

AMALGAMATION

Sol.1. 1. Computation of Amount of Debentures and shares to be issued

Particulars	Star	Moon
a. Average Net Profit	$(2,24,788 - 1,250 + 1,88,962) \div 3$ Years = 1,37,500	$(1,36,950 + 1,71,050 + 1,79,500) \div 3$ Years = 1,62,500
b. Equity Shares to be issued in the above ratio of (a) (Total 30,000 in 1375 : 1625)	13,750	16,250
c. Equity Share Capital at Rs.5 per share	$13,750 \times 5 = 68,750$	$16,250 \times 5 = 81,250$
d. Capital Employed (after revaluation)		
Fixed Assets	3,55,000	1,95,000
Current Assets	<u>1,49,750</u>	<u>78,875</u>
	5,04,750	2,73,875
Less : Current Liabilities	<u>2,98,500</u>	<u>90,125</u>
Capital Employed	<u>2,06,250</u>	<u>1,83,750</u>
e. 8% Return on Capital Employed	$2,06,250 \times 8\% = 16,500$	$1,83,750 \times 8\% = 14,700$
f. 15% Debentures to be issued to provide equivalent income at e above	$16,500 \div 15\% = 1,10,000$	$14,700 \div 15\% = 98,000$
g. Total Purchase Consideration (c + f)	1,78,750	1,79,250

2. Computation of Goodwill / Capital Reserve

Particulars	Star	Moon	Total
Fixed Assets taken over	3,55,000	1,95,000	5,50,000
Cu. Assets (after adjustment of inter-company owings)	1,49,750	57,200	2,06,950
Total Assets taken over	5,04,750	2,52,200	7,56,950
Less: Cu. Liab. (adjusting inter-company owings)	(2,76,825)	(90,125)	(3,66,950)
Net Assets Taken Over	2,27,925	1,62,075	3,90,000
Less: Purchase Consideration calculated above	(1,78,750)	(1,79,250)	(3,58,000)
Capital Reserve / (Goodwill)	49,175	(17,175)	32,000

3. Balance Sheet of Neptune Ltd. as at 31st December, 2009

Liabilities	Rs.	Assets	Rs.
Share Capital : Authorised 40,000 Shares		Fixed Assets (3,55,000 + 1,95,000)	5,50,000
Issued and Subscribed : 30,000 Equity Shares of Rs.5 each (all fully paid-up pursuant to a contract without payments being received in cash)	1,50,000	Current Assets (1,49,750 + 78,875 - 21,675)	2,06,950
Reserves and Surplus : Capital Reserve	32,000		
Secured Loans : 15% Debentures	2,08,000		
Current Liabilities & Provisions	3,66,950		
Total	7,56,950	Total	7,56,950

Sol.2.

1. Purchase Consideration

Particulars	Rs.
1. Calculation of Goodwill : Average of 5 years Profit (given)	30,100
Less : Normal Profit 8% of Capital + Reserves i.e. Rs.2,20,000	17,600
Super Profit	12,500
Goodwill at 4 years purchase $12,500 \times 4$	50,000
2. Calculation of Purchase Consideration	
Assets taken over – Land & Building	1,00,000
Plant & Machinery	1,45,000
Stock	55,000
Debtors	65,000
Total Assets Taken Over	65,000
Less: Allowance at 10% of Assets Value	3,65,000
Add: Goodwill as calculated above	50,000
Total Value of Assets taken over	3,78,500
Less: Sundry Creditors less 5% discount = (80,000 - 5% thereon)	76,000
Net Purchase Consideration	3,02,500
3. Discharge of Purchase Consideration : (a) Payable in Cash	1,50,000
(b) Given in Shares – 12,200 shares of Rs.10/- each valued at Rs.12.50 per share	1,52,500

Journal Entries in the books of Superb Ltd.

	Particulars	Debit	Credit
1.	Business Purchase A/c Dr. To Liquidators of Winners Ltd. (Being purchase price agreed to be paid for the business of Winners Ltd.)	3,02,500	-- 3,02,500
2.	Goodwill Dr. Land & Building Dr. Plant & Machiner Dr. Stock Dr. Debtors Dr. Reserve for Discount on Creditors Dr. To Provision for Doubtful Debts To Sundry Creditors To Business Purchase A/c (Being the assets and liabilities taken over from Winners Ltd.)	50,000 90,000 1,30,500 49,500 65,000 4,000	6,500 80,000 3,02,500
3.	Liquidators of Winners Ltd. Dr. To Bank To Equity share Capital To Securities Premium (Being settlement of purchase Consideration)	3,02,500	1,50,000 1,22,000 30,500
4.	Goodwill Dr. To Stock A/c (Being elimination of unrealised profit on goods worth Rs.25,000 bought from Winners Ltd. still unsold i.e. $25,000 \times 10,000 \div 40,000$)	6,250	6,250
5.	Sundry Creditors Dr. To Sundry Debtors (Being elimination of the amount owed by Superb Ltd. to Winners Ltd.)	20,000	20,000

