

AMALGAMATION

Q.1. Star and Moon had been carrying on business independently. They agree to amalgamate and form a new Company Neptune Ltd. with an Authorised Share Capital of Rs.2,00,000 dividend into 40,000 equity shares of Rs.5 each.

On 31st Dec. 2009, the respective Balance Sheets of Star and Moon were as follows (in Rs.)-

Particulars	Star	Moon
Fixed Assets	3,17,500	1,82,500
Current Assets	1,63,500	83,875
	4,81,500	2,66,375
Less : Current Liabilities	2,98,500	90,125
Balance representing Capital	1,82,500	1,76,250

Additional information :

1. Revalued figures of Fixed and Current Assets were as follows :

Particulars	Star	Moon
Fixed Assets	3,55,000	1,95,000
Current Assets	1,49,750	78,875

2. The Debtors and Creditors include Rs.21,675 owed by Star to Moon.

The Purchase Consideration is satisfied by issue of the following Shares and Debentures – 30,000 Equity Shares of Neptune Ltd. to Star and Moon 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	Star	Moon
2007 Profit	2,24,788	1,36,950
2008 (Loss) / Profit	(1,250)	1,71,050
2009 Profit	1,88,962	1,79,500

15% Debentures in Neptune Ltd. at par to provide an income equivalent to 8% Return on Capital Employed in their respective business as on 31st December 2009 after revaluation of assets.

Required : (1) Compute the amount of debentures and shares to be issued to Star and Moon; and (2) Prepare the Balance Sheet of Neptune Ltd. showing the position immediately after amalgamation (Use Purchase Method).

Q.2. The following is the Balance Sheet of Winners Ltd. as on 30th June

Liabilities	Rs.	Assets	Rs.
Share Capital 20,000 Shares of Rs.10 each	2,00,000	Goodwill	25,000
General Reserve	20,000	Land & Building	1,00,000
10% Debentures	1,00,000	Plant & Machinery	1,45,000
Loan from Bank	40,000	Stock	55,000
Sundry Creditors	80,000	Debtors	65,000
		Cash at Bank	34,000
		Preliminary Expenses	16,000
Total	4,40,000	Total	4,40,000

The balance of Winners Ltd. is taken over by Superb Ltd. as on that date on the following terms :

- (1) All assets except Cash at Bank are taken over at Book Value less 10% subject to (b) below.
- (2) Goodwill is to be valued at 4 years' purchase of the excess of average (five years) profits over 8% of the combined amount of Share Capital and General Reserve.
- (3) Trade Creditors are to be taken over subject to a discount of 5%.
- (4) Loan from Bank is to be repaid by Winners Ltd.
- (5) The Purchase Consideration is to be discharged in cash to the extent of Rs.1,50,000 and the balance in fully paid Equity Shares of Rs.10 each valued at Rs.12.50 per share.

The average of the five years profit is Rs.30,100. The expenses of liquidation amount to Rs.2,000. Prior to 30th June, Winners Ltd. sold goods costing Rs.30,000 to Superb Ltd. for Rs.40,000. Debtors include Rs.20,000 still due from Superb Ltd. on the date of absorption, Rs.25,000 worth of goods were still in stock of Superb Ltd.

Show : Journal Entries in the books of Superb Ltd.

