



Sem-V


**CORPORATE  
ACCOUNTING  
BY C.P**



# COMPANY MERGER & Reconstruction



# 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
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# ABSORPTION

- Term absorption is used when one or more existing company goes into liquidation and some existing company takes over its business. For 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. For 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 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	----	----	<del>xxx</del>
E. Total Purchase consideration (A+B+C+D)			<u>xxx</u>

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

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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 Dr.

If the expenses are to be paid borne and paid by the vendor company

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

**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.	



Thank  
You