AMALGMATION ABSORPTION EXTERNAL RECONSTRUCTION

* Amalgmation includes absorption.

* Company who transfers/sells AL and gets liquidated (seller / Transferor co) (SC) → Company which buys AL from other co. (Purchaser or transferee co) (PC)

* Amalgmation/Absorption nature. (AS 14) (only for Purch co)

Nature of merger — Pooling int method.

5 conditions for merger:-

1. All assets, liab (and reserves) are taken over.
2. t/o → Book value.
   except: 2 entity follow diff accounting policies. (depn & stk)
3. PC = shares only (E+P)
   except: cash for fractional shares.
4. atleast 90% of SH of SC be SH of PC. (exclude Purch co holdings)
5. Intention to carry on the same business of SC.

PC by net assets method:-

Assets t/o
(-) liab t/o] agreed value
Net assets

* when PC for (merger) is calcn and 2 or more selling to
PC will be divided.
ratio of net assets (as per purchase method)

PC × Ratio.

Nature of Purchase.

* if any of one of the condition is not satisfied.

* external reco - always Purchase.

Assets (all)
(-) liab (all)] Book value.
(-) reserves (all)
net assets

Purchase consideration (PC)

- consideration paid in any form to SH of selling co by purch. co.
- Pymt to Debⁿ holders → X PC
  but pymt in Debⁿ to SH → ✓ PC.
- Methods to calculate PC (Rem :- Purchase and merger also)

Lumpsum method

(one exact amount is given = PC)

(no calculations required).

Net payment method (commonly used)

PC = Amt Pd to equity SH + Amt Pd to pref SH.

- use if Q mentions exact no. or amt of shares.

Net assets method

Assets t/o @ agreed value
(−) liabilities t/o @ agreed value

Net assets. = PC.

Merger

Asset
(−) liab
(−) reserves
} BV

PC = share cap

Purchase

asset > AV
(−) liab

PC

* divide PC (amalgmⁿ) in ratio of net assets calculated under purchase method. (A+B = AB)

i.e Net asset × ratio = PC

Intrinsic value method.

- at revised val.

assets t/o   sco rec
(−) liab t/o.

net assets t/o
(−) pref SH claim
(−) dissenting

net assets 4 ESH
÷ no. of ES
= IV P.S.

- if issue price X given take IV

Shares issued = NA (SCO) / IV (PCO)

- exchange ratio / swap ratio

ER = IV P.S of S / IV P.S of P

ratio = new : old

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* shares = @ MV
* asset = fair value.
* contingency = only when sure. record as PC.

* if cash (fractional shares)
shares = IP
cash = always at MV / IV

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dissenting shares

- some shareholders dont agree to amalgmate.
- sco will pay the dis. SH in cash - P/L - realisation a/c
- while PC calculation only assenting shareholders will be taken.

actual SH
(−) dissenting
assenting SH for PC calⁿ.

Entries in the books of selling company:- (i) eliminate B/S - liq exps - PC due - PC receive - PC dist - (a) PSH - (b) ESH - P/L realⁿ - ESH . AM - 2

After calculating PC :-

① Eliminate / Nullify Balance sheet:-

(a) Asset t/o: Realisation
To Asset] BV

(b) liability t/o: liability
To Realisation] BV.

(c) asset & liab not t/o : open individual A/c with BV as openin bal

(d) Capital: Transfer to share holders A/c.

equity:- Eq sh cap
To E.S holders A/c

Pref:- Pref sh. cap
To Pref s. holders A/c.

(e) Reserves:- Reserves are equity share holders prop:- * even if merger t/o reserves. [AS-14 (only Purch co)]

Reserves & surplus
To Eq. sh holders A/c. Cr. bal.

Eq. sh. holders
To P&L A/c Dr bal.

(f) misc exp:- Equity sh. holder
To misc exp
To preliminary exp.

② Purchase consideration due:-

Purchasing co A/c
To Realisation A/c] PC.

③ PC received:-

Cash
Eq shares in Pur. co.
Pref shares in Pur co
% Debn in Pur co.
Assets (if any)
To Purchasing co.

④ Dispose assets & liab not t/o:-

Asset sold

Cash
Real. O
To Asset
To Realisation

Liab discharge.

Liability
Realisation O
To Cash.
To Real.

any profit or loss → realisation A/c

If no info → then dispose @ "Book value"

⑤ Liquidation expenses:-

Pd + Borne (selling co)

Realisation
To Cash.

Pd → SC
Borne → PC

Purchasing (max amt agreed)
Realisation. (bal)
To Cash. xx amt pd

+

Cash
To Purchasing co.
(amt received).

Pd & Borne → PC.

No entry.

⑥ Distribution of PC:-

(i) Pref SH:-

Pref SH holder A/c
To Cash
To ES, PS
To Debn.

(ii) Realisation

Transf P&L → Eq. share holders A/c.

(iii) Eq. Share Holders

Eq. sh. holders
To Cash
To ES
To PS
To %Debn] In PC

Transfer diff in
P.S.H A/c → Realisation A/c.

* ESH should "Tally"

Imp:-
① Date of B/S = date of amalgamation.
② G/W → t/o or not t/o → Realn To G/W. (cant sell standalone)

ENTRIES FOR PURCHASING CO.

1. Calculate PC.

2. Determine — Amalgmation

Purchase | Merger.

3. **Purchase Business:-**

Business Purchase
    To Liquidators of selling co] PC.

4. **Assets & liab t/o:-**

Purchase

Assets t/o	Ag. value
• Goodwill	
To liab t/o	Ag value.
To Business Purchase.	PC.
• To Capital reserve	

Merger.

All Assets	BV
• General reserve	
To All liab	BV
To All Reserves	BV
To Business purchase.	PC
• To Capital reserve.	

5. **Discharge of PC:-**

Liquidators of selling co.
• discount on issue
    To cash
    To Eq sh cap
    To Pref sh cap
    To % Debn.
• anyone
    • To secu premium

Liquidators of selling co
Disc on issue
    To Eq sh cap
    To Pref sh. cap
    * To cash (only frac. share)

6. **Dispose liability of selling co:-**

Liability.
    To cash
    To Eq. sh. capital.

7. **Realisation exp:-**

(a) Pd & borne → selling co:- no entry.

(b) Pd → SC OR Pd & borne :- PC

Goodwill / Cap Reserve
    To cash

whichever is available.

General reserve / Cap. Reserve
    To cash.

8) Preliminary expenses :-

Preliminary exps
To Cash/Bank A/c .

9) Fresh issue of capital :-

Cash
Discount
To Eq sh cap
To P. sh cap
To secu premium.

10) Intercompany transac

Creditors / Lia
To Debtors / asset] BV / transac value.

11) Inter company stock :- Remove profit element .

Goodwill
To stock

General reserve
To stock .

12) Common Party transac :-

Creditors / Lia
To Debtors / asset] lower of the 2 transac amt

AMALGMATION

Steps:

1) calculate PC
2) close books of SCO
3) Incorporate purchase entries in PCO books.

AS:14: only for PC & PCO step 1 & 3.
Types of amalgmation:
1) Nature of merger (pooling of int method)
2) Nature of purchase

- cap avg profit in excess of NA = goodwill. cap profit = profit/cap rate.
- for goodwill: x pref div as G/W for whole co.
- for fractional shares: check worth p.s is same (all categories)
- PSH & debn PC: claim + premium − discount = P.C.
  or ↑ inc: normal inc + ↑ income = req inc   8% of x = req inc.
  x = ______.

- Steps for SCO:
1) Eliminate B/S
2) Realisation exp
3) PC due + receive + dist.
4) P/L on realn to ESH.

- only look @ B/S of SCO.
- T/O G/W, reserve (AS14 NA to SCO)
- ESH must tally.

Steps for PCO
1) Business purchase
2) assets & liab t/o. against BPA
3) Pay liq of SCO (PC)
4) settle liab.
5) debn * old → new
6) sell unreq assets
7) Inter co transac (stock, debt, recd)
8) Third party transac.
9) Realn exp
10) Statutory reserve *A (Amalg adj A/c to SR)
11) Fresh issue + prelim exp.

* capital > PC − profit (Cap reserve)
cap < PC : loss recoup from free reserve of SCO, PCO P&L.
PC (−) cap Loss/P (−)
ME (B/S − asset)

- Be careful for pref div entries [Δ bal of P&L, G/R, div pay, div receivable] [cash Bank]
- ratio is always new : old.
- Check date of B/S = date of amalgmation or else prepare new B/S [Profit = P&L Susp transfer to CR or general reserve or G/W. P&L susp 6m *]
- all inter co: first t/o and then cancel
- Reversal of doubtful debts due to amalg: credit to cap reserve / gen reserve
- Be careful for securities premium [ES, PS, debn]
- PCO: break up of FA & acc depn is not req.
- check obsolete stock.
- If contingent liab b4 is now sure liab: dont forget to include it in net assets.
- If A + B = C and a is subs of A. then a will be in A [IV x no. of shares]
- For intrinsic value − X reserves, misc exp.
- If revaln is only for calculation of IV then amal − merger.
- in case of cross holding: apart from inter co invst there can be other inv also.
- cancel: prop div & div receivable in PCO for inter co.
- every Q: mention AS + assumption [necessary approval from creditors & members and sanction of court has been obtained.

PCO holding shares in SCO

Pco $\xrightarrow{\text{shares}}$ SCO.
% holding

1

a) P.C

PC is paid by PCO to shareholders of SCO.
SH (SCO) = PCO + O/S
∴ only pay O/S.

PC in normal manner	XX
(-) % holding by PCO in SCO	(XX)
P.C for O/S	XX

b) SCO books

Cancel cap of PCO through realisation.

ESH
To Realisation
[capital × % holding]

c) PCO books.

SCO - liquidated
Inv - redundant
∴ cancel @ BV in t/o entry.

Assets t/o
To liab t/o
To BP.
To Inv in SCO (BV) [COST]

SCO holding shares in PCO

SCO → PCO.

2

a) PC

A co cannot buy own shares.

Find PC in normal manner + break up

Cash (A) | PS (B) | ES

No. of shares	XX
(-) No. of shares already held	(XX)
net shares	C XX.

no %

PC = cash + PS + [net ES × IP]

b) SCO Books

1) Sellⁿ co gets B & C shares.
2) SCO already has A shares.
∴ total A+C will be distributed.
∴ must be at same price
∴ revalue old shares → new IP.

old > new
Realⁿ
To Invst

old < new.
Invst
To Realⁿ.

c) PCO books.
No IMPACT.

CROSS HOLDING: TRUE CASE: ABSORPTION:

A → B, B → A, A absorbs B

1st: PCO → SCO, 2nd: SCO → PCO. (do not A order)

PC

PC in normal manner.	XX
(-) % holding by PCO in SCO.	(XX)
PC for O/S.	XX.

Cash (A) | PS (B) | ES

no. of shares	XX
(-) no. of shares held by SCO	(XX)
new SH.	$\boxed{C}$

PC = A + B + [C × IP]

SCO

1) cancel PDC.
ESH
To Realⁿ

2) price of old = price of new

old > new
Realⁿ
To Invst

old < new
Invst
To Realⁿ.

PCO.

1) cancel inv @ BV in t/o

Assets t/o
To liab t/o
To BP
To inv in SCO (BV) (COST)

· use of simultaneous eqⁿ (net assets, IV)

	A (SCO)	B (CPCO)
NA (other than inv)	XX	XX
(+) inv	20% B	10% A
Total NA	A	B.

A = x + 20% B B = x + 10% A.

CROSS HOLDING: AMALGAMATION. A+B = AB

Pal	A	B.
PC in normal manner	XX	XX
(-) % held by PCO in SCO.	40% (x%)	25% (y%)
PC for O/S	XX	XX

A → B 25%.
∴ AB → B 25% (y)

B → A 40%
AB → A 40% (x)

CORPORATE RESTRUCTURING

AMG

Merger/ Acquisition.
all assets / liab t/o + liquidation.

Asset SWAP
simultaneous exch of assets and diff is settled in CASH.

Divestiture
Part of assets / unit sold
PC = SCO.

Demerger/ Sale of div/ SPIN OFF.
part sold
PC = SH of SCO.

(A) ASSET SWAP

simultaneous journal entries

A | B.

1) Sale of shares B → A 4m SH.
- A: invst (B) To SH of B.
- B: NO ENTRY in B.

2) pre acq div: AS13 (+2 cost)

3) P/L on exch of asset: To P&L

(B) DIVESTITURE

SCO

① PCO
liab t/o
cap loss (XX)
To asset t/o.
To cap reserve. (XX)

② Cash
ES
To PCO.

PCO.

① BP
To SCO.
(X liq of SCO)

(C) DEMERGER / SPIN OFF / SALE OF DIV

SCO

1) liab t/o
cap loss (XX)
To assets t/o.
To cap reserve (XX)

NO G/W @ time of sale only P/L.

No PC entries as pd to SH of SCO and X SCO.

PCO.

① BP
To SH of SCO.

② Assets t/o
G/W
To liab t/o
To BP
CR.

purchased G/W is allowed.

③ SH of SCO
To cash
To ES
To SP.

- all other prov = same AS14 + amalgm.
- Pre demerger: shares x NAV (pre) (A)
  NAV (old) post.
- Post demerger: (A) shares x NAV (post)
  \+
  (B) shares x NAV new co.
  ↓ new shares in PC.
  NAV (old) post + new NAV.

INTERNAL RECONSTRUCTION

Capital reduction or reconstruction A/c.

1) Redn of PDC cap.
ESC
To Reco.

2) Δ in FV.
old ESC
To new ESC
To reco.

3) SHARE SURRENDER **

a) share surrender by SH.
E.S. Cap
To E.S. surrender.

(b) use of SS:
(1) discharge of liab.
Share surrender
To ESC.
\+
liab
To reco.

(c) reissue of SS:
Share surrender
To ESC/PSC
\+
Bank
To Reco.

(d) bal of SS → Reco.
SS
To Reco.

Imp adj
- w/o goodwill, miscexp P&L debit bal.
- B/s as reduced
- div arrears unrecorded now cancelled
  NO ENTRY.
- reco - make A/c.
- check given B/s is tallying
  hidden: P&L bal.
  (app of court)

BUY BACK OF EQUITY SHARES - Sec 77

Quantitative restrictions

- ~~max~~ no of shares to be brought back would be least of
  - shares o/s test
  - resource test
  - debt equity ratio

(A) Shares o/s test

(i) determine actual no of shares as per PDC

out of above
- 25% SH approval
- 10% BOD approval

no = 25% PDC / 10% PDC

(B) Resource test

Resource = PDC + free reserve + SP
Pd + RS + SP

no = $\frac{25\% \text{ [resources]}}{\text{BB price}}$

(C) Debt equity test [2:1]

debt (borrowed funds)	A
req equity = 50% A	B
present equity (equity funds)	C

BB shares = $\frac{B - C}{\text{BB price}}$

$\frac{\text{present} - \text{req}}{\text{BB price}}$

A/c treatment

(1) Shares bought back

1) SBB
To Bank [BB x no of ss]

2) ~~E~~SC
Premium on BB
To SBB

2) set off premium: S.P + FR
Free reserves
Sec premium
To Premium on BB

3) CRR (from FR + SP)
= FV of shares BB

Free reserves
Sec premium
To CRR — FV x nos

* Shares to be cancelled within 7 days.