NATURE OF AMALGAMATION

Merger → Love Marriage → 5 conditions

Purchase → Arrange Marriage

5 conditions

1. Puri ki puri accept
2. Jaisi ki waisi accept
3. Ladki ke dil mein $\xrightarrow{\text{90\% feelings min}}$ Ladke
4. Ladka : dil mein $\xrightarrow{\text{100\% feelings}}$ Ladki

   reciprocation

5. Ladki ke nakhre shaadi ke pehle ⟶ shaadi ke baad continue.

Merger → 5 conditions

Ladka → Purchasing Company
Ladki → Vendor Company

V Co.
B/S

SC 100000 | A
R
L

− Pco = 20000
80000
× 90%
72000

1. Purchasing Company → should accept all assets, liabilities and reserves of Vendor Co.
2. Purchasing Company should accept all assets, liabilities, reserves at book value.

   Exception :- To maintain uniformity in accounting policies the values can be changed.

3. Atleast 90% of Equity Shareholders of Vendor company should agree to become Equity Shareholders of Purchasing Company.

   * This doesnot include Equity Shares already held by the purchasing company.

4. The purchasing company should issue only equity share capital as purchase consideration to the consenting Equity Shareholders of Vendor Co.

   Exception :- Cash can be issued for fractional shares.

   * To the non-consenting Equity Shareholders of Vendor Co., they can be issued cash, debentures etc.

   * The above point covers only Equity Shareholders of Vendor Company.
     The Preference Shareholders of Vendor company can be issued anything as PC.

5. The business of Vendor company should be carried on by Purchasing company after amalgamation.

ACCOUNTING FOR AMALGAMATION

Nature of Merger

V Co.

	A → 5000
R 2000	
L 1000	

P Co.

1. Assets a/c Dr. 5000
   To, Liabilities a/c 1000
   To, Reserves a/c 2000

   $\}$ 2000 — Taken / received from Vendor Co.

To, Equity Share Capital → consenting ESH of V Co.
To, Cash / Debent → Non- consenting ESH of V Co.
To, Cash / Deben / PSC → Preference SH of Vendor Co.

Consideration paid to Vendor Co.

Consideration

CASE I	CASE II
2500	1500
↓	↓
Excess amount will be adjusted (Dr.) in reserves.	The short payment will be credited to Capital Reserve.

EXAM PRESENTATION :-

1. Business Purchase a/c Dr.
   To, Liquidators of Vendor company

   ⇒ Amount of Purchase Consideration.

2. Assets a/c Dr. 5000
   To, Liabilities a/c 1000
   To, Reserves a/c 2000

   $\}$ Book Value = 2000 Dr.

   Reserves Dr. (excess) / Capital Reserve Cr. (short pay.)
   To, Business Purchase a/c → Purchase Consideration = 2500 | 1500

3. Liquidators of Vendor company Dr.
   To, Equity Share Capital → consenting ESH of V Co.
   To, Cash / Debent → Non- consenting ESH of V Co.
   To, Cash / Deben / PSC → Preference SH of Vendor Co.

   $\}$ Amount of Purchase Consideration

⇒ Pen purchase Dr. (All 3 pens)
To, Creditor a/c

⇒ White pen purch Dr.
Black pen purch Dr.
Brown pen purch Dr.
To, pen purchase

Nature of Purchase

* Selected Assets will be takenover by Purchasing Co. They can be takenover at bookvalue / marketvalue.

* Selected Liabilities will be takenover by Purchasing Co. They can be takenover at bookvalue / marketvalue.

* Only Statutary Reserves of Vendor company will be takenover by Purchasing company.
No other reserves will be takenover by purchasing company.

Journal Entry :-

Assets a/c Dr. → Value takenover
To, Liabilities a/c → Value takenover } 2000
Goodwill (Excess) Dr. / Capital Reserve (short) Cr.
To, cash / debenture / Equity Share / Preference share 2500/1500

Amalgamation Adj. Reserve Dr. → R&S Dr. (-)
To, Statutary Reserve → R&S Cr.

Consideration

CASE I	CASE II
2500	1500
↓	↓
Excess amount will be adjusted (Dr.) in Goodwill.	The short payment will be credited to Capital Reserve.

Exam Presentation

1. Business Purchase a/c Dr.
To, Liquidators of Vendor Co. } ⇒ Amount of Purchase Consideration.

2. Assets a/c Dr.
To, Liabilities a/c } ⇒ Value Takenover
Goodwill Dr. / Capital Reserve Cr.
To, Business Purchase a/c → Purchase Consideration

3. Liquidators of Vendor Co. Dr.
To, Cash / Debentures / Equity share capital / Preference share capital

4. Amalgamation Adjustment Reserve Dr.
To, Statutary Reserve a/c

Question 8 :- Calculation of Purchase Consideration (Payment Method)

To Equity Shareholders of V ltd.

Equity Share Capital of P ltd. = 900 Lakh × 10 = 9000 Lakhs.

P	V
3	2
x	600
= 900 lakh	

Total Purchase Consideration = 9000 Lakhs

② Discharge = same as calculation

③ Nature = merger.

④ **Accounting for Amalgamation** (₹ lakhs)

Business Purchase	a/c	Dr.	9000	
To, Liquidators of V ltd.				9000

Land & Building	a/c	Dr.	–	
Plant & Machine	a/c	Dr.	5000	
Furniture	a/c	Dr.	1700	
Inventory	a/c	Dr.	4041	
Trade Receivables	a/c	Dr.	1100	
Cash at Bank	a/c	Dr.	609	
To, 12% Debentures of V ltd.	a/c			1000
To, Trade Payables				463
To, provisions				702
To, foreign project reserve				310
To, general reserve (3200 − 50 − 3000)				150
To, P&L : surplus				825
To, business purchase				9000

Ⓐ = 12450

L&R = 6450

(GR = 3150 → consider)

A − L − R = 6000 → TD

9000 → PC

SC → 6000 | Ⓐ 12450

Ⓡ, Ⓛ 6450

P.C. 9000

c = 3000

Liquidators of V ltd.		Dr.	9000	
To, Equity Share Capital				9000

Question 7: Calculation of Purchase Consideration (Payment)

To Equity Shareholders of Super Express ltd.

⇒ Equity Share Capital of SFE ltd. = 20000 × 100 = 2000000

To Equity Shareholders of fast Express ltd.

⇒ Equity share capital of SFE ltd. = 10000 × 100 = 1000000

Total Purchase Consideration = 3000000

(2) Discharge of Purchase Consideration → Same as calculation

(3) Nature of Amalgamation → Merger

(4) Accounting for Amalgamation

✓ Business Purchase	a/c	Dr.	3000000	
✓ To Liquidators of Super Express ltd.				2000000
✓ To Liquidators of fast Express ltd.				1000000
✓ Buildings	a/c	Dr.	1600000	
✓ Machine	a/c	Dr.	900000	
✓ Inventory	a/c	Dr.	340000	
✓ Trade Receivables	a/c	Dr.	280000	
✓ Cash at Bank	a/c	Dr.	230000	
✓ Cash in hand	a/c	Dr.	110000	
✓ Goodwill	a/c	Dr.	100000	
✓ To, provident fund	a/c			100000
✓ To, Trade payables	a/c			100000
✓ To, Insurance Reserve	a/c			100000
✓ To, Employee Profit Sharing	a/c			60000
✓ To, Reserves	a/c			100000
✓ To, Surplus	a/c			100000
✓ To, Business Purchase	a/c			3000000

3560000

3560000

✓ Liquidators of Super Express ltd.	Dr.	2000000	
✓ Liquidators of fast Express ltd.	Dr.	1000000	
✓ To, Equity Share Capital			3000000

Balance Sheet of Super fast Express ltd. (after amalgamation)

Particulars	Notes	Amount	Amount
Equity & Liability			
Shareholders Funds			
Share Capital	1	3000000	
Reserves & Surplus	2	300000	3300000
Non-Current Liabilities			
Long Term Borrowing			
Long Term provisions			
Other Non-Current Liabilities: Provident fund		100000	100000
Current Liabilities			
Trade Payables		100000	
Other current liabilities : Employee profit sharing		60000	160000
			3560000
ASSETS			
Non-Current Assets			
PPE	3	2500000	
Intangible Assets : Goodwill		100000	
Non-Current Investments			
Other Non-current Assets			2600000
Current Assets			
Inventory		340000	
Trade Receivables		280000	
Cash & Cash equivalents	4	340000	960000
			3560000

NOTE 3 : PPE

1) Machine	900000
2) Building	1600000
	2500000

NOTE 4 : Cash and Cash Equivalents

1) Cash at Bank	230000
2) Cash in hand	110000
	340000

NOTE 2: Reserves & Surplus

1) Insurance Reserve	100000
2) Reserves	100000
3) Surplus	100000
	300000

NOTE 1 : Share Capital

Issued, Subscribed & Paid

30000 Equity Shares of 100 e.	3000000