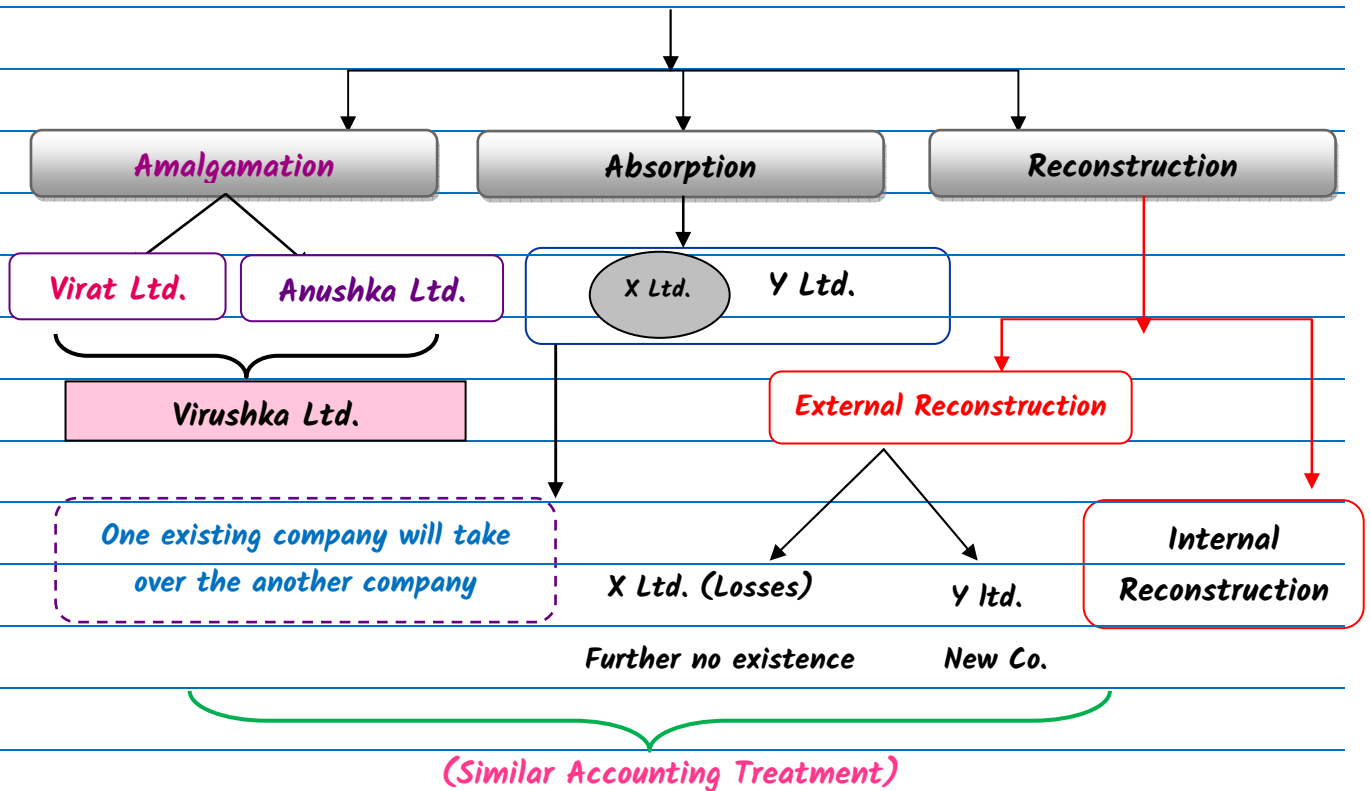


# AMALGAMATION & ABSORPTION & RECONSTRUCTION

## Scope of this chapter



### Amalgamation -

Two companies dissolved & New company formed to take over business of two companies

### Absorption -

One existing company took over business of other company.

### External Reconstruction -

New Company will be formed to take over the business of existing / old company.

## Accounting Treatment

1. One or more company(ies) getting closed / dissolved in all above three types - Prepare Realisation Account.
2. Another company whether existing or new is taking over business - Pass Journal entries for business purchase.
3. Therefore, In case of amalgamation, Absorption & Reconstruction there is no change in accounting treatment.

### Purchase Consideration

1. Payment made to equity shareholders & Preference shareholders in form of Cash, Equity shares, Preference shares or debentures are treated as purchase consideration.
2. Therefore, payments to debenture holders in the form of cash / debenture are not treated as Purchase Consideration.
3. As well as realisation expenses paid by transferee company is not treated as purchase consideration.
4. Other payments of liability settlement is NOT Purchase consideration.

### Methods of calculating Purchase Consideration

Net Asset Method

Net Payment Method

Lump-sum Method

<b>Assets Acquired</b> (Agreed Price)	xxx	1. Consider payment to equity & preference shareholders Only. Note:- Payment to debenture holders in cash or debentures is not considered.
<b>(-) Liabilities taken over</b>	(xxx)	2. Payment of Realisation expenses not considered.
<b>Net Assets</b>	xxx	3. Purchase consideration -
<b>(+) Goodwill</b>	xxx	
<b>Total Purchase Consideration</b>	xxx	Payment to equity shareholder of transferor Company in cash / shares / debentures
		XXX
If payment is not given in problem or share issued is given but number of Shares or price of shares is not given then follow Net Asset Method		(+) Payment to preference shareholders of transferor co. in cash / shares/ debentures
		XXX
		Purchase consideration
		XXX
		(-) Net Assets acquired As per 1 <sup>st</sup> Method
		Goodwill / Capital Reserve
		XXX

### Intrinsic Value Of Share

It is real value of shares on the basis of Net Asset in business

All Assets (At current Price)	xxx
(-) All Liabilities	<u>(xx)</u>
Net Asset	xxx

$$\text{Intrinsic Value of shares} = \frac{\text{Net Assets}}{\text{No. of equity shares.}}$$

### ACCOUNTING TREATMENT

Amalgamation in the  
Nature of Merger

Amalgamation in the  
Nature of Purchase

Conditions for Merger (5 फेरें)

If any of the condition is not fulfilled / Satisfied.

1. All assets & liabilities are taken over (As well as reserves are acquired).
2. At Book Value only.
3. Same business will be carried on .
4. At least 90% of shareholders of transferor Company ready to become shareholder of new company.
5. Consideration paid in shares except fractional Shares.

Then it is treated as purchase.

Accounting as per purchase method.

Accounting as per pooling of Int. method.

Intention – To come together & do business	
<b>Consequences</b>	<b>Accounting as per purchase method.</b>
1. All reserves are also acquired with assets & Liabilities.	1. Reserves are not acquired (If nothing is specified then all assets including cash & bank after adjustment realisation expenses shall be acquired.
2. Assets & liabilities are shown at Book Value.	2. Assets & liabilities are shown at agreed price.
3. Excess payment for net asset or realisation expense of transferor company.	3. Excess / Less payment for realisation of expenses.
a) Extra payment – Deducted from General reserve / P&L A/c.	a) Extra Payment treated as goodwill
b) Less Payment – Added in GR / P&L A/c. (No effect to Goodwill / Capital Reserve)	b) Less Payment treated as Capital Reserve.
↓	↓
If realisation expenses paid by transferee company of transferor company	⚡ Statutory Reserve – In case of Purchase, reserves are not acquired. Therefore separate treatment is required for statutory reserve.
⚡ Deduct from P & L A/c / General Reserves.	
↓	↓
<b>Statutory Reserves</b>	⚡ Transferee company must show statutory Reserve in their Books of Accounts / Balance sheet.
⚡ In case of merger all reserves are acquire at the time of business purchase.	<b>Journal Entry</b>
Hence Statutory Reserves are also acquired	Amalgamation Adjustment A/c .....Dr.
Due to this there is no need to give separate treatment for statutory reserves.	To Statutory Reserve
	Shown in Reserve & surplus
	Shown in Reserve & Surplus as negative
	(Previously it was required to be shown on Asset Side).

✚ This separate treatment of A/c is required in the books of Transferee Company.

There is no change in accounting treatment in books of transferor whether it is purchase or merger.

✚ In the books of transferor co. If preference shareholders are discharged / settled at premium, then such payment to preference shareholders shall be treated as loss for equity shareholders And such loss shall be debited to realisation Account / Equity shareholders Account.

### Journal Entries

#### In the books of transferor company

(No change in following entries whether it is purchase / merger)

1.	To close Asset Account -	Realisation Account .....Dr.	xxx
		To Assets Account	(Individually) (At B.V.) xxx

2.	To close Liabilities	Sundry Liabilities A/c.....Dr.	(Individually) (At B.V.) xxx
	Account	- To Realization A/c.	xxx

(Note: Debtors Account & Provision for doubtful debts A/c both are separate A/c. Hence Debtors A/c shall be credited with Gross value & provision for doubtful debts Account shall be debited with its value)

3.	To close share capital	✚ Equity share capital A/.....Dr.	xxx
	& reserve Account	Reserve A/c .....Dr.	(Individually)xxx
		To Equity Shareholders A/c	xxx

		✚ Preference share Capital A/C.....Dr.	xxx
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		To Preference shareholders A/c	xxx
4.	Purchase consideration Due	± Transferee Co./ New CO. A/c.....Dr.	xxx
		To Realisation A/c	xxx
5.	Sale of assets not	± Cash A/c .....Dr.	xxx
	taken over by new co.	To Realisation A/c	xxx
6.	Paid of liabilities not	± Realisation A/c.....Dr.	xxx
	taken over by new co.	To Cash A/c	xxx
7.	Purchase Consideration Received	Cash/Bank A/c.....Dr.	xxx
		Shares in New Co. A/c.....Dr.	xxx
		Debentures in New co. A/c....Dr.	xxx
		To New Company A/c	xxx
8.	Payment to Pref. share holders	Preference shareholders A/c...Dr.	xxx
		To Cash / Bank A/c	xxx
	(If any excess amount paid, then such amount debited to realisation/ Eq. shareholders A/c).		
9.	Payment to Equity Shareholders	Equity Shareholders A/c .....Dr.	xxx
		To cash / bank A/c	xxx
		To Eq. shares of transferee Co. A/c	xxx
10.	Liquidation expenses	Realization A/c.....Dr.	xxx
		To Cash/Bank A/c.	xxx
	Note - If problem states two companies are merged it doesn't mean it is merger, please check conditions given.		

<b>In the books of New Company (Transferee Company)</b>
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1.	<b>Business Purchase A/c</b>	Business Purchase A/c.....Dr	xxx
		To Transferor co. / Vendor co. A/c.	xxx(p.c.)
2.	<b>Recording of assets and Liabilities.</b>	Asset A/c .....Dr.	xxx
		To Liabilities A/c	xxx
		To Business Purchase A/c	xxx
	<b>If Extra amount paid then,</b>		
	Assets A/c.....Dr.	xxx	} In merger no concept of G/W or Capital Reserve then profits / difference adjusted in General Reserve / P&L A/c.
	Goodwill A/c.....Dr.	(Bal. Figure) xxx	
	To liabilities A/c.	xxx	
	To Business Purchase A/c.	xxx	
	<b>If less paid then,</b>		
	Asset A/c .....Dr.	xxx	
	To liabilities A/c	xxx	
	To Business Purchases A/c	xxx	
	To Capital Reserve Account	(Bal. Figure)xxx	
3.	<b>Purchase Consideration Paid.</b>		
	Transferor Co. A/c .....Dr.	xxx	
	To Cash / Bank	xxx	
	To Equity shares	xxx	
	To Debentures	xxx	
4.	<b>Realisation Expenses of transferor company paid by transferee.</b>		
	Goodwill A/c .....Dr.	xxx (In case of purchase)	
	P&L A/c / General Reserve A/c..... Dr.	xxx (In cases of merger)	
	To Cash/ Bank A/c	xxx	

If following words are given in problem. What does it mean?

**Discharged at Premium**

**Vs.**

**Issued at Premium**

↓  
Paid at premium

↓  
No securities premium A/c is involved

↓  
Securities premium A/c is involved

↓  
Just Extra payment is made for settlement in cash / shares.

↓  
Ex. ₹ 11,00,000 preference shares are discharged by issuing preference shares

For Example - 11,00,000 preference shares are discharged at 10% premium by issuing

of ₹ 100 @ 10 % Premium.

Preference shares of transferee company

11,00,000 - liability is constant

$11,00,000 + 10\% = 12,10,000$

$11,00,000 / 100 + 10$

12,10,000 are Preference shares issued and transfer it share capital amount .

Premium = 10,000 shares x ₹ 10 = 1,00,000

Transfer 1,00,000 to securities premium Account Remaining in Preference share Capital.

✚ **Transferor company sold goods to transferee company at profit before amalgamation.**

**(vice versa)**

Inventory remaining with other company which is taken over back. Then such inventory contains unrealised profit & such profit shall be reversed.

1<sup>st</sup> effect - deduct it from inventory & 2<sup>nd</sup> effect - deduct it from P&L.

✚ **Special Adjustment**

Debentures of 5,00,000 discharged at premium of 20% @ ₹ 96 i.e. (96%).

Hence  $5,00,000 + 20\% = ₹ 6,00,000$ .

No. of Debentures =  $6,00,000 / 96 = 6,250 \times ₹ 100$  (Face value) = 6,25,000.