# SECTION A - CONCEPTS

## 1. BASICS

**(1) What's the Difference between Absorption & Merger?**

**(a) Absorption** (also called Take Over or Acquisition) can be of two types:

(i) **Business Takeover/Acquisition:** A Ltd. absorbs B Ltd. i.e. taken over the Business of B Ltd., Here B Ltd. is getting liquidated.

(ii) **Takeover through Shares (Voting Rights)**: A Ltd. acquired Control over the Business of B Ltd. by Purchasing more than 50% Equity Shares of B Ltd. A Ltd. is called Holding co. & B Ltd. is called Subsidiary co. (No company is getting liquidated)

**(b) Merger** takes place when two companies Merge their businesses and New Company is creating which is controlled by the Management of both the Companies. For Example, A Ltd. and B Ltd. Merged and form a New Company AB Ltd. in which Directors of both the Companies have common decision making.

**(2)** The entity who acquires or takes over the Business is called **Transferee** (Buyer) Company.

**(3)** The entity whose Business is getting Taken over is called **Transferor** (Seller) Company.

**(4)** Transferee company gets **Net Assets (Assets and Liabilities)** of Transferor company as a result of Acquisition/Absorption.

**(5) Transferee company pay the Consideration against business taken over.**

Here A Ltd. shall pay consideration (PC) against acquiring of Net Asset of B Ltd. to the shareholders of B Ltd. in the form of:

- Cash
- Equity Shares
- Preference shares.
- Debenture etc.

## 2. DIFFERENCE BETWEEN AMALGAMATION, ABSORPTION AND EXTERNAL RECONSTRUCTION

| Basis | Amalgamation | Absorption | External Reconstruction |
|---|---|---|---|
| **Meaning** | Two or more companies are wound up and **a new company** is formed to take over their business. | In this case **an existing company** takes over the business of **one or more** existing companies. | In this case, **a newly formed company** takes over the business of an **existing company**. |
| **Minimum number of Companies involved** | At least three companies are involved. | At least two Companies are involved. | Only two Companies are involved. |
| **Number of new resultant companies** | Only one resultant company is formed. Two companies are wound up to form a **single** resultant company. | **No** new resultant company is formed. | Only one resultant company is formed. Under this case **a newly formed company** takes over the business of an existing company. |
| **Objective** | Amalgamation is done to cut competition & reap the economies in large scale. | Absorption is done to cut competition & reap the economies in large scale. | External reconstruction is done to reorganize the financial structure of the company. |
| **Example** | Jai Ltd. and Ravi Ltd. amalgamate to form Vishal Ltd. | Jai Ltd. takes over the business of another existing company Ravi Ltd. | Jai Ltd. is formed to take over the business of an existing company Ravi Ltd. |

## 3. TYPES OF AMALGAMATION (AS 14)

1) **For the Purpose of Accounting, Amalgamation is classified into Two Types:** (for Transferee Company)

(a) **Amalgamation in the nature of Purchase:** Here one Entity has absorbed the business of other Entity i.e., One Entity is able to control Another Entity (A Ltd. + B Ltd. = A Ltd.)

(b) **Amalgamation in the nature of Merger:** It is an amalgamation where there is a genuine pooling not merely of assets and liabilities of the transferor and transferee companies but also of the shareholders' interests and of the businesses of the companies. All Entities are agreed to work together in the name of new entity. No one is dominating to each other.

**Note:** The accounting treatment of such amalgamations in the nature of Merger should ensure that the resultant figures of assets, liabilities, capital and reserves more or less represent the sum of the respective figures of the transferor and transferee companies.

**2)** According to **AS 14**, on satisfaction of all the following conditions, then only Amalgamation will be treated as Nature of Merger:

(a) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.

**(Sab ki Sab A/L, Matlab kuch bhi nai chodne ka)**

(b) Shareholders holding **not less than 90%** of the face value of the equity shares of the transferor company become equity shareholders of the transferee company by virtue of the amalgamation.

**(Above 90% should not include the shares already held by transferee company)**

(c) The consideration to Equity Shareholders of Transferor Company is discharged by the **issue of equity shares** in the transferee company, except that cash may be paid in respect of any fractional shares.

**(Owner banao sabko)**

(d) The **business** of the transferor company is **intended to be carried on**, after the amalgamation, by the transferee company.

**(Purana Business continue karna jaruri hai)**

(e) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

**(Arry bhai same book values pe hi record karne ka hai A/L ko)**

If any one or more of the above conditions are not satisfied in an amalgamation, such amalgamation is called **amalgamation in the nature of purchase.**

## EXAMPLE 1:

A Ltd. and B Ltd. decided to amalgamate and form a New Company AB Ltd.

**Balance Sheet (Extract)**

| | A | B |
|---|---|---|
| Fixed Assets | 50 Lacs | 40 Lacs |
| Current Assets | 30 Lacs | 25 Lacs |
| Liabilities | 27 Lacs | 18 Lacs |

- Market Value of PPE 66 Lacs (A Ltd.) & 47 Lacs (B Ltd)
- Market Value of Current Asset are same as Book Value
- Fair value of Liabilities are same as Book Value.
- Purchased consideration (Market Value) = 69 Lacs (for A Ltd.) and 54 Lacs for B Ltd.
- It was decided to record Net Assets at Fair Value

| | | | |
|---|---|---|---|
| PPE a/c | Dr. | 113 | |
| Current Asset a/c | Dr. | 55 | |
| To Liability A/c | | | 45 |
| To Purchase Consideration A/c* | | | 123 |

**Conclusion – This is not Merger.**

**Note:** Purchase consideration is always based on Market Values.

**EXAMPLE 2:**

A Ltd. has 1,00,000 no. Outstanding, B Ltd is taking over A Ltd.

B Ltd. is also holding 15,000 shares in A Ltd. Other Share Holders holding 75,000 no. are giving their consent in favor of Amalgamation.

Total no of Outstanding Shares = 1,00,000 No.

**(a)** Shares already Held by B Ltd. = 15,000 No.

**(b)** Others Shareholders holding = 85,000 No.

Out of which, shareholders holding 75,000 No. of shares gave their Consent, which means 88.24% (75000/85,000 x 100). **Hence, it's not a Merger.**

## 4. PURCHASE CONSIDERATION

| PC includes | PC does not include |
|---|---|
| Payment in any form such as-<br>• Shares or Other Securities<br>• Cash<br>• Other Assets etc.<br>To the Shareholders of Transferor company to acquire the Business.<br><br>PC shall always be measured at Fair Value of Shares/Other Securities issued/Assets Given.<br><br>But if Fair Value (Market Values) are not given then we can take Book Values of Assets.<br><br>PC also includes any additional payment which is probable in future and can be estimated reasonably. | Any payment made by transferee company to the Debenture holders or Creditors of Transferor company. |

## CALCULATION OF PURCHASE CONSIDERATION

Purchase Consideration can be calculated in different ways. However, the most methods are as under:

**(a)** Exchange Ratio Method

**(b)** Net Assets Method

**Exchange Ratio Method:**

Here we need Exchange Ratio (Swap Ratio) for calculation of PC. Exchange ratio is a ratio for exchange of No. of Shares. It can be given in the question.

If it is missing in question, then we shall use Deemed Exchange Ratio as under:

**Fair Value of Share of Transferor ÷ Fair Value of Share of Transferee**

The above Fair values can be Intrinsic Values, Market Values or any other values given in the question.

In absence of any Information, we will use Intrinsic Values.

**Purchase consideration based on Net Asset value:**

- If Some Asset/Liabilities are not taken over then we shall not consider such Asset or Liabilities while calculating Purchase consideration

  **(Refer Example 6)**

- If there are any unrecorded Asset/Liabilities they may also be taken over & to be considered in calculation of Purchase Consideration.

  **(Refer Example 6)**

  If Goodwill value is given in the Question then Goodwill shall also be taken for the purpose of calculation of Purchase Consideration.

  **(Refer Example 8)**

- Sometimes Question asks to calculate Purchase consideration based on Intrinsic Values, If so then we shall assume that all Asset & all liabilities are being taken over.

- **How to Calculate Intrinsic Value: (Refer Q.204)**

  Market Value of All Assets

  (+) Goodwill if Any

  (-) All Liabilities

  (-) PC to PSH

  **= Net Assets for Equity Shareholders ÷ No of Equity Shares**

**EXAMPLE 3: - (Purchase Consideration based as Exchange Ratio)**

A Ltd. (Transferee) acquired business of B Ltd. (Transferor)

B Ltd. has total Outstanding equity shares of 2,00,000 no.

A Ltd. offered 3 shares of its own Company in exchange of every 2 shares of B Ltd. @ Market Price of 25/- per share

## SOLUTION:

### Calculation of Purchased Share

| Payment to | Payment in | Working | Amount |
|---|---|---|---|
| Equity Share Holder of B Ltd. | Equity Shares of A Ltd. | 2,00,000/2 x 3<br>3,00,000 x 25/- | 75,00,000/- |

## EXAMPLE 4: (Purchased Consideration as Exchange of Shares)

| B Ltd. | |
|---|---|
| Equity Shares | 1,50,000 no. |
| Preference Shares | 80,000 no. |

A ltd. is taking over Business of B Ltd Exchange Ratio is 5:4 for equity & 3:4 for Preference shares. Market Price per share of A: - Equity Share - 60/-, Preference Share - 20/-

## SOLUTION:

| Payment to | Payment in | Working | Amount |
|---|---|---|---|
| Equity Share Holders of B Ltd. | Equity Shares of A Ltd. | (1,50,000/4X5) x 60/- | 1,12,50,000 |
| Preference Share Holders of B Ltd. | Preference Share A Ltd. | (80,000/4X3) x 20/- | 12,00,000 |
| **Total Purchase Consideration** | | | **1,24,50,000** |

## EXAMPLE 5:

B Ltd. is Transferor having Outstanding equity shares are 3,00,000 No.

A Ltd. taking over Business of B Ltd. by issuing 4 shares for every 7 shares of B. Market Price Per share of A is 30/-

## SOLUTION:

| Payment to | Payment in | Working | Amount |
|---|---|---|---|
| Equity Shareholders of B Ltd. | Equity Shares of A Ltd. | 3,00,000 x 4/7 x 30 | 51,42,840/- |
| Equity Shareholders of B Ltd. | Cash | 0.571 x 30/- | 17/- |
| | | | **51,42,857/-** |

## EXAMPLE 6: (PC based on Assets/Liabilities Value)

### Balance Sheet of Q Ltd.

| | |
|---|---|
| Equity Share Capital (10/-) | 10,00,000 |
| Reserves & Surplus | 12,00,000 |
| Loan | 17,50,000 |
| Current Liabilities | 20,50,000 |
| | **60,00,000** |
| Building | 30,00,000 |
| Plant and Machinery | 16,00,000 |

| | |
|---|---|
| Inventory | 4,00,000 |
| Debtors | 6,50,000 |
| Cash and Bank | 3,50,000 |
| | **60,00,000** |

P Ltd. is taking over the Business of Q Ltd. P Ltd. will taken over all Assets and Liabilities except Cash/Bank subject to following measurements:

a. Building at 25% higher than book value
b. P&M at 70% of book value
c. Debtors at Same value subject to 5% Provision for doubtful debts
d. There is an unrecorded tax liability of Q Ltd. of 85000/-, it is accepted by P Ltd.

Calculate Purchase Consideration

**SOLUTION**

**Calculation of PC**

| Particulars | Amount |
|---|---|
| Building (at Agreed Value) | 37,50,000 |
| Plant and Machinery (at agreed value) | 11,20,000 |
| Inventory | 4,00,000 |
| Debtors | 6,50,000 |
| **Less:** | |
| Provision for Doubtful debts | 32,500 |
| Loans | 17,50,000 |
| Current Liability | 20,50,000 |
| Tax Liability | 85,000 |
| **Total Purchase** | **20,02,500** |

## EXAMPLE 7:

In above Example 6, Purchase Consideration to be discharge in form of Equity Shares of P Ltd. having MP per share 25/- each, Calculate No. of Equity Shares and Pass Journal Entries for Acquisition.

**SOLUTION:**

No. of shares to be Issued as Purchase Consideration = 20,02,500 ÷ 25 = **80,100 No.**

| | | | |
|---|---|---|---|
| Business Purchase | Dr. | 20,02,500 | |
| To Liquidator of Q Ltd. | | | 20,02,500 |
| Building A/c | Dr. | 37,50,000 | |
| Plant & Machinery A/c | Dr. | 11,20,000 | |
| Inventory A/c | Dr. | 4,00,000 | |
| Debtors A/c | Dr. | 6,50,000 | |
| To Provision for doubtful debts A/c | | | 32,500 |
| To Loan A/c | | | 17,50,000 |

| | | |
|---|---|---|
| To Current Liabilities A/c | | 20,50,000 |
| To Tax Liability A/c | | 85,000 |
| To Business Purchase A/c | | 20,02,500 |
| Liquidator of Q A/c Dr. | 20,02,500 | |
| To Equity Share Capital A/c | | 8,01,000 |
| To Security Premium A/c | | 12,01,500 |

## EXAMPLE 8: (PC based on Intrinsic Value or Market Value per share)

**Balance Sheet of Transferor as on 31/3/2024**

| | |
|---|---|
| Equity Share Capital (10/-) | 12,00,000 |
| Reserves & Surplus | 7,00,000 |
| Liabilities | 21,00,000 |
| | **40,00,000** |
| Non-Current Asset (Tangible) | 25,00,000 |
| Current Asset | 15,00,000 |
| | **40,00,000** |

- Goodwill is valued at 6,00,000
- Market Value of NCA = 28,50,000
- Current Assets & Liabilities are at their Proper Value.
- Purchase Consideration shall be discharged based as Intrinsic Value of Transferor & Transferee.
- Intrinsic Value per Share of Transferee is 30/-

## SOLUTION:

**Intrinsic Value Calculation**

| | |
|---|---|
| Market Value of NCA | 28,50,000 |
| Value of Current Asset | 15,00,000 |
| Value of Goodwill | 6,00,000 |
| (-) Liabilities | (21,00,000) |
| **Net Assets for Equity share Holders** | **28,50,000** |
| (÷) No of Equity Shares | 1,20,000 no. |
| **Intrinsic Value Per share (Transferor)** | **23.75/-** |
| Intrinsic Value per Share (Transferee) | 30/-(given) |

| Payment to | Payment in | Working | Amount |
|---|---|---|---|
| Equity Shareholders of Transferor | Equity Share in Transferee | 1,20,000 X 23.75 / 30<br>95,000 No. x 30/- | 28,50,000 |

## EXAMPLE 9: (PC based on Intrinsic Value)

**Balance Sheet of Transferor as on 31/3/24**

| | |
|---|---|
| Equity Share Capital (10/-) | 12,00,000 |
| Reserves & Surplus | 7,00,000 |
| Liabilities | 21,00,000 |
| Preference Share Capital (100/-) | 10,00,000 |
| | **50,00,000** |
| Non-Current Asset (Tangible) | 30,00,000 |
| Current Asset | 20,00,000 |
| | **50,00,000** |

(1) Goodwill is values at 8,50,000

(2) Intrinsic values of Transferee = 50/- Per Share

(3) Preference Share Holders of Transferor will get new shares of Transferee in the ratio of 3:2 of 100 each.

Calculate Total Purchase Consideration

### SOLUTION:

**Working Note:** Calculation of Intrinsic value of Transferor

| | |
|---|---|
| Market Value Non-Current Asset | 30,00,000 |
| Value of Current Asset | 20,00,000 |
| Goodwill | 8,50,000 |
| (-) Liabilities | (21,00,000) |
| (-) Purchase Consideration to Preference Share Holder | (15,00,000) |
| **Net Asset available for Equity Share Holder** | **22,50,000** |

Intrinsic value = 22,50,000/1,20,000 = 18.75

**Working Note 2:**

| Payment to | Payment in | Working | Amount |
|---|---|---|---|
| Preference Share Holder of Transferor | In Preference share of Transferee | 10,000/2 x 3 = 15,000 x 100/- | 15,00,000 |
| Equity Share of Transferor | Equity Shares of Transferee | 1,20,000 x 18.75/50 = 45,000 x 50/- | 22,50,000 |
| | | | **37,50,000** |

## 5. PAYMENT TO DEBENTURE HOLDERS

Purchase Consideration is payable to Equity Shareholders & Preference Shareholders only. Anything payable to Debenture holders or any other party is not Purchase Consideration.

### EXAMPLE 10: (Discharge of Purchased Consideration)

**B/S (extract) of Transferor**

| | |
|---|---|
| Equity Share Capital (10/-) 2,00,000 no. | 20,00,000 |
| 9% Preference Share Capital (100/-) 2,500 no. | 2,50,000 |
| 11% Debenture (100/-) | 15,00,000 |

**Transferee shall discharge following:**

(1) Cash ₹ 3,00,000 to Equity Share Holders

(2) 3 Equity Share against every 10 equity share of Transferor. Market Value Per share of Transferee = 18/-

(3) New 12% Debenture to given to Equity shareholders of Transferor of 5,00,000/-

(4) Preference share of Transferor will get equal no of preference share in Transferee to be issued at 10% premium (Face Value 100/-)

(5) 11% Debenture of Transferor will get new 12% Debenture of Transferee at a value at which same Interest Amount should be received.

Calculate Purchased Consideration

**SOLUTION:**

**Calculation Purchased Consideration**

| | Payment to | Payment In | Working | Amount |
|---|---|---|---|---|
| (a) | Equity Shareholders | (i) Cash | - | 3,00,000 |
| | | (ii) Equity Shares | 2,00,000/10 x 3 | 10,80,0000 |
| | | (iii) 12:1 Debenture | - | |
| (b) | Preference Shareholders | Preference Share | 2,500 x 110 | 2,75,000 |
| | **Total** | | | **21,55,000** |

**Payment to Debenture holders: (Not a part of PC)**

Issue of new 12% Debenture = Old Interest amount/New Rate = 1,65,000÷12% = 13,75,000

### EXAMPLE 11:

Transferor has an outstanding 7% Debenture of Rs. 12,00,000. Transferee will settle these Debenture at 20% Premium by Issue of New 8% Debenture at 25% premium.

**SOLUTION:**

Settlement Value to Debenture holders of Trasferor = 12,00,000 + 20% = 14,40,000 (Payable Value)

No. of New 8% Debenture to be issue against settlement = 14,40,000/125 = 11,520 no.

| | |
|---|---|
| **2nd Entry**<br>Asset A/c Dr. | |

| | |
|---|---|
| To Debenture Holders<br>(Payable value always) | 14,40,000 |
| **4th Entry (Settlement)**<br>Debenture Holders Dr.<br>To 8% Debenture<br>To Securities Premium | <br>14,40,000<br>11,52,000<br>2,88,000 |

## EXAMPLE 12:

9% Debenture of 10,00,000 to be settled at 20% premium, by issue of new 10% Debenture to be issued at 25% Discount.

## SOLUTION:

Payable value = 10,00,000 + 20% = 12,00,000

New 10% Debenture no. against settlement = 12,00,000 ÷ 75 = 16,000 no.

| | | | |
|---|---|---|---|
| Debenture holders A/c | Dr. | 12,00,000 | |
| Discount A/c | Dr. | 4,00,000 | |
| To 10% Debentures | | | 16,00,000 |

## EXAMPLE 13:

6% Debenture of ₹ 7,20,000 to be discharged at 10% Discount by issue of equity share @ 12/- per share. Face Value = 10/-

## SOLUTION:

Payable Value to Debenture holders = 72,00,00 – 10% = 6,48,000

New Equity No. to be settled = 6,48,000/12 = 54,000

| | | |
|---|---|---|
| Debenture Holder Dr. | 6,48,000 | |
| To Equity Share Capital | | 5,40,000 |
| To Securities Premium | | 1,08,000 |

## 6. DIFFERENCE BETWEEN AMALGAMATION IN THE NATURE OF MERGER AND AMALGAMATION IN THE NATURE OF PURCHASE.

| Best of Distinction | Amalgamation in the Nature of Merger | Amalgamation in the Nature of Purchase |
|---|---|---|
| **a) Transfer of Assets and Liabilities** | There is transfer of all assets & liabilities. | There need not be transfer for all assets & liabilities. |
| **b) Shareholders of transferor company** | Equity shareholders holding 90% equity shares in transferor company become shareholders of transferee company. | Equity shareholders need not become shareholders of transferee company. |
| **c) Purchase Consideration** | Purchase consideration is discharged wholly by issue of equity shares of transferee company (except cash only for fractional shares) | Purchase consideration need not be discharged wholly by issue of equity shares. |
| **d) Same Business** | The same business of the transferor company is intended to be carried on by the transferee company. | The business of the transferor company need not be intended to be carried on by the transferee company. |
| **e) Recording of Assets & Liabilities** | The assets & liabilities taken over are recorded at their existing carrying amounts except where adjustment is required to ensure uniformity of accounting policies. | The assets & liabilities taken over are recorded at their existing carrying amounts or the basis of their fair values. |
| **f) Method of Accounting** | Journal entries for recording the merger are passed by pooling of interest method. | Journal entries for recording the purchase of business are passed by purchase method. |
| | All Reserves & Surplus of Transferor are also taken up by Transferee.<br><br>Ex. GR, CR, P&L A/C, IAR , EPR, CRR, DRR, etc. | No R&S are required to be maintained except Statutory Reserves EG. IAR/EPR |

| ACCOUNTING ENTRIES | |
|---|---|
| **In the Nature of Purchase (Purchase Method)** | **In the Nature of Merger (Pooling of Interest Method)** |
| Business Purchase A/c (PC) Dr.<br>To Liq. of Transferor Co. A/c (PC) | Business Merger A/c (PC) Dr.<br>To Liq. of Transferor Co. A/c (PC) |

<table>
<tr>
<td>
Sundry Assets A/c (Agreed value) Dr.<br>
Goodwill A/c (Bal. Fig) Dr.<br>
To Liabilities A/c (Payable Value)<br>
To Business Purchases A/c<br>
To CR (Bal. Fig)<br>
<br>
<u>Payment of PC:</u><br>
Liquidator A/c Dr.<br>
To Cash A/c<br>
To Equity Share Capital A/c<br>
To Pref. Share Capital A/c<br>
To Security Premium A/c<br>
<br>
<u>Cancellation of Receivables and Payables</u><br>
Payables A/c Dr.<br>
To Receivables A/c<br>
<br>
<u>For Payment of Liability:</u><br>
Liability A/c (e.g., Debenture holder’s A/c) Dr.<br>
To Cash A/c<br>
To New Liability A/c<br>
(Debentures are taken over at agreed value and settled by issue of new debentures in above entry)<br>
<br>
<u>For Payment of Expenses/Unrecorded Liability:</u><br>
CR / Goodwill A/c Dr.<br>
To Cash A/c<br>
(In balance sheet goodwill and CR should set off to show net figure)<br>
<br>
<u>For creation of Statutory Reserves:</u><br>
Amalgamation Adjustment Reserve Dr.<br>
To Statutory Reserves A/c<br>
(Following are statutory reserves:<br>
1. Invst. Allowance Res.<br>
2. Export Profit Res.<br>
3. Foreign Project Res.<br>
4. Tea Development Res.
</td>
<td>
All Sundry Assets A/c (Book value) Dr.<br>
Gen. Res or P&L A/c (Bal. Fig) Dr.<br>
To All Liabilities A/c (Payable Value)<br>
To Business Merger A/c (PC)<br>
To Reserves and Surplus (Book value)<br>
<br>
<u>Payment of PC:</u><br>
Liquidator A/c Dr.<br>
To Cash A/c<br>
To Equity Share Capital A/c<br>
To Pref. Share Capital A/c<br>
To Security Premium A/c<br>
<br>
<u>Cancellation of Receivables and Payables</u><br>
Payables A/c Dr.<br>
To<br>
Receivables A/c<br>
<br>
<u>For Payment of Liability:</u><br>
Liability A/c (e.g., Debenture holder’s A/c) Dr.<br>
To Cash A/c<br>
To New Liability A/c<br>
(Debentures are taken over at agreed value and settled by issue of new debentures in above entry)<br>
<br>
<u>For Payment of Expenses/Unrecorded Liability:</u><br>
Gen. Res. or P&L A/c Dr.<br>
To Cash A/c<br>
<br>
No Statutory reserve to be created separately, Since they are already recorded in 2nd Entry above.
</td>
</tr>
</table>

| | |
|---|---|
| 5. Shipping Res.<br>6. Site Restoration Fund<br>***Amalg. Adjust. Reserve should be shown as a separate line item under the head R & S**<br><br>**For Unrealised Profit:**<br>Upstream Transaction:<br>Goodwill A/c Dr.<br>To Stock A/c<br>Downstream Transaction:<br>General Reserve A/c Dr.<br>To Stock A/c | **For Unrealised Profit:**<br>Upstream and Downstream Transaction:<br>General Reserve A/c Dr.<br>To Stock A/c |
| **It is important to note that in case of Amalgamation in the nature of merger question may specify revalued figures or Market values of Assets, such values would be used for the purpose of calculation of PC.** | |

**EXAMPLE 14: (Accounting for Transferee Books – Purchase Method) (Master Problem)**

**Balance Sheet as on 31/3/24**

| Particulars | Transferee | Transferor |
|---|---|---|
| Equity Share Capital (10/-) | 12,00,000 | 8,00,000 |
| 9% Preference Share Capital (10/-) | 8,00,000 | - |
| 8% Preference Share Capital (10/-) | - | 6,00,000 |
| General Reserve | 5,00,000 | 3,00,000 |
| Profit & Loss A/c | 3,50,000 | 2,50,000 |
| Export Profit Reserve | - | 50,000 |
| 7% Debenture (100/-) | 7,50,000 | - |
| 6% Debenture (100/-) | - | 6,00,000 |
| Creditors | 4,00,000 | 4,00,000 |
| | **40,00,000** | **30,00,000** |
| PPE | 13,00,000 | 9,00,000 |
| Investments | 9,00,000 | 7,00,000 |
| Inventory | 10,00,000 | 7,00,000 |
| Trade Receivables | 5,00,000 | 6,00,000 |
| Cash & Bank Balance | 3,00,000 | 2,00,000 |
| | **40,00,000** | **30,00,000** |

**(1)** 8% Preference Shareholders shall be given New 9% Preference Shares at 20% Increase in value (Shares to be issued at Par)

**(2)** Purchased Consideration to Equity Share Holder shall be discharged as under:

Cash = 3,00,000

Equity Shares of Transferee in 5:4

**(3)** Market Value per share of Transferee is 28/-

**(4)** Market Value of PPE & Investments of Transferor are 11,50,000 & 6,20,000

**(5)** Trade Receivable shall be subject to a Provision on Doubtful Debts @2%

**(6)** 6% Debenture Holder will get new 7% Debenture at an adequate amount. So that Interest Amount would be same

**(7)** EPR to be maintained for 2 Years more years.

**(8)** There is unrecorded Liabilities of Transferor towards creditor for goods of ₹ 30,000 which is also assumed by Transferee.

Required:

**(a)** Calculate Purchase Consideration.

**(b)** Pass Journal entries in the Books of Transferee.

**(c)** Prepare Balance Sheet after takeover of Transferee.

Assume Amalgamation in the nature of Purchase.

**SOLUTION:**

**Working Note: – 1 Calculation of Purchase Consideration**

| Payment to | Payment in | Working | Amount |
|---|---|---|---|
| Equity Shareholders | Cash | - | 3,00,000 |
| Equity Shareholders | Equity shares of Transferee | 80,000 X 5/4 | 28,00,000 |
| Preference Shareholder | 9% Preference Shares | 6,00,000 + 20% | 7,20,000 |
| **Total** | | | **38,20,000** |

**Working Note-2 Settlement of 6% Debentures**

- 6% Debenture of Transferor = 6,00,000
- Interest Amount @ 6% = 36,000/-
- New Debenture Interest Rate 7%
- Therefore, New Debenture Value = 36,000 ÷ 7%
- 7% Debenture = 5,14,286/- (Payable Value)

**Important Facts (Not a Part of Solution in Exam)**

**a)** All Assets and Liabilities to be Recorded.

**b)** Assets to be recorded at Market Value if given.

**c)** Provision for doubtful debts to be credited separately.

**d)** Export Profit Reserve (EPR) is not a liability therefore will not come under 2nd Entry of Assets/Liabilities taken over.

### Journal entries (Books of Transferee)

| | | |
|---|---|---|
| Business Purchase A/c Dr.<br>To Liability of Transferor A/c<br>(Being Business taken over) | 38,20,000 | <br>38,20,000 |
| PPE A/c Dr.<br>Investment A/c Dr.<br>Inventory A/c Dr.<br>Trade Receivable Dr.<br>Cash & Bank Dr.<br>Goodwill A/c Dr. (BF)<br>To Provision for DD A/c<br>To Creditors A/c<br>To Debenture Holder of Transferor A/c<br>To Business Purchase A/c<br>(Being Assets & Liabilities are recognised & Goodwill recorded | 11,50,000<br>6,20,000<br>7,00,000<br>6,00,000<br>2,00,000<br>15,06,286 | <br><br><br><br><br><br>12,000<br>4,30,000<br>5,14,286<br>38,20,000 |
| Liquidator of Transferor A/c Dr.<br>To 9% Preference Share Capital<br>To Cash A/c<br>To Equity Share Capital A/c<br>To Securities Premium A/c<br>(Being Purchase Consideration Discharged) | 38,20,000 | <br>7,20,000<br>3,00,000<br>10,00,000<br>18,00,000 |
| Debenture Holder of Transferor A/c Dr.<br>To 7% Debenture A/c<br>(Being Outstanding Debenture are issued New with 7% Interest) | 5,14,286 | <br>5,14,286 |
| Amalgamation Adjustable Reserve Dr.<br>To Expenses Profit Reserve<br>(Being EPR maintained) | 50,000 | <br>50,000 |

### Balance Sheet (after Amalgamation)

| | | |
|---|---|---|
| **Shareholders Fund** | | |
| (I) Share Capital | 1 | 37,20,000 |
| (II) Reserve & Surplus | 2 | 26,50,000 |
| **Non-Current Liabilities** | | |
| (I) Long Term Borrowings | 3 | 12,64,286 |
| **Current Liability** | | |
| (i) Trade Payable | 4 | 8,30,000 |
| | | **84,64,286** |
| **Assets** | | |

| | | |
|---|---|---|
| **Non-current Assets:** | | |
| (a) PPE Tangible & Intangible | 5 | 40,56,286 |
| (b) Investment | 6 | 15,20,000 |
| **Current Assets:** | | |
| (a) Inventory | 7 | 16,00,000 |
| (b) Trade Receivable | 8 | 10,88,000 |
| (c) Cash & Cash equity | 9 | 2,00,000 |
| **Total** | | **84,64.286** |

## Notes to Accounts:

| | | |
|---|---|---|
| **Share Capital** | | |
| (a) Equity Share Capital of 10/- each<br>+ Issue of Purchase consideration | 12,00,000<br>10,00,000 | <br>22,00,000 |
| (b) 9% Purchased Share Capital of 10/- each + Issue of Purchase Consideration | 8,00,000<br>72,00,000 | <br>15,20,000 |
| | | **37,20,000** |
| **Reserve & surplus** | | **26,50,000** |
| General Reserve | 5,00,000 | |
| Profit & Loss | 3,50,000 | |
| Securities Premium | 18,00,000 | |
| EPR | 50,000 | |
| (-) AAR | (50,000) | |
| **Long TERM Borrowings** | | **12,64,286** |
| (a) 7 % Debenture<br>+ New Issue of 7% Debentures | 7,50,000<br>5,14,286 | |
| **Trade Payable** | | **8,30,000** |
| Creditor of Transferee | 4,00,000 | |
| Creditors Recorded Transferor | 4,30,000 | |
| **PPE** | | |
| (a) Tangible | 13,00,000 | 24,00,000 |
| Transferee | 11,00,000 | |
| Transferor | | |
| (b) Intangible | | |
| Goodwill | | 16,06,286 |
| | | **40,56,286** |
| **Investments** | | |
| Transferee | 9,00,000 | |
| Transferor | 6,20,000 | 15,20,000 |

| | | |
|---|---|---|
| **Inventory** | | |
| Transferee | 10,00,000 | |
| Transferor | 6,00,000 | 16,00,000 |
| **Trade Receivable** | | |
| Transferee | 5,00,000 | |
| Transferor | 6,00,000 | |
| (-) Provision | (12,000) | 10,88,000 |
| **Cash & Bank** | | **2,00,000** |
| Transferee | 3,00,000 | |
| Transferor | 2,00,000 | |
| (-) Purchase Consideration | (3,00,000) | |

**EXAMPLE 15: (Amalgamation in the nature of Merger)**

**Balance Sheet**

| | X ltd. | Y ltd. |
|---|---|---|
| Equity Share Capital (10/-) | 15,00,000 | 12,00,000 |
| General Reserve | 3,00,000 | 2,00,000 |
| Securities Premium | 1,00,000 | 50,000 |
| Revaluation Reserve | 50,000 | 20,000 |
| Liabilities | 2,50,000 | 1,30,000 |
| | **22,00,000** | **16,00,000** |
| Property Plant & Equipment | 9,00,000 | 7,00,000 |
| Investments | 4,00,000 | 2,00,000 |
| Current Assets | 9,00,000 | 7,00,000 |
| | **22,00,000** | **16,00,000** |

**(1)** X Ltd. & Y Ltd. decided to merge their Business & form a New Company XY Ltd.

**(2)** XY Ltd. shall issue new equity share to Shareholders of X Ltd. & Y Ltd. at 10/- each (at Par)

**(3)** Exchange Ratio for issue of New shares is 4:5

**Required:**

(a) Calculate Purchase Consideration

(b) Journal entries in the books of XY Ltd.

**SOLUTION:**

**WN 1 - Calculation of PC**

**(i) For Shareholders of X Ltd.**

Equity Shares in XY Ltd. = 1,50,000/5X4 = 1,20,000 no.

PC Value = 1,20,000 X 10 = 12,00,000

**(ii) For Share Holder of Y Ltd.**

Equity Shares in XY Ltd. = 1,20,000/5X4

PC Value = 9,60,000

**Journal Entries in the Books of XY Ltd. (Transferee)**

| | | | |
|---|---|---|---|
| Business Purchase A/c | Dr. | 21,60,000 | |
| To Liquidator of X Ltd. A/c | | | 12,00,000 |
| To Liquidator of Y Ltd A/c | | | 9,60,000 |
| PPE A/c | Dr. | 16,00,000 | |
| Investment A/c | Dr. | 6,00,000 | |
| Current Asset A/c | Dr. | 16,00,000 | |
| To Liabilities | | | 3,80,000 |
| To Business Purchase | | | 21,60,000 |
| To Revaluation Reserve | | | 70,000 |
| To Securities Premium | | | 1,50,000 |
| To General Reserve **(Bal. Fig.)** | | | 10,40,000 |
| Liquidator of X Ltd. | Dr. | 12,00,000 | |
| Liquidator of Y Ltd. | Dr. | 9,60,000 | |
| To Equity Share Capital | | | 21,60,000 |

**Balance of XY Ltd.**

| | |
|---|---|
| Equity Share Capital 10/- each | 21,60,000 |
| General Reserve | 10,40,000 |
| Securities Premium | 1,50,000 |
| Revenue Reserve | 70,000 |
| Liabilities | 3,80,000 |
| | **38,00,000** |
| PPE | 16,00,000 |
| Investment | 6,00,000 |
| Current Asset | 16,00,000 |
| | **38,00,000** |

## EXAMPLE 16:

Same as Example 15 But Exchange Ratio is 9:8 for calculation of PC

Calculate Purchase Consideration & Pass Journal entries in the Books of XY Ltd. (Pooling of Interest Method)

## SOLUTION:

**WN 1 - Calculation of PC**

**For Shareholders of X Ltd.**

Equity Shares in XY Ltd. = 1,50,000 x 9/8 = 1,68,750 no.

PC Value = 1,68,750 X 10 = 16,87,500

**For Share Holder of Y Ltd.**

Equity Shares in XY Ltd. = 1,20,000 x 9/8 = 1,35,000

PC Value = 1,35,000 X 10 = 13,50,000

| | | | |
|---|---|---|---|
| PPE A/c Dr. | 16,00,000 | |
| Investment A/c Dr. | 6,00,000 | |
| Current Asset A/c Dr. | 16,00,000 | |
| General Reserve **(Bal. Fig.)** Dr. | 3,37,500 | |
| To Liabilities | | 3,80,000 |
| To B/P | | 30,37,500 |
| To Revaluation Reserve | | 70,000 |
| To Securities Premium Reserve | | 1,50,000 |
| To General Reserve | | 5,00,000 |

# 7. Books of Transferor Company

1. Transfer all the Assets and Liabilities to Realisation A/c
2. EQ Share Capital, Reserves, Losses, Dividend Payable, Fict. Assets shall be transferred to ESH A/c
3. PSC is to be transferred to PSH A/c
4. **Cash and Bank –** If taken over then transfer it to Realisation A/c otherwise Make it separately
5. Raise PC in Credit side of Realisation A/c
6. Before closing Realisation A/c, close Pref. Share Holder A/c after discharging PC to them so that if there remains any difference in PSH A/c it will be transferred to Realisation A/c
7. Close Realisation A/c, Balance of this account will be transferred to ESH A/c
8. Discharge PC (In the form of Cash and Shares) to ESH.

**EXAMPLE 17:**

In Above Example No. 15, Close the books of X Ltd.

**SOLUTION:**

**Closing the Books of X Ltd.**

**Target** = To Close All Assets Ledger Balance and all Liabilities Ledger Balance through Realization A/c

To Close Equity Share Capital and R&S Ledger through Equity Shareholders A/c

**Realization A/c**

| Particular | Amount | Particular | Amount |
|---|---|---|---|
| To PPE | 9,00,000 | By Liabilities | 2,50,000 |
| To Investment | 4,00,000 | By XY Ltd. (PC) | 12,00,000 |
| To Current Asset | 9,00,000 | **By Equity Shareholders A/c (b/f Loss)** | **7,50,000** |

**Equity Shareholders A/c**

| Particular | Amount | Particular | Amount |
|---|---|---|---|
| To Realisation A/c (Loss) | 7,50,000 | By Equity Share Capital | 15,00,000 |
| To Equity Share of XY Ltd. **(final settlement)** | 12,00,000 | By General Reserve | 3,00,000 |
| | | By Securities Premium Reserve | 1,00,000 |
| | | By Revaluation Reserve | 50,000 |

| | |
|---|---|
| **For Purchase Consideration due (Receivable from XY Ltd.)** | |
| XY Ltd. A/c Dr. | 12,00,000 |
| To Realization | 12,00,000 |
| **For receiving Purchase Consideration** | |
| Equity Share of XY Ltd A/c Dr. | 12,00,000 |
| To XY Ltd | 12,00,000 |
| **For Distributing Purchase consideration to Equity share Holder** | |
| Equity share Holders A/c Dr. | 12,00,000 |
| To equity shares of XY Ltd. | 12,00,000 |

## EXAMPLE 18: (Takeover of selected Asset & Liabilities)

**Balance Sheet**

| | A Ltd. | B Ltd. |
|---|---|---|
| Equity Share Capital (10/- each) | 10,00,000 | 7,00,000 |
| GR | 3,00,000 | 4,00,000 |
| Bank Loan | 9,00,000 | 8,00,000 |
| Creditors | 4,00,000 | 3,00,000 |
| | **26,00,000** | **22,00,000** |
| Land & Building | 8,00,000 | 6,00,000 |
| Plant & Machinery | 5,00,000 | 4,00,000 |
| Investments | 3,00,000 | 5,00,000 |
| Goodwill | 1,00,000 | 1,00,000 |
| Debtors | 6,00,000 | 5,00,000 |
| Cash & Bank | 3,00,000 | 1,00,000 |
| | **26,00,000** | **22,00,000** |

**(1)** A Ltd acquired The Business of B except Creditors, Investment & Cash at Bank.

**(2)** Investments will be realised by B @ 10% above Book Value.

**(3)** Creditors to be paid Rs. 2,80,000 by B in full settlement.

**(4)** Liquidation expenses to be borne by B ₹ 1,00,000.

**(5)** Goodwill value of B is useless.

**(6)** Market Value of Land & Building of B = 9,00,000

**Required:**

**(a)** Calculate Purchased consideration (Purchased Consideration shall be discharged in form of Equity Shares @ 30/- each)

**(b)** Close Books of B Ltd.

**(c)** Prepare B/s of A Ltd after Amalgamation.

## SOLUTION:

### Purchase Consideration Calculation

| | |
|---|---|
| Land Building | 9,00,000 |
| Plant & Machinery | 4,00,000 |
| Debtors | 5,00,000 |
| (-) Bank Loan | (8,00,000) |
| **Purchase Consideration** | **10,00,000** |

Purchase consideration to be discharged in Equity Shares @ 30/-

Therefor No. Equity shares to be Issued = 10,00,000/30 = 33,333no X 30/-

Remaining to be paid in cash = 0.33 X 30/- = 10/-

| | | | |
|---|---|---|---|
| Realization A/c<br>To Investment A/c | Dr. | 5,00,000 | <br>5,00,000 |
| Bank A/c<br>To Realization | Dr. | 5,50,000 | <br>5,00,000 |
| Creditors A/c<br>To Realization | Dr. | 3,00,000 | <br>3,00,000 |
| Realization A/c<br>To Bank | Dr. | 2,80,000 | <br>2,80,000 |

### Realization A/c

| **Particular** | **Amount** | **Particular** | **Amount** |
|---|---|---|---|
| To Land & Building | 6,00,000 | By Bank Loan | 8,00,000 |
| To Plant & Machinery | 4,00,000 | By Creditors | 3,00,000 |
| To Investment | 5,00,000 | By A Ltd. (PC) | 10,00,000 |
| To Debenture | 5,00,000 | By Bank | 5,50,000 |
| To Goodwill | 1,00,000 | | |
| To Bank | 2,80,000 | | |
| To Bank | 1,00,000 | | |
| **To Equity Shareholders** | **1,7,0000** | | |

### Cash at Bank A/c

| | | | |
|---|---|---|---|
| To Balance B/d | 1,00,000 | By Realization | 2,80,000 |
| To Realization | 5,50,000 | By Realization | 1,00,000 |
| To A Ltd | 10 | By Equity Shares | 2,70,010 |
| | **6,50,010** | | **6,50,010** |

### Equity Shareholders A/c

| Particular | Amount | Particular | Amount |
|---|---|---|---|
| To Equity Shares (PC) | 9,99,990 | By Equity Share Capital | 7,00,000 |
| To Cash (b/f) | 2,70,010 | By General Reserve | 4,00,000 |
| | | By Realization | 1,70,000 |
| | **12,70,000** | | **12,70,000** |

## 8. ELIMINATION OF UNREALISED PROFIT/LOSS ON UNSOLD STOCK IN INTER CO. TRANSACTION

Transaction between Transferee co. and Transferor co. for sale purchase of goods/assets may be made at more than actual cost (i.e. at Profit margin). In that case, unrealized profit on unsold stock shall be eliminated while Preparing Final Balance Sheet of Transferee Co. Such Inter company transactions can be of two types:

1. Downstream Transaction – Sale of Goods/Assets by Transferee Co. to Transferor co.
2. Upstream Transaction – Sale of Goods/Assets by Transferor co. to Transferee co.

| Downstream Transaction | Upstream Transaction |
|---|---|
| Profit is earned by Transferee co. and unsold stock is laying with Transferor co.<br><br>Such profit is to be eliminated from Profit and Loss A/c of Transferee co. as under:<br>**Profit and Loss A/c Dr.**<br>**To Stock A/c** | Profit is earned by Transferor co. and unsold stock is laying with Transferee Co.<br><br>Such profit is to be eliminated from Profit & Loss A/c of Transferor co. (in case of Merger) or Capital Reserve/Goodwill A/c (in case of Purchase) as under:<br>**(Merger) Profit and Loss A/c Dr.**<br>**To Stock A/c**<br><br>**(Purchase) Goodwill/CR A/c Dr.**<br>**To Stock A/c** |
| **Note:** Above entries are based on Profit Elimination. In case of Loss elimination Profit and Loss A/c or Goodwill/CR A/c shall be credited and Stock shall be debited. | |

**EXAMPLE 19:**

A Ltd. sold goods costing 1,20,000 to B Ltd. @ 1,50,000. After some time, A Ltd. acquired Business of B Ltd. Inventory of B Ltd. includes 30,000/- goods purchased from A & not yet sold. Calculate unrealized profit and pass Journal Entry for elimination of unrealized Profit.

**SOLUTION:**

Profit Margin included in the above transaction = 30,000/1,50,000 X 100 = 20% as sale

Profit element in Unsold Inventory with B = 30,000 X 20% = 6000

**Journal Entry (Books of A Ltd. Transferor)**

| | | | |
|---|---|---|---|
| GR/ Profit & Loss A/c | Dr. | 6,000 | |
| To Stock | | | 6,000 |

## Example 20:

**Case 1: Downstream Transaction**

Transferee sold goods to Transferor Costing ₹ 5,00,000 at ₹ 7,50,000

In Balance sheet of Transferor Total inventory is appearing at 12,00,000. Which includes goods from transferee ₹ 3,00,000

Inventory is taken over at Book Value

Calculate Unrealised Profit to be eliminated

| | Cost | Sale | Profit |
|---|---|---|---|
| Total | 5,00,000 | 7,50,000 | 2,50,000 |
| Unsold | ? | 3,00,000 | 1,00,000 |

Unrealised Profit to be Eliminated = 1,00,000/-

**Case 2:**

Same as Case 1 but Inventory is taken over at 15% less than Book Value

| | |
|---|---|
| Total Unrealised Profit to be eliminated | 5,00,000 |
| (-) already eliminated @15% of 3,00,000 | (45,000) |
| Unrealised Profit shall be eliminated Separately | 55,000 |

## 9. OTHER IMPORTANT ADJUSTMENTS

| | | | |
|---|---|---|---|
| **1.** | **DIVIDEND DECLARED & PAID (Refer Q203 & 208)** | **Dividend declared:** It is declared out of free reserve i.e. General Reserve or Profit & Loss a/c.<br>**Dividend in form of %:** Such % is always applied as paid up share capital. | Profit & Loss A/c Dr.<br>General Reserve A/c Dr.<br>To Dividend Payable A/c<br><br>Dividend Payable A/c Dr.<br>To Bank A/c |
| **2.** | **REVALUATION OF PPE (FIXED ASSETS) (Refer Q203 & 208)** | If question asks for revaluation of PPE of Transferor and Transferee: | PPE A/c Dr.<br>To Revaluation Reserve<br><br>Profit & Loss A/c Dr.<br>To PPE a/c |
| **3.** | **SETTLEMENT OF PREFERENCE SHARES OF TRANSFEROR AT PREMIUM** | • Sometimes it is not clear whether New Preference shares to be issued by Transferee will be at Par OR @ Premium.<br>• In that case, check premium % given in the question is attached with preference shares of Transferor or with preference shares of Transferee.<br>• If premium % is attached with New Issue of Transferee, then only New Issue Price will be at premium otherwise at par. | **Refer Example 21** |
| **4.** | **PURCHASE CONSIDERATION ISSUED IN FORM OF PARTY PAID UP SHARES (Refer Q402)** | • Transferee Company is issuing partly paid-up shares to discharge Purchase Consideration.<br>• When partly paid-up shares are being issued, transferee Company may announce premium separately.<br>• In such case, the issue price of share would be Partly Paid-up Value + Premium Amount. | **Refer Example 22** |
| **5.** | **GOODWILL CALCULATION** | Sometimes question require us to calculate Goodwill by following methods:<br>**1.** Avg. Profit Method<br>**2.** Super Profit Method | |

| | | |
|---|---|---|
| | **(Refer Q204)** | **3.** Capitalisation Method<br><br>One common observation in all above methods is we should always exclude following items while calculating Goodwill:<br>**a)** Non-Trade Investments from Capital Employed working<br>**b)** Non-Trade Incomes, Non-recurring Incomes/Expenses and Abnormal Items from Past Profits. |

**EXAMPLE 21:**

**CASE 1**: 12% preference share of Transferor will be paid by issue of new 14% preference shares at 20% premium. B/S of Transferor shows PSC O/s = 1,50,000

Therefore, Settlement of Rs 1,50,000 @ 120/- per (No of new issue = 1,50,000/20 = 1,250 no.)

**Case 2:** 2,50,000/- 10% preference share capital will be discharged @ 20% premium by issue of new 9% preference shares of Transferee

Therefore, Settlement value = 2,50,000+20% = 3,00,000

By issue of New 9% preference share @ 100/- (No. of new issue = 3,000 no.)

**Case 3:** Rs. 1,00,000, 9% preference shareholders will be paid @ 10% premium by issue of new preference share at 10% premium.

Settlement value = 1,10,000

By issue of new share @110 (No. = 1,10,000/110 = 1000 no.)

**EXAMPLE 22:**

Transferor has 1,20,000 no. of shares outstanding. Transferee shall issue Rs. 100 share at 80% paid up with 30/- premium in the ratio of 3:4

**SOLUTION:**

New No. to be issued = 1,20,000 X ¾ = 90,000 no.

Purchase Consideration = 90,000 No. X 110/- = 99,00,000/-

**Conclusion**: Purchase Consideration is discharged in form of shares at Issued price always.

Issued price = Paid up Price (+) Premium OR (-) Discount