

NATURE OF MERGER & PURCHASE ^{of two co} [purchasing co]

1. For Business purchase & consideration due
 - Business purchase a/c Dr
 - To liquidator a/c

2. For Assets & liabilities taken over
 - Assets a/c Dr
 - Goodwill a/c [B/F] Dr
 - To liabilities a/c
 - To Business purchase a/c
 - To Capital Reserve a/c

3. For discharge of purchase consideration
 - Liquidator a/c Dr
 - To pref. Shares a/c
 - To Eq. Shares a/c
 - To Cash & Bank a/c
 - To Securities Premium [In case of given in problem]

4. For conversion of debentures
 - Old debentures a/c Dr
 - To New debentures a/c

5. For liquidation ^(purchase) expenses paid ^(merger) Realisation exp paid
 - Goodwill a/c / CR Dr
 - To Bank a/c
 - Reserve Dr / a/c
 - To Bank a/c

6. For Inter company Owings Elimination
 - Current liabilities a/c Dr
 - To Current assets a/c

7. For amalgamation adjustment paid
 - Amalgamation adjustment a/c Dr
 - To concerned reserve a/c

Buying co due to the selling co → Stock Reserve

Selling co due to the buying co → a/c / cr

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8. For unrealised profit transfer to Stock

Reserve a/c / Stock Reserve / a/c / cr Dr

To Stock / Current assets a/c

Transfer co [Selling co]

1. For assets transfer to realisation

Realisation a/c

Dr

To assets a/c

2. For liabilities transfer to realisation

Liabilities a/c

Dr

To Realisation a/c

3. For purchase consideration due

Transferee co a/c

Dr

To Realisation a/c

4. For Realisation loss transfer to Equity Shareholders

Equity Shareholders a/c

Dr

To Realisation a/c

5. For capital & Reserves & Surplus transfer to Eq. SH / Amt

Eq. Share Capital a/c

Dr

Reserves & Surplus a/c

Dr

To Equity Shareholders a/c

6. For Realisation profit transfer to Shareholders

Realisation a/c

Dr

To Eq. Shareholders a/c

7. For Settlement to SH by transfer of consideration received

Shareholders a/c

Dr

To Shares / Securities of transferee co

To Bank a/c

Methods of calculating purchase consideration

(i) Directly given

(ii) Net Assets Method

$$P_c = \text{Assets taken over} - \text{Liabilities taken over}$$

(iii) Net payment Method P_3 in V_2

$$P_c = \text{Aggregate of consideration paid to Shareholders}$$

(iv) Lumpsum consideration Method

Types of Amalgamation

(i) In The Nature of Mergers.

Condition

- * $< 90\%$ of of the Selling Co Shareholders should become Shareholders of purchasing Co
- * All assets & liabilities taken over by purchasing Co.
- * Record all assets & liabilities valued @ Book Value
- * Selling Co business is continued by purchasing Co
- * purchase consideration discharge by issue of Eq. Shares of purchasing Co

(ii) In The Nature of Purchase.

Condition:

If any one of the above mentioned 5 conditions to merger is not satisfied then it should be purchase method