ADVANCED CORORATE ACCOUNTING

UNIT 1

AMALGAMATION, ABSORPTION AND EXTERNAL RECONSTRUCTION OF COMPANIES

AMALGAMATION

- Term amalgamation is used when two or more existing companies into liquidation and new co. is formed to takeover their business. For e.g. If a new co XY Ltd. Is formed to take over the business of two existing companies, X Ltd. and Y Ltd. ,it is a case of amalgamation

ABSORPTION

- Term absorption is used when one or more existing company goes into liquidation and some existing company takes over its business. Foe e.g. if the business of existing co X Ltd. Is taken over by another co. Y Ltd. ,it is a case of absorption

External Reconstruction

- External reconstruction :- Term is used when one existing company goes into liquidation and a new co. is formed to take over its business. Foe e.g. if a new company X (New) Ltd. Is formed to take over the business of an existing co. X Ltd. Then it is a case of External reconstruction

TYPES OF AMALGAMATION

- Amalgamation in the nature of merger
- Amalgamation in the nature of purchase

Amalgamation in the nature of merger

- It includes:-

1. Transfer of all assets and liabilities
2. Same equity shareholders holding 90%
3. Purchase consideration in equity shares
4. Same business
5. Recording of Assets and liabilities at book value

Methods of Accounting for Amalgamation in the nature of Merger

POOLING OF INTEREST METHOD:- It includes:-

- Recording of assets and liabilities
- Recording of Reserves(whether capital or revenue or arising on revaluation)
- Recording of balance of profit & loss A/c
- Difference between the purchase consideration and the amount of share capital of the transferor Co.
- Uniform set of Accounting policies

Amalgamation in the nature of Purchase

- It is an amalgamation which does not satisfy anyone or more of the condition specified for amalgamation in the nature of merger.

Methods of Accounting for Amalgamation in the nature of Purchase

PURCHASE METHOD:- It includes,

1. Recording of assets and liabilities.
2. Recording of statutory reserves.
3. Recording of reserves other than statutory reserves.
4. Balance of profit & loss A/c.
5. Difference between the purchase consideration and the net asset of the transferor Co.

Purchase consideration

- Consideration for the amalgamation means the aggregate of the shares and other securities issued and the payment made in the form of cash or other asset by the transferee Co. to the shareholders of the transferor Co.

" Payment made by the transferee Co. to discharge the debenture holders and other outside liabilities and the cost of winding up of transferor Co. shall not be considered as part of purchase consideration"

Methods of calculating Purchase Consideration

Cases	Basis of purchase consideration
1. If all the modes of discharging purchase consideration are given along with their individual amount	"Net payment to shareholders basis" should be used
2. In other cases	" Net Assets taken over basis" should be used

Statement showing the computation of purchase consideration
(According to Net Assets taken over basis)

Particulars	Rs.
A. Total asset taken over at their agreed values	XXX
B. Less: Total liabilities taken over at their agreed amounts	XXX
C. PURCHASE CONSIDERATION (A-B)	XXX

$$\text{No. of shares to be issued by Purchasing Co.} = \frac{\text{Amount to be discharged by issue of shares}}{\text{Issue Price of a share}}$$

Statement showing the computation of purchase consideration
(According to Net Payment basis)

Mode of discharging purchase consideration	No. of shares	Issue price	Rs.
A. Preference shares	xxx	xxx	xxx
B. Cash for preference shareholders	----	----	xxx
C. Equity shares	xxx	xxx	xxx
D. Cash for equity shareholders	----	----	xxx
E. Total Purchase consideration (A+B+C+D)			xxx

Treatment of difference between the purchase consideration and the net assets of the transferor Co. arising on amalgamation in the nature of purchase

1. The excess of purchase consideration over the value of net assets acquired should be treated as **GOODWILL** ARISING ON AMALGAMATION . Such goodwill should be amortized on a systematic basis over a period not exceeding 5 years unless longer period can be justified

2. The excess of net assets acquired over the Purchase Consideration should be treated as **CAPITAL RESERVE** arising on Amalgamation.

Accounting treatment in the books of transferor company or vendor company (Old Co.)

Step-1 **Open a realization A/c**

Realization A/c	Dr.	(with the total)
To Sundry Assets (individually)		(book Value)

Step-2 **Transfer only those third party liabilities which are taken over by the purchasing co., at their respective book figures.**

Sundry Liabilities (individually)	Dr.	(Book Value)
To Realization A/c		(with the total)

Step-3 **Make due the purchase consideration from the purchasing co.**

Purchasing Co. A/c	Dr.	(with the P.C. due)
To Realization A/c		

Step-4 Receive the purchase consideration from the purchasing co.

Cash/Bank A/c	Dr.	(with cash received)
Pref. shares in purchasing Co	Dr.	(with issue price of pref. share)
Equity shares in purchasing Co	Dr.	(with issue price of equity share)
To purchasing Co		(with the total)

Step-5 Do the treatment of Liquidation/Realization Expenses

If the expenses are to be paid borne and paid by the vendor company	Realization A/c Dr. To Bank
If expenses are to be reimbursed by purchasing Co 1. On payment by vendor co 2. On reimbursement	Purchasing Co Dr.(agreed amt) Realization Dr.(with excess) To Bank (with the total) Bank Dr. To purchasing Co

Step-6 Realize those assets which have not been taken over by the purchasing Co

Bank A/c	Dr.	
To realization A/c		

Step-7 Discharge those liabilities which have not been taken over by the purchasing co

Respective liability A/c	Dr.	(with book figure)
Realization A/c	Dr.	(with the loss)
To Bank		(actual payment)
To Realization		(with the profit)

Step-8 Discharge the claims of preference shareholders

On due

Preference share capital a/c	Dr.	(with book figure)
Realization A/c	Dr.	(with the loss)
To Preference shareholders A/c		(actual payment)
To Realization A/c		(with the profit)

- ***On making payment:-***

Preference share holders A/c Dr

To bank

To preference shares in purchasing Co

Step-9 **Ascertain the profit and loss on realization and transfer the same to the equity shareholders a/c.**

In case of profit on realization	Realization A/c Dr. To equity shareholders A/c
In case of loss on realization	Equity shareholder a/c Dr. To Realization

Step-10 **Transfer the equity share capital A/c, Accumulated Profits, Reserves and losses to equity shareholders A/c**

For transfer of equity share capital, Accumulated profit and reserves	Equity share capital Dr Profit & Loss A/c Dr General Reserves A/c Dr Dividend equalization Reserve Dr Workmen compensation res Dr Capital reserve Dr Securities Premium Dr Debenture redemption reserve Dr Capital redemption reserve Dr To equity Shareholder A/c
For transfer of accumulated losses	Equity shareholders A/c Dr To Profit & Loss A/c To preliminary expenses To underwriting comm. To Dis. of issue of shares To deferred Revenue exp.

Step-11 **Make final payment to equity shareholders**

Equity shareholders A/c Dr (with the total)

To Equity shares in purchasing Co

To Cash / Bank A/c

Accounting treatment in the books of transferee Co. or purchasing Co. (New Co.)

Step-1 Record the acquisition of business from the vendor Co.

Business purchase A/c Dr (with purchase consideration)

To Liquidator of the vendor

Step-2 In case the amalgamation in the nature of merger

Assets (Individually)	Dr	(Book Value)
To Liabilities		(Book Value)
To provision for doubtful debts		(Book Value)
To Provision for depreciation		(Book Value)
To Reserves (Other then revenue reserve)		(Book Value)
To General Reserve		(balancing figure)
To business Purchase		(Purchase consideration)

- **Step-2 (A) In case of amalgamation in the nature of purchase**

Assets (individually)	Dr	(Respective agreed values)
Goodwill	Dr	(Excess of P.C over the net assets)
To Liabilities (individually)		(Respective agreed values)
To Business purchase		(Purchase consideration)
To Capital reserve		(excess of net assets over the purchase consideration)

Step-2 (b) In case of amalgamation in the nature of purchase

" Record the statutory reserves of the transferor company"

Amalgamation adjustment A/c	Dr.	(with the total)
To statutory Reserves A/c		(Respective book balance)

Step-3 Make payment to vendor company

Liquidator of vendor Co. A/c	Dr	(with the total)
Discount of issue of shares	Dr	(Discount allowed on shares)
To Equity share capital		(Paid up value of equity shares)
To preference share capital		(Paid up value of Pref. shares)
To Securities premium		(with Securities premium)
To Cash/Bank		(Cash payment)

Step-4 Record then issue of debentures to discharge the existing debenture holders of vendor Co

Debentures in Vendor Co Dr		(amount of debenture)
Dis. on issue of deb. in purchasing Co Dr.		(Debenture discount)
To Debentures in purchasing Co		(Nominal value)
To Securities Premium		(Debenture Premium)

Step-5 Record the reimbursement of the liquidation expenses of the vendor Co

Profit & Loss A/c (Merger) Dr

Goodwill A/c (Purchase) Dr

To Bank

Step 7 Eliminate the inter company Owings.

To eliminate the debts owed by vendor Co.	Sundry creditors of vendor Co Dr To sundry debtors
To eliminate the debts owed by purchasing Co.	Sundry Creditors Dr To Sundry Debtors of vendor
To eliminate the bills drawn and retained by vendor Co. upon purchasing Co.	Bills Payable A/c Dr To Bills Receivables of vendor
To eliminate the bills drawn and retained by Purchasing Co. upon vendor Co.	Bills payable of Vendor Co. Dr To Bills Receivable A/c
To eliminate the debentures held by Vendor Co. in purchasing Co.	Debentures A/c Dr To Investment in Debentures A/c
To eliminate the debentures held by purchasing Co. in vendor Co.	Debentures in Vendor Co. Dr To investment in debenture

- **Set off goodwill against Capital reserve**

Capital Reserve A/c Dr

To Goodwill A/c

THANK YOU