Amalgamation & Acquisition

(A) Amalgamation

↳ Merges of two or more companies

X Ltd + Y Ltd = XY Ltd.

↳ liquidation of two or more companies and formation of new company.

Advantage

1. Pooling of services
2. Reduction in expense
3. Reduction in competition.

(B) Acquisition (Purchase) (Takeover)

- liquidation of one or more company but no new formation.

Ponds Ltd (Vendor) ⟶ HUL (Purchases)

ACC - - - - - - - - - - → Adani (consolidation)

↓

Previous shares ⟶ share purchase ⟶ Adani

Advantages :-

1. Fast Growth
2. Reduction of competition.

Purchase consideration (P.C)

- sum total payable by purchasing company
- to the Equity & preference shareholders of vendor company.

Two methods

1. Net Asset Method

FA	~~XX~~ XX	AV → Agreed value
CA	XX	
less: outside liability:	(XX)	
CL and LT liab.	(XX)	
Net Asset = P.C =	XX	

2. Net payment Method

For equity shareholders.

Existing shares X Agreed value	XX
For preference shareholders Existing shares X Agreed Value.	XX
Purchase consideration P.C.	XX

Note :- If in one Question, both methods can be applied, always use net payment Method.

In the Books of Vendor Co.

Objective of Accounting

→ Transfer of Assets / liabilities to purchase co.
→ P/L on sale of Business.
→ Purchase consideration distribute

Realisation A/C

Particulars	₹	Particulars	₹
To All assets A/C (including cash & Bank)	Book Value (B.V)	By All liabilities A/c.	xx (B.V)
		By Purchase consideration A/c	xx
To Bank A/c (Payment of liabilities not taken over).	Agreed Value.	By Bank A/c (sale of assets not taken over)	Actual S.P.
To Banks A/c (Expense)	xx	By Preference Share (Discount)	xx
To Preference shares A/c (Premium)	xx	By Eq. shares A/c	Loss
To Equity shares A/c	Profit		
	xx		xx

Journal Entry

Particulars	L.F	Dr. (₹)	Cr. (₹)
1. Transfer all assets to Realisation A/c at Book Value (B.V)			
Realisation A/c ——— Dr.		B.V	
To All Assets A/c			B.V
2. Transfer all outside liability at B.V			
All liabilities A/c ——— Dr.		B.V	
To Realisation A/c			B.V

3.	**Purchase consideration due**			
	Purchasing Co. A/c —— Dr.		P.C	
	To Realisation A/C			P.C.
4.	**Purchase consideration received**			
	Bank A/c —— Dr.			
	Eq. Shares in Purch. Co. A/c —— Dr.			
	Prefere. Share in Purch. Co. A/C —— Dr.			
	To Purchase Co. A/C.			
5.	**Sale of asset not taken over**			
	Bank A/c —— Dr.		Actual S.P	
	To Realisation A/c.			S.P.
6.	**Payment of liabilities not taken over**			
	Realisation A/c —— Dr.		Agreed value	
	To Bank A/c			Actual payment
7.	**Realisation Expenses Paid**			
	Realisation A/c —— Dr.			
	To Bank A/C			
8.	**Preference Shares settlement**			
(a)	Preference share capital A/c —— Dr.		Paid up value	
	To Preference share holder A/c			PUV.
b)	Preference share holders A/c —— Dr.			
	To Bank A/c			
	To Preference Share in Purchase Co,			

Difference in Preference shareholders is transfer to Realisation A/c as premium or discount.

Premium Realisation A/C ——— Dr.
To Preference shares A/C

Dis count	Preference shares A/C ——— Dr. To Realisation A/C.		
9.	Profit Realisation A/C ——— Dr. To Eq. shares A/C		
	Loss Eq. shares A/C ——— Dr. To Realisation A/C.		
10.	Equity share capital A/C ——— Dr. Reserve & surplus. A/C ——— Dr. To Equity shares A/C.		
11.	Equity shares A/C ——— Dr. To P/L A/C (Dr) To Preliminary Expense A/C.		
12.	Payment Eq. shares A/C ——— Dr. To Bank A/C To Eq. share in purch. co. A/C To Pref. share in purch. co. A/C		

Purchase co. A/C

Particulars	₹	Particulars	₹
To Realisation A/C	XX	By Bank A/C	XX
		By Eq. share in Purchase co. A/C	XX
		By Preference share in Purchase co. A/C	XX

Preference Shares A/C.

Particulars	₹	Particulars	₹
To Bank A/C To Preference Share in purchase Co. A/C	Actual P.C. (Purchase Consideration)	By Preference Share capital A/C	Paid up
To Realisation A/C	XX	By Realisation A/C	XX

always Equity Shares A/C. tallied.

Particulars	₹	Particulars	₹
To P&L A/C (Dr)	XX	By Share capital A/C Eq.	XX
To Preliminary Exp. A/C	XX	By Reserve & Surplus A/C	XX
To Realisation A/C	Loss		
To Bank A/C (Payment)	XX	By Realisation A/C	Profit
To Eq. Share in purchase Co.	XX		

Note :- Value of Equity Shares.

1. Face value
2. Paid up value
3. Market value
4. Economic value. $= \frac{D_1}{K_e} + g$
   (Earning Base value)

5. Net Asset value (Intrinsic value)

$$= \frac{\text{All Assets} - \text{All Liabilities} - \text{Preference Share capital}}{\text{No. of Equity Shares.}}$$

Exchange Ratio of Eq. Shares:

Vendor Co. — 20 $\xrightarrow{\text{3 shares}}$ 60 [LCM]

Purchase co. — 30 $\xrightarrow{\text{2 shares}}$ 60 [LCM]

LCM

$$\begin{array}{r|l} 10 & 20, 30 \\ \hline & 2, 3 \end{array}$$

$10 \times 2 \times 3 = 60.$

Purchase co. will issue 2 Eq. shares for every 3 shares of vendor co.

Note :- Realisation Expenses.

1. Paid & Borne by vendor co.

    Realisation A/c ———— Dr.
    To Bank A/c

2. Paid & Borne by purchase co.

    No Entry in Vendor Books
    Entry in purchase co. Books.

3. Paid by vendor co. but reimbursed by purchase co.

    Paid
    Purchasing co. A/c ——— Dr.
    Realisation A/c ——— Dr.
    To Bank A/c

    Reimburse
    Bank A/c ———— Dr.
    To Purchasing co. A/c

(Difference if any is transfer to Realisation A/c).

In Books of purchasing co.
Journal Entry

Date	Particulars	LF	Dr.	Cr.
1.	Business purchase A/c ——— Dr.		PC	
	To liquidator of vender co. A/c			PC
	(Business takeover)			
2.	FA A/c ——— Dr.			
	CA A/c ——— Dr.			
	Goodwill A/c ——— Dr.			
	To All liabilities taken over A/c			
	To Business purchase A/c			
	To capital Reserve A/c.			
	(Being Assets & liabilities takeover)			
3.	Liquidator of vendor co. A/c ——— Dr.			
	To Bank A/c.			
	To Eq. Share capital A/c			
	To Securities Premium A/c			
	To Preference Sh. capital A/c			
4.	Liquidator Expense of vendor co. paid/ Reimburse by purchasing co.			
	Goodwill A/c ——— Dr.			
	To Bank A/c			
5.	Mutual obligation has to cancelled.			
	creditor A/c ——— Dr.			
	To Debtor A/c			

Bills Payable A/c ——— Dr.
To Bills Receivables A/c.

6. Liability of vendor co.

- Not taken over.
  - Paid by vendor co.
    - NO Entry in purchase co. Books.
- Takenover by purchase co.
  - Payment in due course
    - continue in Balance sheet of Purchase co.
  - Pay immediately
    - Liability A/c ——— Dr. (Agreed Value)
      To Bank A/c.

Note:- As per AS-14
(i) Excess of Purchase consideration over Net Assets (Assets - Liabilities) taken over is recorded as Goodwill.

(ii) Excess of Net assets over purchase consideration paid is recorded as capital Reserve.

7. If any stock / Any assets is sold and then returned back under Amalgamation / Absorbtion scheme, its profit has to be removed.

Goodwill / capital Reserve A/c ——— Dr.
To Stock Reserve A/c.

Statutory Reserve :-

- Reserve maintained for.

i) Income tax Benefit
- Investment Allowance Reserve
- Development Rebate Reserve
- Project profit Reserve
- Export Profit Reserve.

- This Reserve has to maintained for certain year say (6 to 8 yrs)
- and fund is to be investment in Business.
- After lapse of time it becomes free Reserve.
- But if it is used/ Distributed Before legal term, Tax has to be paid.
- Tax at the time of Amalgamation/ Absorption, if Statutory Reserve is appearing in vendor co. Balance sheet?

- time Lapsed → No tax (1)
- time Not yet lapsed
  - I.T Authority approved scheme → NO Tax (2)
  - Disapprove → Tax paid (3)

In the Books of vendor co.

→ Transfer to Eq. shares A/c in all cases.
→ In case ③ pay tax

In the Books of Purchsing co.

→ NO Entry in case ① and ③.
→ But in case ② it has to maintain the statutory Reserve for remaining period of time

- Amalgamation adjustment A/c ——— Dr.
  To Statutory Reserve A/c
  (where period will be over, pass a reverse entry)

- Statutory Reserve A/c ——— Dr.
  To Amalgamation adjustment A/c

* Realisation Expenses.

1. Paid & Borne by vendor company
   Realisation A/c ——— Dr.
   To Bank A/c

2. Paid & Borne by Purchase company
   - NO Entry in vendor Books
   - Entry in purchase co. Books.

3. Paid by vendor company but reimbursed by Purchase company.
   Paid Purchase company A/c ——— Dr.
   To Bank A/c