

AMALGAMATION

Q.1. The National Company Ltd. was incorporated on 1st July, 2004 for the purpose of acquiring M Ltd., N Ltd., and O Ltd.

The balance sheets of these companies as on 30th June 2004 are as follows :

Particulars	M Ltd.	N Ltd.	O Ltd.
Assets			
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	7,00,000	7,40,000	3,85,000
Liabilities			
Issued equity share capital (Shares of Rs.10 each)	4,00,000	5,00,000	2,50,000
Profit and Loss A/c	1,50,000	1,10,000	60,000
10% Debentures	70,000	-	40,000
Sundry creditors	80,000	1,30,000	35,000
Total	7,00,000	7,40,000	3,85,000
Average annual profits before debenture interest (July 2003 to June 2004 inclusive)	90,000	1,20,000	50,000
Professional valuation of tangible assets on 30 th June 2004	6,20,000	4,80,000	3,60,000

- The directors in their negotiations agreed that : (i) the recorded goodwill of N Ltd. is valueless; (ii) the “Other assets” of M Ltd. are worth Rs.30,000; (iii) the valuation on 30th June 2004 in respect of tangible fixed assets should be accepted. (iv) these adjustments are to be made by the individual company before the completion of the acquisition.
- The acquisition agreement provides for the issue of 12% unsecured debentures to the value of the net assets of companies M Ltd. N Ltd and O Ltd., and for the issuance of Rs.10 nominal value equity shares for the capitalized average profit of each acquired company in excess of net assets contributed. The capitalization rate is established at 10%.

You are required to

- Compute purchase consideration
- Show the discharge of purchase consideration.

IDEAL / E-LIVE / FINAL C.A. / ACCOUNTS / AMALGAMATION-1

Q.2. S and M had been carrying on business independently, agree to amalgamate and form a company N Ltd. with an authorized share capital of Rs.2,00,000 divided into 40,000 equity shares of Rs.5 each.

On 31st December, 2003, the respective balance sheets of S and M were as follows :

Particulars	S Rs.	M Rs.
Fixed Assets	3,17,500	1,82,500
Current Assets	1,63,500	83,875
	4,81,000	2,66,375
Less: Current Liabilities	2,98,500	90,125
	1,82,500	1,76,250

Additional Information :

Revalued figures of fixed and current assets were as follows :

Particulars	S Rs.	M Rs.
Fixed Assets	3,55,000	1,95,000
Current Assets	1,49,750	78,875

The debtors and creditors include Rs.21,675 owed by M to S.

The purchase consideration is satisfied by issue of the following shares and debentures :

- (i) 30,000 equity shares of N Ltd. to S and M in the proportion to the profitability of their respective business based on the average net profit during the last three years which were as follows :

Particulars	S Rs.	M Rs.
2001 Profit	2,24,788	1,36,950
2002 (Loss) / Profit	(1,250)	1,71,050
2003 Profit	1,88,962	1,79,500

- (ii) 15% debentures in N Ltd. at par to provide an income equivalent to 8% return on capital employed in their respective business as on 31st December 2003 after revaluation of assets.

You are required to :

1. Compute the amount of debentures and shares to be issued to S and M.