Amalgamation - II

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Two or more existing companies liquidated and Joined together to form a New company.

eg: Maruthi Suzuki ltd.

Steps in Amalgamation

I. calculation of purchase consideration ***

II. Incorporation of Assets and liab. in purchasing company books after amalgamation. [J.entries & B/S]

III. closing of selling company Books [J.entries or ledger A/cs]

(1) purchase consideration

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As per AS-14

purchase consideration is the Aggregate of

1. shares issued or
2. securities issued or
3. cash paid or
4. Any other Asset

paid or issued by purchasing company to the Shareholders of selling company.

e/s/H   p/s/H

Methods of purchase consideration

Net payment to Share holders basis	Net Assets Taken over basis from selling co.

Criteria for selecting methods of purchase consideration :-

1. if payments to sh. holders (eq. + pref.) of selling co. are clearly given (ie All modes of discharge pc are given in the problem) then follow Net payments method.
2. Even if one payment is not clearly given, then Net Assets method to be followed.

calculation of purchase consideration [NPM]

Mode of Discharge	No. of shares	Issue price	Amount
1. For ESH of selling co.			
equity/pref/Deb. issued	✓	✓	xxx
cash paid	—	—	xx
2. For PSH of selling co.			
equity/pref/Deb. issued	✓	✓	xxx
cash paid	—	—	xxx
Total purchase consideration			xxx

calculation of purchase consideration
[Net Assets Taken over]

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Assets Takenover at Agreed values	xxx
less: Liabilities Takenover at Agreed values	xxx
purchase consideration Amount	xxx

Intrinsic Value per share (or) Net Assets Value per Share :-

$$\frac{\text{Net Assets}}{\text{No. of Equity shares}} = \text{Intrinsic Value Per share}$$

purchase consideration = Intrinsic Value per share x No. of Equity shares

Types of Amalgamation

Amalgamation in Nature of merger

Amalgamation in Nature of purchase

Amalgamation in the Nature of merger :-

An Amalgamation is said to be Amalgamation in the Nature of merger when it satisfies following conditions.

① All Assets, liabilities and Reserves should be transferred to the purchasing company after Amalgamation

② All Assets, liab. and Reserves should be transferred at same book values

③ Minimum $\boxed{90\%}$ of equity share holders of selling co. must become the owners of purchasing co.
face value

④ Consideration should be paid in the form of equity shares to share holders of selling company.

⑤ The business of selling company should be carried on by purchasing company immediately after amalgamation

Amalgamation 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

If Amalgamation in the Nature of merger
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Pooling of interest method

If Amalgamation in the Nature of purchase
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Purchase method

Pooling of interest method

Recording of Assets and liabilities - should be recorded in purchasing co. books at same book values.

Recording of Reserves and surplus - should be recorded in purchasing co. books at same book values.

Accounting Treatment [profit/loss]
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Difference between purchase consideration and share capital of selling co.
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① If PC > SC, then first adjust loss to the free reserves of selling co., if not sufficient adjust to the free reserves of purchasing co. if not sufficient then debited to P/L a/c

② If PC < SC, then profit has credited to capital reserve.

③ If PC = share capital then no profit no loss.

Purchase method

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Recording of Assets and liabilities :

while preparing the BS of pc after amalgamation record all Assets and liabilities taken over at Agreed values from selling company.

Record of Reserves :

while preparing the BS of pc after amalgamation ignore all reserves of selling company except statutory reserves.

Amalgamation adjustment a/c Dr.
    To statutory reserve a/c

Accounting Treatment (profit/loss:)

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Difference between Purchase consideration and Net Assets taken over from selling co.

① If PC > Net Assets, then loss is debited in the name of Goodwill

② If PC < Net Assets, then profit has to be credited to capital reserve.

③ If PC = Net Assets, then no profit / no loss.

Closing the books of vendor company :

example

B/s of Weak ltd

e/s/c	100.000	land & Bldg.	70.000
Gen. reserve	50.000	Plant & mach.	50.000
creditors	30.000	furniture	30.000
Bills payable	20.000	Stock	50.000
	200.000		200.000

Add. information

1. Strong ltd. agreed to take over weak ltd
2. Strong ltd. agreed to issue 10.000 e/s each at ₹18
3. cal. purch. consideration
4. Pass J.E and close ledger a/c's

Journal entries

(1) Realisation a/c Dr. 200.000

TO land & Bldg a/c 70.000

TO plant & mach. a/c 50.000

TO furniture a/c 30.000

TO stock a/c 50.000

[Being Assets T/o by pursch. co transf. to Realisation at Book values]

(2)

Creditors a/c Dr. 30.000

Bills payable a/c Dr. 20.000

TO Realisation a/c 50.000

[Being Liab. T/o by purch. co transf. to Realisation at Book values] sold business to Purch. co.

(3) Strong ltd. a/c Dr. 180,000
To Realisation a/c 180,000
[Being purchase consideration due]

(4) Eq. Sh. capital of pur. co a/c Dr. 180,000
To purchasing company a/c 180,000
[Being purchase consideration received]

5. Eq. share capital a/c Dr. 100,000
Gen. reserve a/c Dr. 50,000
To Eq. share holders a/c 150,000
[Being share holders funds t/f to eq. sh. holders a/c]

6. Realisation a/c Dr. 30,000
To Equity sh. holders a/c 30,000
[Being profit in realisation t/f to eq. sh. holders]

7. Eq. share holders a/c Dr. 180,000
To Equity sh. cap. of purch. co. a/c 180,000
[Being purch. consideration t/f to eq. sh. holders]

Ledger A/c's

Realisation A/c

To Land & Bldg a/c	70,000		By Creditors a/c	30,000
To plant & mach.	50000		By Bills payable a/c	20,000
To Furniture a/c	30000		By Strong Ltd. a/c (P.C Due)	180,000
To Stock a/c	50000			
To eq. share holders a/c	30,000			
	230,000			230,000

purchasing co. A/c

To Realisation a/c	180,000	By eq. sh. cap. of purch. co.	180000

Equity sh. Holders a/c

To eq. sh. cap. of Purch. co. a/c	180,000	By equity share cap. a/c	100,000
		By Gen. reserve a/c	50,000
		By Realisation a/c	30,000
	180,000		180,000

Order of closing

1. Assets Transfer } Realisation
2. liab. Transfer }
3. Sold business to co.
4. Purch. consid. received
5. Assets not Taken over to be sold
6. liab. not Taken over to be discharged
7. Realis. exp borne by selling co.
8. P/s/c transf. to P/S/H
9. purch. consid paid to P/S/H
10. excess/shortage amt. paid to P/S/H transf. to Realis. a/c
11. e/s/c & Reserves transf. to E/S/H a/c
12. Bal. in cash a/c (any) transf. to E/S/H
13. Realis. profit/loss transf. to E/S/H
14. Final settlement to E/S/H of selling co.

Orders of closing ledges

1. Purch. co. ledger → J.E (3) & (4)
2. P/S/H a/c → If any excess t/f to Real. a/c
3. cash a/c → Bal. any t/f to E/S/H a/c
4. Realis. a/c → profit/loss transf. to E/S/H a/c
5. E/S/H a/c → It should be tallied.

The following Journal Entries are to be recorded in the case of the purchase method.

1) For purchase consideration due

Business purchase a/c Dr. (PC) xxx
To Liquidator of vendor co. a/c. (PC) xxx

) For incorporating the agreed values of various assets & liab. received from vendor company

Various assets a/c Dr. (A.V.) xxx
To Various liabilities a/c (A.V.) xxx
To Business purchase a/c (P.C.) xxx

Note:
If debit exceeds credit, the diff. should be credited to capital reserve a/c. If credit exceeds debit, the diff. should be debited to Goodwill a/c.

(3) For discharge of purchase consideration
Liquidator of vendor co. a/c Dr. xxx
To Share capital a/c xxx
To Security premium a/c xxx
To Debentures a/c xxx
To Bank a/c xxx

(4) For liquidation expenses paid by purchasing company.
Goodwill/capital res. a/c Dr. xxx
To Bank a/c xxx

(5) For formation expenses incurred
Preliminary Exp. a/c Dr. xxx
To Bank a/c xxx

(6) For Incorporation of statutory reserves for the required period of time
Amalgamation adj. a/c Dr. xxx
To Statutory reserve a/c. xxx

Note: The statutory reserves are no longer required, the above entry may be ~~reserved~~ reversed.

Accounting procedure in the books of vendor company:

The books of vendor company should be closed, when it Amalgamated (or) absorbed. For that purpose "A Realisation a/c" is to be opened and all the transactions are recorded through that a/c. Following entries are to be made for closing the books of vendor Co.

(1) For transferring Assets taken over by the purchasing company

Realisation a/c Dr. xxx (BV)

To Various Assets a/c xxx (BV)

Note:

→ The Assets which are not taken over by the purchasing company should not be transferred to realisation a/c. Ficticious Assets like preliminary Exp., disc. on issue of debentures, debit bal. of P&L a/c should not be transferred to realisation a/c.

→ Assets on which some provision has been made are to be transferred to realisation a/c at their Gross amounts and provisions should be transferred along with the liabilities.

(2) For transferring liab. taken over by the purchasing company

Various liabilities a/c Dr. xxx (BV)

To Realisation a/c xxx (BV)

Note:

→ The liab. which have not been assumed by purchasing company should not be transf. to realisation a/c. Accumulated reserves and profits like Gen. reserve, cap. reserve, Sinking fund, dividend Equalization fund, credit bal. of Profit & loss a/c are not to be transf. to revaluation a/c.

(3) For purchase consideration due from purchasing company
purchasing company a/c Dr. xxx (PC)
TO Realisation a/c xxx (PC)

(4) For receiving purchase consideration from purchasing company
Shares in purchasing company a/c Dr. xxx
Debent. in purchasing company a/c Dr. xxx
Bank - - - - - - - - - a/c Dr xxx
TO purchasing company a/c xxx

(5) For disposal of Assets not taken over by purchasing co.
Bank a/c Dr. xxx (Amt. received)
Realisation a/c Dr. xxx (loss on sale)
TO Asset a/c xxx (BV)
TO Realisation a/c xxx (profit on sale)

(6) For discharge of liab. not taken over by purchasing company
Liabilities a/c Dr. xxx (BV)
Realisation a/c Dr. xxx (loss on payment)
TO Bank a/c xxx (Amt paid)
TO Realisation a/c xxx (profit on payment)

(7) For payment of liquidation Expenses
(a) liquidation Exp. are paid by purchasing company.
NO Entry
(b) liquidation Exp. are paid by vendor company
Realisation a/c Dr. xxx
TO Bank a/c xxx

(8) For making due, amt payable to pref. share holders

Pref. share capital a/c Dr. xxx (paid up)

Realisation a/c Dr. xxx (Excess paid) loss

To pref. share holders a/c xxx (Amt. due)

To Realisation a/c xxx (profit)

(9) For payment made to pref. share holders

Pref. share holders a/c Dr. xxx

To Shares/debentures in purch. co. a/c xxx

(10) For closing realisation a/c and transferring bal. in realisation a/c to Equity share holders a/c.

(a) In case of profit

Realisation a/c Dr. xxx

To Equity sh. holders a/c xxx

(b) In case of loss

Equity sh. holders a/c Dr. xxx

To Realisation a/c. xxx

(11) For transferring the claims of Eq. share holders to their account.

Equity share capital a/c Dr. xxx

Reserves & surplus a/c Dr. xxx

To Eq. share holders a/c xxx

(12) For transferring Fictitious Assets & losses to Eq. sh. holders

~~[illegible]~~ Equity sh. holders a/c Dr. xxx

To preliminary exp. a/c xxx

To disc. on issue of deb. a/c xxx

To Profit & loss a/c (Dr) xxx

(13) For payment made to Eq. share holders

Equity share holders a/c Dr. xxx
To Shares in purch. co. a/c xxx
To debent. in purch. co. a/c xxx
To Bank ...... a/c xxx

→ After recording the above Entries, the following ledger a/c's are to be prepared in books of Vendor co.

(1) Realisation a/c
(2) purchasing co. a/c
(3) Shares in purchasing co. a/c
(4) Debentures in purchasing co. a/c
(5) Bank a/c
(6) pref. share holders a/c &
(7) Equity share holders a/c.

Purchase Consideration :

It is the amount paid by purchasing company to the shareholders of the vendor company. The purchase consideration can be paid either in the form of shares and securities or in the form of cash. Thus the amt. of purchase consideration includes shares and other securities issued by the purchasing company and payment of cash made by purchasing company to the shareholders of the vendor company. It does not include the liab. taken over by the purchasing company and the payment of liquidation expenses and payment made to debenture holders or creditors of vendor company.

The purchase consideration can be ascertained in various methods.

(1) lumpsum payment of p.c

(2) Net payment of purchase consideration

(3) Net worth method of purchase

(4) Share Exchange method of purchase consideration

(4) Share Exchange method :

Under this method, the p.c is ascertained based on intrinsic value of each share of companies involved in the Amalgamation (or Absorption. Based on intrinsic value the ratio of share exchange will be determined and the p.c is ascertained in accordance with the share exchange ratio.

$$\boxed{\text{Intrinsic value of each share} = \frac{\text{Net assets availability to Eq. sh. holders}}{\text{No. of Eq. shares}}}$$

Some times the agreed value of shares of companies may be given. In such a case the share exchange ratio should be determined based on agreed value of shares.