

Amalgamation

1. Points to be satisfied to treat the amalgamation in the nature of merger
 - All assets and liabilities of transferor is to be taken over at their book values by resulting company
 - All or at least 90% of the Share Holding of Amalgamating Company must be the Share Holders of Amalgamated Company.
 - Equity shares of selling company must be given only equity shares of purchasing company.
 - Liabilities of Transferor must not be discharged; it must be taken over by the resulting company. But exemption is the fraction shares can be given in cash.
 - Same risk and return and nature of company must be same.
2. Order of Adjustment of consideration is first General Reserve and then P & L a/c. If the problem has statutory reserve it should not be adjusted. It is carried over as such.
3. As per SEBI guidelines, underwriting commission is 2.5% on equity shares and on 1st 5000 Preference Shares it is 1.5% and the balance Preference Shares it is 1%.
4. Capital employed is considered as Net Revaluation amount of Tangible Asset.
5. In case purchasing company holding shares in selling company, Net asset method is applied as usual and outside shareholders portion is calculated separately as balancing figure.
6. If in the above case, settlement of equity share holding of selling company is given then that exchange pertains to outside share holder's settlement and it should not be splitted.
7. In the books of selling company the shares held by the purchasing company must be cancelled by transferring it to realization a/c

Equity share capital a/c Dr

To Realization
8. If Preference share holders of selling company is discharged by preference share holders of purchasing company at premium then the premium portion must be transferred to realization a/c in the books of selling company.
9. In case of Merger while drafting Journal Entry in the books of purchasing company for Incorporation of Asset & Liability in the workings, the consideration is aggregate consideration including shares already purchased by purchasing company and current purchase payable.
10. In case of merger in the books of purchasing company while calculation excess / shortage to be adjusted against the reserve of selling company. The purchase consideration is aggregate consideration including amount already paid (shares of selling company held by purchasing company) + amount now paid (amount paid to outsiders).
11. Business purchase in case of shares of selling company held by purchasing company is the amount given to outsiders only.

- But in the above case in the books of purchasing company while incorporating assets and liabilities of selling company debtors is taken net of provisions.

- To Investment allowance reserve

Dividend receivable account Dr

To proposed dividend

19. In case of Internal reconstruction cancellation of Arrears Dividend forgone by shareholder will not affect the B/S. So no entry. In this case Arrears of dividend is seized to be contingent liability. Preference shareholders will seize to have the voting right at par with equity shares which was available due to arrears of dividend.
20. In Demerger while making transfer entry of Asset and liability in purchasing company fixed asset net is to be taken but while making the transfer entry in selling company fixed asset gross is taken in credited and provision for depreciation is debited.
21. In case of Inter Company / Single side holding etc. to find the intrinsic value of each company, the investment held by one company in the shares of other company is also to be valued as intrinsic value only and not to be taken at book value. For inter company holding this intrinsic value of shares of each company can be found by framing a linear equation.

22. In case of calculation of purchase consideration (Cross holding)
- | | |
|---|---------|
| Total number of shares in selling company | *** |
| (-) Share already held by Purchasing company | *** |
| Number of shares held by outsiders | *** |
| Value of above number of shares | Rs. *** |
| Number of purchasing company to be issued to selling company | *** |
| (-) Number of shares already held by selling company | *** |
| Net number of shares purchasing co. has to issue to selling co. | *** |
23. In case of settlement of shareholders of selling company the amount will be =
Shares now received from purchasing company + Purchasing company shares already held by selling company.
24. In amalgamated B/S if there is Debit in P & L a/c it should be netted of with General Reserve as per schedule VI.
25. In case of assets and liabilities is taken over at revalued amount it is in the nature of purchase and in the journal entry for incorporating account takeover only the revalued amount is to be taken.
26. In case of selling company holding shares in purchasing company then investment is to be valued at intrinsic value if specified.
27. In the above case of holding company gives shares at particular value to the subsidiary company for settlement then investment is to be valued at the value
28. When selling company holding shares in purchasing company then while transferring assets and liabilities to realization account in selling company books, Assets transferred must be excluding the Investment in purchasing company.