

Acquisition of Business

Unit- II

Meaning

- An acquisition is when one company purchases most or all of another company's shares to gain control of that company. Purchasing more than 50% of a [target firm's](#) stock and other assets allows the acquirer to make decisions about the newly acquired assets without the approval of the company's shareholders. Acquisitions, which are very common in business, may occur with the target company's approval, or in spite of its disapproval. With approval, there is often a [no-shop clause](#) during the process.

Purchase Consideration

As per AS-14, “Purchase consideration is the aggregate of shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company.”

It means any payment made by the transferee company for the denture holders or creditors or any other outside liabilities of the transferor company shall not be included in the purchase consideration.

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graph TD; A[Methods Of Calculating Purchase Consideration] --> B[Lumpsum Method]; A --> C[Net Asset Method]; A --> D[Net Payment Method]; A --> E[Intrinsic Worth Method]
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Methods Of Calculating Purchase Consideration

Lumpsum
Method

Net Asset
Method

Net Payment
Method

Intrinsic Worth
Method

Reasons for converting companies

- To enjoy merit of perpetual succession
- To enjoy benefits of limited company
- To eliminate financial limitation
- To secure financial assistance
- To enjoy free transfer of shares
- To establish big business organisations

Accounting Treatment

- When new set of books are opened

- I. Assets taken
- II. Liabilities taken
- III. Determination of purchase consideration

- When the same set books are continued

- I. Revaluation of assets and liabilities
- II. Closing of assets and liabilities not taken over by purchasing company
- III. Closing the capital accounts
- IV. Preparation of revised balance sheet