

AMALGAMATION OF COMPANIES

(11)

Two or more existing companies liquidated and joined together to form a new co.

Steps

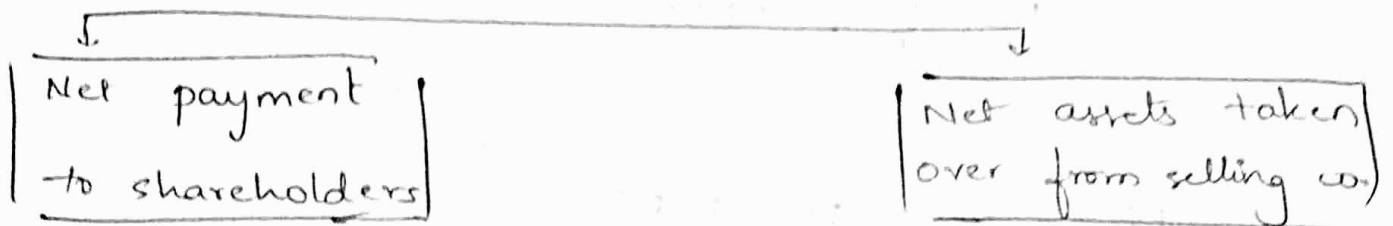
1. Calculation of purchase consideration
2. Incorporation of assets & liabilities in purchasing company books after amalgn.
3. Closure of selling company books

Purchase consideration is aggregate of

1. Shares issued
2. Securities issued
3. Cash paid
4. any other asset paid or issued by purchasing company to shareholders of selling co.

ESH PSH

Methods of Purchase Consideration



If payments is clearly given then follow this method

Even if one payment is not clear follow this method.

Calculation of purchase consideration (Net payment)

Mode of discharge	No. of shares	Issue price	Amount
1. For ESH of selling co.			
Eq. / Pref / Deb issued	✓	✓	x x x
Cash paid	-	-	x x x
2. For PSH of selling co.			
Eq. / Pref / Deb issued	✓	✓	x x x
Cash paid	-	-	x x x
Total PC :			_____

Calculation of purchase consideration (Net Assets)

Assets taken over @ agreed value	xxx
(-) Liabilities taken over @ agreed value	(xxx)
Purchase consideration	_____

Intrinsic Value per share (or) Net Assets value per share

$$IV = \frac{\text{Net Assets}}{\text{No. of eq. shares}}$$

$$PC = IV \times \text{No. of ES}$$

Types of Amalgamation

In the nature of merger

In the nature of purchase

* In the nature of MERGER

It shld satisfy following conditions

- ① All assets, liabilities and reserves should be shld be transferred to purchasing company at same book values after amalgamation
- ② Minimum 90% face value of ESH of selling co. must become owners of purchasing co.
- ③ Consideration shld be paid in the form of ES to SH of selling co.
- ④ Business of selling co. shld be carried on by purchasing co.

* In the nature of PURCHASE

If any of the above conditions are not satisfied then it is said to be amalgamation

in the nature of purchase

Methods of Accounting

Amalgamation in nature of MERGER

Amalgamation in nature of PURCHASE

↓
POOLING OF INTEREST METHOD

↓
Purchase METHOD

POOLING OF INTEREST METHOD

- * Assets & liabilities shld be recorded in purchasing co. books at book value
- * Reserves & surplus shld be recorded in purchasing co. books at same book value

Acc. Treatment (P/L)

↓
Diff b/w PC & SC of selling co.
↓

- ① If $PC > SC$, then adjust loss with : FR of selling co., if not sufficient adjust to FR of purchasing co., if not sufficient debited to P/L
- ② If $PC < SC$, profit shld be credited to capital reserve.
- ③ If $PC = SC \Rightarrow$ no P/L

PURCHASE METHOD

- * Record all assets & liabilities at agreed values
- * Ignore all reserves except statutory reserves

Acc. Treatment

↓
Diff b/w PC & Net assets taken over from selling co.
↓

- ① $PC > NA$, loss is debited in the name of goodwill
- ② $PC < NA$, profit is credited to capital reserve
- ③ $PC = NA$, no P/L

Journal Entries

(12)

Pooling of Interest Method

Purchasing Co.

Selling Co.

1. Purchase

Business purchase % - Dr

To Liquidator of selling co.

2. Incorporation of assets & liab.

Assets % - Dr

To Liab. %

To FR

To Statutory Reserves

To Business purchase %

3. Discharge of PC

Liquidator of selling co. % - Dr

Disc. on issue % - Dr

To Bank %

To ESC

To PSC

To SP

4. Realisation exp.

No entry (selling co. borne)

(or)

Borne by purchasing co.

PL % - Dr

To Bank %

(or)

Incurred by selling co. & reimbursed
by purchasing co.

It shld be noted that the Accounting Standard deals with accounting procedures only in the books of transferee co. So far as the books of transferor company are transferred concerned, normal procedures are to be followed for the closing books of accounts through realisation account.

PL % - Dr

To selling co.

Selling co. % - Dr

To Bank %

Purchase Method

Selling Co.

1. T/f of assets
Realisation %c - Dr
 To Assets %c
2. T/f of liabilities
Liabilities %c - Dr
 To Realisation %c
3. Due entry for PC
Purchasing co. %c - Dr
 To Realisation %c
4. PC receipt
Cash/ES/PS/Deb in New Co. %c - Dr
 To Purchasing co. %c
5. Sale of assets not taken over
Liability %c - Dr
Cash %c - Dr
Real. %c - Dr
 To Assets %c
 To Real. %c
6. Discharge of liab. not taken over
Liab. %c - Dr
Real. %c - Dr
 To Cash %c
 To Real. %c
- f. Real & Liquidation expenses
Borne by transferor co.
Real %c - Dr ~~Real~~ %c - Dr
 To Bank %c To Bank %c
- Borne by transferee & paid by sell.
→ Purchasing co. %c - Dr
 To Bank %c
- Bank %c - Dr
 To Purchasing Co.

Purchasing Co.

1. Purchase of Business
Assets %c - Dr
Goodwill %c - Dr
 To Liabilities %c
 To Business purchase %c
 To Capital reserve %c
2. Incorporation of Assets
Business purchase %c - Dr
 To Liquidator of selling co.
3. Discharge of PC
Liquidator of selling co. %c - Dr
 To ESC/PSC/Deb %c
4. Realisation expenses
→ Borne by selling co
 no entry
→ Borne by purchasing & paid by selling
Goodwill/CR %c - Dr
 To Selling Co. %c
- Selling Co. %c - Dr
 To Bank %c
- Borne by purchasing co.
Goodwill/CR %c - Dr
 To Bank %c

Borne by transferee, paid by purch.
No entry

8. Transfer of PSC to PSH
PSC a/c — Dr
To PSH a/c

9. Payment to PSH
PSH a/c — Dr
To Bank a/c/
ES/PS/Deb. in New co.

10. Transfer of Eq. cap^g reserves to ESH
ESC a/c — Dr
Reserves & surplus a/c — Dr
To ESH a/c

11. T/f of realisation a/c bal to ESH
Real. a/c — Dr | ESH a/c — Dr
To ESH | To Real. a/c
(Profit) | (Loss)

12. T/f of fictitious assets.

ESH a/c — Dr
To fictitious assets a/c.

13. Payment of net amt to ESH.

ESH a/c — Dr
To Cash/ES/PS/Deb in
new co.

5. Inter Co. owing
Trade payables a/c — Dr

To Trade receivables a/c

6. Creation of stock reserve
Goodwill/CR a/c — Dr
To Stock reserve a/c

7. Maintenance of statutory
reserve
Amalg. Adj. Reserve a/c — Dr
To Statutory Reserve a/c

8. Cancellation of Statutory
Reserve
Statutory Reserve a/c — Dr
To AAR. a/c

Order of Closing JE

1. Assets transfer
2. Liabilities transfer
3. Sold business to co.
4. purchase consideration received
5. Assets not taken over to be sold
6. Liabilities not taken over discharged
7. Realisation expenses
8. PSC t/f to PSH
9. PC paid to PSH
10. Excess/Shortage paid to PSH t/f to Real. a/c
11. CSC & Reserves t/f to ESH
12. Bal in cash a/c t/f to ESH
13. Real. P/L t/f to ESH
14. Final settlement to ESH of selling co.

Orders of closing ledgers

1. Purchasing co. ledger
2. PSH a/c → If any excess t/f to real. a/c
3. Cash a/c → ~~Bal~~ t/f to ESH a/c
4. Real. a/c → PL t/f to ESH a/c
5. ESH a/c → Talled.