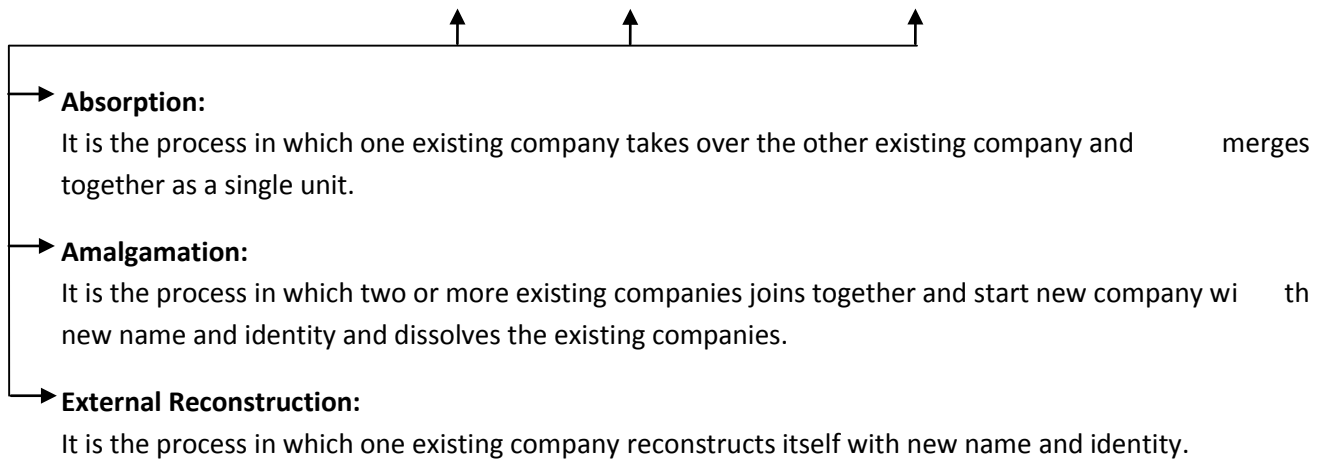


## AMALGAMATION

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



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 **Equity Shares** to the **Equity Shareholders of the transferor** Company and if there is any **Fraction** it would 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)

\_\_\_\_\_ **###**  
\*\*\* **Purchase Consideration** **###**

\*\*\*

\*\*\* **Note:** Assets and Liabilities will be taken over at  
\_\_\_\_\_ revised figure if given otherwise at Book  
**###** Value.

3. (II)

\*\*\* **NET PAYMENT METHOD:**

\*\*\* As per the revised **AS-14**, the amount of purchase  
\*\*\* consideration includes only those payments which  
are made by the transferee company to the

shareholders (Equity and preference) of the transferor company.

**OR**

**It means no any other payment** (like payment to Dissolution Expenses, Payment to debenture Holders, Payment to Creditors etc) **will be included in the calculation of the amount of Purchase consideration.**

**IN THE BOOKS OF **TRANSFEROR** COMPANY**

**(JOURNAL ENTRIES)**

**LEDGER AND JOURNAL ENTRIES**

| S.NO. | PARTICULARS | DR. | CR. |
|-------|-------------|-----|-----|
|-------|-------------|-----|-----|

|    |                                                                                                                                                                                                                                                                          |                |                |
|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------|----------------|
| 1. | (When Assets are transferred to Realisation A/c)<br><b>To Sundry Assets A/c (Write Individually)</b> } At Book Value                                                                                                                                                     | ***            | ***            |
| 2. | (When Liabilities are transferred to Realisation A/c)<br>Sundry Liabilities A/c ( <b>Write Individually</b> ) } At Book Value<br><b>To Realisation A/c</b>                                                                                                               | ***            | ***            |
| 3. | (When Purchase consideration becomes Due)<br>Transferee Co. A/c<br><b>To Realisation A/c</b><br><br><b>Note:</b> 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)<br>Bank A/c } Only if Amalgamation in the Nature of <b>Purchase</b><br><b>To Realisation A/c</b>                                                                                                               | ***            | ***            |
| 5. | (When any liability is paid off by transferor company itself)<br>Realisation A/c } Only if Amalgamation in the Nature of <b>Purchase</b><br><b>To Bank A/c</b>                                                                                                           | ***            | ***            |
| 6. | (When preference share holders are discharged <b>at premium or Discount</b> )<br><br><u><b>At Premium</b></u><br>Realisation A/c<br><b>To Preference Share Holders A/c</b><br><br><u><b>At Discount</b></u><br>Preference Share Holders A/c<br><b>To Realisation A/c</b> | ***<br><br>*** | ***<br><br>*** |
| 7. | (For recording of Dissolution/Realisation Expenses)<br><br><b>a). When realisation Expenses are paid by the transferor company itself.)</b>                                                                                                                              |                |                |

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

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

### 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

| REALISATION 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<br>(Purchase Consideration)           | ***  |
| To Preference Share Holders A/c<br>(Loss due to Premium)   | ***  | By Bank A/c<br>(Any Assets Sold)                            | ***  |
| To Bank A/c<br>(Realisation Exp. paid by Co.)              | ***  | By Preference Share Holders A/c<br>(Profit Due to Discount) | ***  |
| To Equity Share Holders A/c<br>(Profit (Balancing Figure)) | ***  | To Equity Share Holders A/c<br>(Loss (Balancing Figure))    | ***  |
|                                                            | ###  |                                                             | ###  |
|                                                            |      |                                                             |      |

| TRANSFEREE COMPANY A/C                                                                                                                                                                              |      |                                           |      |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------|-------------------------------------------|------|
| Particulars                                                                                                                                                                                         | Amt. | Particulars                               | Amt. |
| To Realisation A/c<br>(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                               | ***  |
|                                                                                                                                                                                                     | ###  |                                           | ###  |
|                                                                                                                                                                                                     |      |                                           |      |
| <p><b>Note:</b> Items will be varying in Amalgamation in the nature of Merger <b>or</b> Purchase as case may be. The "*" Items will not be entertained in Amalgamation in the nature of Merger.</p> |      |                                           |      |

| 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) | *** |  |     |
|                               | ### |  | ### |
|                               |     |  |     |

| 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                               | ***  |                                |      |
|                                           |      |                                |      |
|                                           | ###  |                                | ###  |
|                                           |      |                                |      |

End of Transferor Books.....Now Starting the Transferee's Books

IN THE BOOKS OF TRANSFEE COMPANY

**(JOURNAL ENTRIES)**

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



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

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<br>To Bank A/c                                                                                                                                  | *** | *** | Formation Exp./Preliminary Exp. A/c<br>To Bank A/c                                                                                               | *** | *** |
|              |                                                                                                                                                                                     |     |     |                                                                                                                                                  |     |     |
| 8.           | <b>When Inter Company Transaction are Recorded</b>                                                                                                                                  |     |     |                                                                                                                                                  |     |     |
| Same         | Sundry Creditors A/c<br>To Sundry Debtors A/c<br>OR<br>Bills Payable A/c<br>To Bills Receivable A/c<br>OR<br>Loan Taken A/c<br>To Loan Given A/c                                    | *** | *** | Sundry Creditors A/c<br>To Sundry Debtors A/c<br>OR<br>Bills Payable A/c<br>To Bills Receivable A/c<br>OR<br>Loan Taken A/c<br>To Loan Given A/c | *** | *** |
|              |                                                                                                                                                                                     |     |     |                                                                                                                                                  |     |     |
|              |                                                                                                                                                                                     |     |     |                                                                                                                                                  |     |     |
|              |                                                                                                                                                                                     |     |     |                                                                                                                                                  |     |     |
| 9.           | <b>When unrealized profit is recorded</b>                                                                                                                                           |     |     |                                                                                                                                                  |     |     |
| Set Off Amt. | Reserve & Surplus/P&L A/c<br>To Stock A/c/Current Assets<br><br>Note: When there is no profit in Balance sheet then Debit the Goodwill                                              | *** | *** | Reserve & Surplus/P&L A/c<br>To Stock A/c/Current Assets<br><br>Note: When there is no profit in Balance sheet then Debit the Goodwill A/c       | *** | *** |
| 10.          | <b>When Statutory Reserve of transferor Company are transferred to Transferee Company</b>                                                                                           |     |     |                                                                                                                                                  |     |     |
|              | Amalgamation Adjustment A/c<br>To Statutory Reserve A/c<br><br>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.