AMALGAMATION

This Chapter is called before **2002** as Combined Combination of Three Words "Amalgamation, Absorption and External Reconstruction but a Days Simply Called As "Amalgamation".

Absorption:
It is the process in which one existing company takes over the other existing company and merges together as a single unit.

Amalgamation:
It is the process in which two or more existing companies joins together and start new company wi th new name and identity and dissolves the existing companies.

External Reconstruction:
It is the process in which one existing company reconstructs itself with new name and identity.

Now come to the point: - **Amalgamation**
Basic Understanding about **Absorption, Amalgamation** and **External Reconstruction**:-

Amalgamation is of Two Types

1. In the Nature of **Merger**
2. In the Nature of **Purchase**

1 There are Some Conditions (Basically 5) that must be fulfilled for **Amalgamation in the Nature of *Merger***.

- **1.** The Transferor Company **must take over** all the assets and all the liabilities of the transferor company.
- **2.** Assets and Liabilities **of the transferor** company will be taken over **by the transferee** company at their **book value**.
- **3.** The transferee company must carry on the same nature of business as that of the transferor company.
- **4.** At least **90%** of the Equity Shareholders of the transferor company must agree to become the shareholders of the transferee company.
- **5.** The transferee company **must discharge** the amount of **Purchase consideration** by issuing its **y Shares** to the **Equity Shareholders of the transferor** Company and if there is any **Fraction** ıld be **paid in Cash**.

2 If any one or more of the above mentioned condition is/are not fulfilled, the situation is called **Amalgamation in the Nature of *Purchase*.**

3 **Calculation of Purchase Consideration** (There are **Four Methods** for Calculation of Purchase Consideration):-

1. Lump Sum Method
2. Shares Exchange Ratio Method
3. **Net Assets Method**
4. **Net Payment Method**

There are mainly two methods which are normally used **3** and **4**

3. (I) Nature of

How To Calculate:-

Assets Taken over

(-) Less:

Liabilities Taken over

NET ASSETS METHOD: (Note: Normally used in the Purchase)

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1.	(When Assets are transferred to Realisation A/c) Realisation A/c **To** Sundry Assets A/c **(Write Individually)** } At Book Value	***	***
2.	(When Liabilities are transferred to Realisation A/c) Sundry Liabilities A/c **(Write Individually)** **To** Realisation A/c } At Book Value	***	***
3.	(When Purchase consideration becomes Due) Transferee Co. A/c **To** Realisation A/c **Note:** To making Transferee Co. as our Debtors because Purchase Consideration will be get later.	***	***
4.	(When any asset sold in the market by Transferor Company) Bank A/c **To** Realisation A/c Only if Amalgamation in the Nature of **Purchase**	***	***
5.	(When any liability is paid off by transferor company itself) Realisation A/c **To** Bank A/c Only if Amalgamation in the Nature of **Purchase**	***	***
6.	(When preference share holders are discharged **at premium or Discount**) **<u>At Premium</u>** Realisation A/c **To** Preference Share Holders A/c **<u>At Discount</u>** Preference Share Holders A/c **To** Realisation A/c	*** ***	*** ***
7.	(For recording of Dissolution/Realisation Expenses) **a).** When realisation Expenses are paid **by the transferor company** itself.)		

	Realisation A/c **To** Bank A/c **b).** When realisation Expenses are paid **by the transferee Company**. **No Entry** will be passed **c).** When realisation expenses are paid by **transferor company** and they are **reimbursed** by the **transferee company**. **i).** Transferee Company A/c **To** Bank A/c **ii)** Bank A/c **To** Transferee Company A/c	*** *** ***	*** *** ***
8.	(For recording of Profit/Loss on Realisation) **a).** In Case of **Profit** Realisation A/c **To** Equity Share Holders A/c **b).** In Case of **Loss** Equity Share Holders A/c **To** Realisation A/c	 *** *** ***	 *** *** ***
9.	(When Purchase Consideration is received) **Equity Share** in Transferee Company A/c **Preference Share** in Transferee Company A/c **Debenture** in Transferee Company A/c **Other Securities** in Transferee Company A/c **Cash** A/c **To** Transferee Company A/c **(Note: PC can be Discharged by any one or more than one or by all whice are mentioned above)**	 *** *** *** *** *** ***	 ***
10.	(When **preference share capital being transferred** to Preference share holders account) Preference Share Capital A/c **To** Preference share holders A/c	 ***	 ***

11.	(When purchase consideration is **Discharged** to **preference share holder**) Preference Share holders A/c **To** Equity Share in Transferee Company A/c **To** Preference Share In Transferee Company A/c **To** Debentures in Transferee Company A/c **To** Other Securities in Transferee Company A/c **To** Cash A/c	*** 	 *** *** *** *** ***
12.	(When **Equity Share Capital** and **Reserve and Surplus** are Transferred to **Equity Share holders** A/c) Equity Share Capital A/c Reserve & Surplus A/c **To** Equity Share Holders A/c	 *** *** 	 ***
13.	(When **Miscelleneous Expenditure** and **Profit & Loss A/c (Dr.)** Balance is adjusted in Equity Share Holders A/c) Equity Share Holders A/c **To** Miscelleneous Expenditure A/c **To** Profit & Loss A/c	 *** *** 	 ***
14.	(When the Amount of Purchase Consideration is Discharged to Equity Share Holders A/c Equity Share Holders A/c **To** Equity Share in Transferee Company A/c **To** Preference Share In Transferee Company A/c **To** Debentures in Transferee Company A/c **To** Other Securities in Transferee Company A/c **To** Cash A/c	 *** 	 *** *** *** *** ***

IN THE BOOKS OF TRANSFEROR COMPANY

(LEDGER ACCOUNTS)

- Realisation Account
- Transferee's Account
- Preference Share Holders Account
- Equity Share Holders Account

} **Note:** Generally we prepare only four Accounts in Practical Questions

R :ALISATION ACCOUNT			
Particulars	**Amt.**	**Particulars**	**Amt.**
To Sundry Assets **(Copy Individually)**	***	By Sundry Liabilities **(Copy Individually)**	***
To Bank A/c (Any Liabilities Paid off)	***	By Transferee Co. A/c **(Purchase Consideration)**	***
To Preference Share Holders A/c **(Loss due to Premium)**	***	By Bank A/c **(Any Assets Sold)**	***
To Bank A/c **(Realisation Exp. paid by Co.)**	***	By Preference Share Holders A/c **(Profit Due to Discount)**	***
To Equity Share Holders A/c **[Profit (Balancing Figure)]**	***	To Equity Share Holders A/c **[Loss (Balancing Figure)]**	***
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TRANSFEREE COMPANY A/C			
Particulars	**Amt.**	**Particulars**	**Amt.**
To Realisation A/c **(Purchase Consideration)**	***	By Equity Share in Transferee Co. A/c	***
	***	By Preference Share in Transferee Co. A/c	***
	***	By Debentures in Transferee Co. A/c *	***
	***	By Other Security in Transferee Co. A/c *	***
	***	By Cash A/c	***
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Note: Items will be varying in Amalgamation in the nature of Merger **or** Purchase as case may be. The"*" Items will not be entertained in Amalgamation in the nature of Merger.

PREFERENCE SHARE HOLDERS A/C			
Particulars	**Amt.**	**Particulars**	**Amt.**
To Equity Shares in Transferee Co. A/c	***	By Preference Share Capital A/c	***
To Pref. Shares in Transferee Co. A/c	***	By Realisation A/c **(Premium)**	***
To Debentures in Transferee Co. A/c	***		***
To Other Securities in Transferee Co. A/c	***		***

To Cash A/c	***		***
To Realisation A/c **(Discount)**	***		
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PREFERENCE SHARE HOLDERS A/C			
Particulars	**Amt.**	**Particulars**	**Amt.**
To Miscellaneous Expenditure	***	By Equity Share Capital A/c	***
To Profit and Loss A/c **(Loss: Dr. Bal.)**	***	By Reserve & Surplus A/c	***
To Realisation A/c **(If Loss)**	***	By Realisation A/c **(If Profit)**	***
To Equity Share in Transferee Co. A/c	***		***
To Equity Shares in Transferee Co. A/c	***		***
To Pref. Shares in Transferee Co. A/c	***		
To Debentures in Transferee Co. A/c	***		
To Other Securities in Transferee Co. A/c	***		
To Cash A/c	***		
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End of Transferor Books……Now Starting the Transferee's Books

IN THE BOOKS OF TRANSFEREE COMPANY

(JOURNAL ENTRIES)

IN THE NATURE OF MERGER Pooling Interest Method				IN THE NATURE OF PURCHASE			
S.N	**Particulars**	**Dr.**	**Cr.**	**S.N.**	**Particulars**	**Dr.**	**Cr.**
1.	**When Business of Transferor Company is Taken Over.**						
	Business Purchase A/c **To** Liquidator of Transferor Co.	***	***		Business Purchase A/c **To** Liquidator of Transferor Co. A/c	***	***
2.	A/c **When Assets and Liabilities Taken over are recorded**						

	Sundry Assets A/c **(Individually)** Reserve & Surplus A/c **(Bal. Fig.)** **To** Sundry Liabilities **(Individually)** **To** Business Purchase **To** Reserve & Surplus **(Bal. Fig.)** **[Note: Any one Bal. Fig. will be come either in Dr. or Cr.]**	*** ***	 *** *** ***		Sundry Assets A/c **(Individually)** Goodwill A/c **(Bal. Fig.)** **To** Sundry Liabilities **(Individually)** **To** Business Purchase **To** Capital Reserve **(Bal. Fig.)** **Note:** **1. Any one Bal. Fig. will be come either in Dr. or Cr.** **2. If PC is calculated by Net Assets Method there will no difference but if calculated by Net Payment Method difference will be come either in Dr. or Cr.**	*** ***	 *** *** ***
3.	**When Purchase consideration is discharged.**						
	Liquidator of Transferor Co. A/c **To** Equity Share Capital A/c **To** Securities Premium A/c **To** Preference Share Capital A/c **To** Cash A/c	***	 *** *** *** ***		Liquidator of Transferor Co. A/c **To** Equity Share Capital A/c **To** Securities Premium A/c **To** Preference Share Capital A/c **To** Debentures **To** Other Securities **To** Cash A/c	***	 *** *** *** *** *** ***
4.	**When Realisation/Dissolution Expenses of Transferor Company paid by Transferee Company.**						
	Reserve and Surplus (GR or P/L) **To** Bank A/c **Note:** **GR-General Reserve** **P/L: Profit and Loss A/c**	***	 ***		Goodwill A/c **To** Bank A/c **Note: Here is a capital loss so that Goodwill A/c is Debited.**	***	 ***
5	**When Shares are issued to General Public**						
Same	Bank A/c **To** Share Appl. & Allotment A/c	***	 ***		Bank A/c **To** Share Appl. & Allotment A/c	***	 ***
6.	**When Application and Allotment Money is transferred to Share Capital A/c**						
At Par.	Share Appl. & Allotment A/c **To** Share Capital A/c	***	 ***		Share Appl. & Allotment A/c **To** Share Capital A/c	***	 ***
At Pre.	Share Appl. & Allotment A/c **To** Share Capital A/c **To Securities Premium**	***	 *** ***		Share Appl. & Allotment A/c **To** Share Capital A/c **To Securities Premium**	***	 *** ***
Same **At Dis.**	Share Appl. & Allotment A/c Discount of Issue of Shares **To** Share Capital A/c	*** ***	 ***		Share Appl. & Allotment A/c Discount of Issue of Shares **To** Share Capital A/c	*** ***	 ***
7.	**When formation Expenses of Transferee company are recorded.**						

If in the practical question the Word used **"Assumption"**, "**Absorb"** or "**Takeover"**, "**Took over"** it means all the liabilities and Assets are taken over by the Transferee except Describing separately apart from these words.

If in the practical question the Word used "**Following**" it means only **those Assets and Liabilities**

Same	Formation Exp./Preliminary Exp. A/c **To** Bank A/c	*** ***			Formation Exp./Preliminary Exp. A/c **To** Bank A/c	*** ***	
8.	**When Inter Company Transaction are Recorded**						
Same	Sundry Creditors A/c **To** Sundry Debtors A/c **OR** Bills Payable A/c **To** Bills Receivable A/c **OR** Loan Taken A/c **To** Loan Given A/c	*** *** *** *** ***			Sundry Creditors A/c **To** Sundry Debtors A/c **OR** Bills Payable A/c **To** Bills Receivable A/c **OR** Loan Taken A/c **To** Loan Given A/c	*** *** *** *** ***	
9.	**When unrealized profit is recorded**						
Set Off Amt. Same	Reserve & Surplus/P&L A/c **To** Stock A/c/Current Assets **Note: When there is no profit in Balance sheet then Debit the Goodwill**	***	***		Reserve & Surplus/P&L A/c **To** Stock A/c/Current Assets **Note: When there is no profit in Balance sheet then Debit the Goodwill A/c**	***	***
10.	**When Statutory Reserve of transferor Company are transferred to Transferee Company**						
	Amalgamation Adjustment A/c **To** Statutory Reserve A/c **Note: At the time of Merge Balance Sheet, Amalgamation Adjustment A/c will be shown in Miscellaneous Expenditure A/c**	***	***		No Entry		

Note:

Same Means Entry 5, 6,7,8,9 are same in the **Merger** and **Purchase** and In 10 there is only a Treatment in the Nature of **Merger**

SOME IMPORTANT POINTS TO BE REMEMBERED:

are **taken over** by the **Transferee** Company which is **Describing below the Following Word**.

If Purchase Consideration is calculated by **Net Assets Method** then at the time of making Journal Entry for **Recording of Assets and Liabilities taken over** there will be now balancing figure in **Dr.** or **Cr.**

While recognizing whether the Purchase Consideration will be calculated by Net Assets Method or Net Payment Method just See if there is full information is given in Question about the payment to Owners (Equity and Preference) as Purchase Consideration then PC will be calculated by Net Payment Method

Otherwise if there is any little information is missing then PC will be calculated by Net Assets Method. **For Example:** In question there is given that Preference Discharged as ……and Equity Discharged as ……and Remaining in Cash (If not possible to find How Much Cash).

Now Remaining in Cash it means we don't know how much amount will be paid in Cash. Then Net Assets Method will be Apply.

- In Case of Merger all the Losses and Profits will be merged whereas in the Purchase Not.