of Rs. 100 each)	22,50
	Reserves and Surplus – General	9,00
2	Non-current liabilities	
	Long-term borrowings (15% Debentures – Secured)	7,00
3	Current liabilities	
	Trade Payables	<u>5,00</u>
	Total	<u>43,50</u>
	Assets	
1	Non-current assets	
	Property, Plant and Equipment (Land & Building)	32,50
	Non-current investments at cost	6,00
2	Current assets	
	Inventories	2,00
	Trade receivables	2,00
	Cash and Cash equivalents	<u>1,00</u>
	Total	<u>43,50</u>

SOLUTION

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

Calculate Purchase consideration.

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	<u>4,50</u>
Total Assets (A)	<u>46,25</u>
Less: Liabilities taken over:	
15% Debentures	7,70
Current Liabilities	<u>5,00</u>
Total Liabilities (B)	<u>12,70</u>
Purchase consideration (A - B)	<u>33,55</u>
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)	<u>2,80</u>
Total	33,55

Question 5

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

	Particulars	Rs in (000)
	Equity and Liabilities	
1	Shareholders' funds	
	Share capital (750,000 Eq Shares of Rs.10 each +25,000 14% pref shares of Rs. 100 each)	100,00
	Reserves and Surplus – General	12,50
2	Non-current liabilities	
	Long-term borrowings- 14% Debentures Secured	40,00
3	Current liabilities	
	Trade Payables	<u>20,00</u>
	Total	<u>172,50</u>
	Assets	
1	Non-current assets	
	Property, Plant and Equipment (Refer below)	105,50
	Non-current investments – at cost	5,00
2	Current assets	
	Inventories	23,00
	Trade receivables	24,00
	Cash and Cash equivalents	<u>15,00</u>
	Total	<u>172,50</u>

Property, plant and Equipment breakup	
Land and Building	50,00
Plant and machinery	45,00
Furniture	<u>10,50</u>

Other Information:

- (i) Y Ltd. takes over X Ltd. on 10th April, 20X1.
- (ii) Debenture holders of X Ltd. are discharged by Y Ltd. at 10% premium by issuing 15% own debentures of Y Ltd.
- (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).
- (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.

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	<u>8,000</u>	

Question 6

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:

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

Notes to accounts:

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

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.

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

	Neel	Gagan
	₹	₹
1 st year	2,62,800	2,75,125
II nd year	<u>2,12,200</u>	<u>2,49,875</u>
Total	<u>4,75,000</u>	<u>5,25,000</u>

(c) 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

- Equity and preference shares issued to Neel Ltd. and Gagan Ltd.,
- Purchase consideration.

SOLUTION:

Calculation of equity shares to be issued to Neel Ltd. and Gagan Ltd.

Profits of	Neel	Gagan
	₹	₹
I year	2,62,800	2,75,125
II year	<u>2,12,200</u>	<u>2,49,875</u>
Total	<u>4,75,000</u>	<u>5,25,000</u>

The total profits- ₹ 4,75,000+ ₹ 5,25,000= ₹ 10,00,000

No. of shares to be issued = 24,000 equity shares in the proportion of the preceding 2 years' profits.

	Neel	Gagan
24,000 x 475/1000	11,400 equity shares	
24,000 x 525/1000		12,600 equity shares

Calculation of 12% Preference shares to be issued to Neel Ltd. and Gagan Ltd.

	<i>Neel</i>	<i>Gagan</i>
	₹	₹
Net assets (Refer working note)	8,40,000	9,24,000
8% return on Net assets	67,200	73,920
12% Preference shares to be issued	56,000 shares	
$\left[67,200 \times \frac{100}{12} \right] = 5,60,000 @ ₹ 10 \text{ each}$		
$\left[73,920 \times \frac{100}{12} \right] = 6,16,000 @ ₹ 10 \text{ each}$		61,600 shares

Total Purchase Consideration

	<i>Neel</i>	<i>Gagan</i>
	₹	₹
Equity shares @ of ₹ 25 each	2,85,000	3,15,000
12% Preference shares @ of ₹ 10 each	<u>5,60,000</u>	<u>6,16,000</u>
Total	<u>8,45,000</u>	<u>9,31,000</u>

Question 7

Wye Ltd. acquires the business of Zed Ltd. whose balance sheet as at 31st March, 20X1 is as under:

Particulars	Rs
Equity and Liabilities	
Shareholders' funds	
Share capital -	
8000 equity shares of Rs. 100 each + 4000 6% Pref shares of 100 each	12,00,000
Reserves and Surplus - Refer Below	1,58,000
Non-current liabilities	
Long-term borrowings – 6% Debentures	2,00,000
Current liabilities	
Trade Payables	1,20,000
Other current liabilities	12,000
(Interest payable on debentures)	
	<u>16,90,000</u>
Assets	
Non-current assets	
Property, Plant and Equipment – (L&B -Rs. 4L + P&M – Rs. 6L)	10,00,000
Intangible assets – (Goodwill -Rs. 2.4 L + Patents Rs. 0.5 L)	2,90,000
Current assets	
	1,50,000
Inventories	1,80,000
Trade receivables	70,000
Cash and Cash equivalents	<u>16,90,000</u>
Reserves Breakup – Capital Reserves – Rs 100,000	
Profit and Loss A/c – Rs. 50,000	
Workmen Compensation Reserve (WCR) - 8000	

Expected liability – 5000 w.r.t WCR	
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Wye Ltd. was to take over all assets (except cash) and liabilities (except for interest due on debentures) and to pay following amounts:

- (i) ₹ 2,00,000 7% Debentures (₹ 100 each) in Wye Ltd. for the existing debentures in Zed Ltd.; for the purpose, each debenture of Wye Ltd. is to be treated as worth ₹ 105.
- (ii) For each preference share in Zed Ltd. ₹ 10 in cash and one 9% preference share of ₹ 100 each in Wye Ltd.
- (iii) For each equity share in Zed Ltd. ₹ 20 in cash and one equity share in Wye Ltd. of ₹ 100 each having the market value of ₹ 140.
- (iv) Expense of liquidation of Zed Ltd. are to be reimbursed by Wye Ltd. to the extent of ₹ 10,000. Actual expenses amounted to ₹ 12,500.

Wye Ltd. valued Land and building at ₹ 5,50,000 Plant and Machinery at ₹ 6,50,000 and patents at ₹ 20,000 of Zed Ltd for the purpose of amalgamation.

Calculate Purchase Consideration

SOLUTION:

Purchase Consideration

		₹	Form
(i) Preference Shares: ₹ 10 per share	40,000		Cash
Preference shares	<u>4,00,000</u>	4,40,000	Preference shares
(ii) Equity shares: ₹ 20 per share	1,60,000		Cash
8,000 equity shares in			
Wye Ltd. @ ₹ 140	<u>11,20,000</u>	<u>12,80,000</u>	Equity shares
	<u>17,20,000</u>		

Question 8

K Ltd. and L Ltd. amalgamate to form a new company LK Ltd. The financial position of these two companies as at the date of amalgamation was as under:

		Particulars	Notes	₹ K Ltd.	₹ L Ltd.
1		Equity and Liabilities			
		Shareholders' funds			
	A	Share capital	1	12,00,000	6,00,000
	B	Reserves and Surplus	2	3,71,375	1,97,175
2		Non-current liabilities			
	A	Long-term borrowings	3	2,00,000	2,00,000
3		Current liabilities			
	A	Trade Payables		1,00,000	2,10,000
		Total		<u>18,71,375</u>	<u>12,07,175</u>
		Assets			
1		Non-current assets			
	A	Property, Plant and Equipment	4	11,30,000	8,20,000
	B	Intangible assets	5	80,000	-
2		Current assets			
	A	Inventories		2,25,000	1,40,000
	B	Trade receivables		2,75,000	1,75,000
	C	Cash and Cash equivalents	6	1,61,375	72,175
		Total		<u>18,71,375</u>	<u>12,07,175</u>

1	Share Capital		K Ltd.	L Ltd.
	Equity shares of ₹ 100 each		8,00,000	3,00,000
	7% Preference Shares of ₹ 100 each		<u>4,00,000</u>	<u>3,00,000</u>
			<u>12,00,000</u>	<u>6,00,000</u>
2	Reserves and Surplus			
	General reserve		-	1,00,000
	Profit and loss account		<u>3,71,375</u>	<u>97,175</u>
			<u>3,71,375</u>	<u>1,97,175</u>

3	Long-term borrowings			
	5% Debentures		2,00,000	-
	Secured loan		<u>-</u>	<u>2,00,000</u>
			<u>2,00,000</u>	<u>2,00,000</u>
4	Property, plant and Equipment			
	Land and Building		4,50,000	3,00,000
	Plant and machinery		6,20,000	5,00,000
	Furniture and fittings		<u>60,000</u>	<u>20,000</u>
5	Intangible assets		<u>11,30,000</u>	<u>8,20,000</u>
	Goodwill		<u>80,000</u>	<u>-</u>
6	Cash and Cash Equivalents		<u>80,000</u>	<u>-</u>
	Cash at Bank		1,20,000	55,000
	Cash in hand		<u>41,375</u>	<u>17,175</u>
			<u>1,61,375</u>	<u>72,175</u>

The terms of amalgamation are as under:

- (A) (1) The assumption of liabilities of both the Companies.
- (2) Issue of 5 Preference shares of ₹ 20 each in LK Ltd. @ ₹ 18 paid up at premium of ₹ 4 per share for each preference share held in both the Companies.
- (3) Issue of 6 Equity shares of ₹ 20 each in LK Ltd. @ ₹ 18 paid up at a premium of ₹ 4 per share for each equity share held in both the Companies. In addition, necessary cash should be paid to the Equity Shareholders of both the Companies as is required to adjust the rights of shareholders of both the Companies in accordance with the intrinsic value of the shares of both the Companies.
- (4) Issue of such amount of fully paid 6% debentures in LK Ltd. as is sufficient to discharge the 5% debentures in K Ltd.
- (B) (1) The assets and liabilities are to be taken at book values inventory and trade receivables for which provisions at 2% and 2 ½ % respectively to be raised.
- (2) The trade receivables of K Ltd. include ₹ 20,000 due from L Ltd.
- (C) The LK Ltd. is to issue 15,000 new equity shares of ₹ 20 each, ₹ 18 paid up at premium of ₹ 4 per share so as to have sufficient working capital. Prepare ledger accounts in the books of K Ltd. and L Ltd. to close their books.
- Calculate Purchase Consideration**

SOLUTION:

Purchase consideration

	<i>K Ltd.</i>	<i>L Ltd.</i>
	₹	₹
Payable to preference shareholders:		
Preference shares at ₹ 22 per share	4,40,000	3,30,000
Equity Shares at ₹ 22 per share	10,56,000	3,96,000
Cash [See W.N. (ii)]	<u>64,000</u>	<u>64,000</u>
	<u>15,60,000</u>	<u>7,90,000</u>

(ii) Value of Net Assets

	<i>K Ltd.</i>	<i>L Ltd.</i>
	₹	₹
Goodwill	80,000	
Land & Building	4,50,000	3,00,000
Plant & Machinery	6,20,000	5,00,000
Furniture & Fittings	60,000	20,000
Trade receivables less 2.5%	2,68,125	1,70,625
Inventory less 2%	2,20,500	1,37,200
Cash at Bank	1,20,000	55,000
Cash in hand	<u>41,375</u>	<u>17,175</u>
	18,60,000	12,00,000

Less : Debentures	2,00,000		–	
Trade payables	1,00,000		2,10,000	
Secured Loans	<u>–</u>	<u>(3,00,000)</u>	<u>2,00,000</u>	<u>(4,10,000)</u>
		15,60,000		7,90,000
Payable in shares		<u>14,96,000</u>		<u>7,26,000</u>
Payable in cash		<u>64,000</u>		<u>64,000</u>

Question 9

Raman Limited and Naman Limited decided to amalgamate and form a new company Rana Limited as on 31st March, 2023 and provided you the following information:

Particulars	As on 31 st March, 2023		Revalued Figures for Amalgamation	
	Raman Limited (₹)	Naman Limited (₹)	Raman Limited (₹)	Naman Limited (₹)
Equity shares of ₹ 10 each	6,72,000	2,52,000		
10% Preference Shares of ₹ 100 each	3,36,000	1,68,000		
Reserves and Surplus	5,44,240	2,65,480		
Trade Payables	84,000	1,76,000	80,640	1,68,960
Property, Plant and Equipment	7,69,000	4,36,400	10,58,100	5,20,100
Goodwill	1,62,000	-	1,62,000	-
Inventories	1,89,000	1,17,600	2,78,620	2,06,780
Trade Receivables	2,81,000	1,47,000	2,47,140	1,38,180
Cash & Cash Equivalents	2,35,240	1,60,480		

The purchase consideration is to be satisfied as follows:

- (i) *By issue of 4 Preference Shares of ₹ 100 each in Rana Limited @ ₹ 85 paid up and at a premium of ₹ 30 per share for every 3 preference shares held in both the companies.*
- (ii) *By issue of 5 Equity shares of ₹ 10 each in Rana Limited @ ₹ 7 paid up and at a premium of ₹ 5 per share for every 3 equity shares held in both the companies.*
- (iii) *In addition, necessary cash should be paid to equity shareholders of both the companies as required to adjust the rights of shareholders of both the companies in accordance with the intrinsic value of the shares of both the companies.*

You are required to compute the purchase consideration for both the companies.

SOLUTION:**Purchase consideration**

	<i>Raman Ltd.</i>	<i>Naman Ltd.</i>
	₹	₹
Payable to preference shareholders:		
Preference shares at ₹ 115 per share	5,15,200	2,57,600
	$(3,360 \times \frac{4}{3})$	$(1,680 \times \frac{4}{3})$
Equity Shares at ₹ 12 per share	13,44,000	5,04,000
	$(67,200 \times \frac{5}{3})$	$(25,200 \times \frac{5}{3})$
Cash [See W.N.]	<u>41,260</u>	<u>94,980</u>
	<u>19,00,460</u>	<u>8,56,580</u>

Working note:

	<i>Raman Ltd.</i>	<i>Naman Ltd.</i>
	₹	₹
Goodwill	1,62,000	
PPE	10,58,100	5,20,100
Trade receivables	2,47,140	1,38,180
Inventory	2,78,620	2,06,780
Cash & Cash Equivalent	<u>2,35,240</u>	<u>1,60,480</u>
	19,81,100	10,25,540
Less: Trade payables	<u>(80,640)</u>	<u>(1,68,960)</u>
	19,00,460	8,56,580
Payable in shares	<u>18,59,200</u>	<u>7,61,600</u>
Payable in cash	<u>41,260</u>	<u>94,980</u>

Question 10

Star Limited agreed to take over Moon Limited on 1st April, 2022. The terms and conditions of takeover were as follows:

- (i) Star Limited issued 70,000 Equity shares of ₹ 100 each at a premium of ₹ 10 per share to the equity shareholders of Moon Limited.*
- (ii) Cash payment of ₹ 1,25,000 was made to the equity shareholders of Moon Limited.*
- (iii) 25,000 fully paid Preference shares of ₹ 70 each issued at par to discharge the preference shareholders of Moon Limited.*

You are required:

- (i) to give the meaning of "consideration for the amalgamation" as per AS-14, and*
- (ii) Calculate the amount of purchase consideration.*

SOLUTION:

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.

Computation of Purchase consideration	(₹)	Form
For Preference Shareholders of Moon Ltd. (25,000 × ₹ 70)	17,50,000	25,000 Preference
For equity shareholders of Moon Ltd. (70,000 × ₹ 110)	77,00,000	70,000 Equity shares of Star Ltd.
	<u>1,25,000</u>	Cash
Total Purchase consideration	<u>95.75.000</u>	