CORPORATE ACCOUNTING-2

AMALGAMATION AND EXTERNAL RECONSTRUCTION

Meaning or External reconstruction – *The External reconstruction refers to the sale of the business of existing company to another company formed for the purposed. In this one company is liquidated and another new company is formed.*

ACCOUNTING ENTRIES IN THE BOOKS OF THE TRANSFEROR COMPANY

(1) *For transferring assets taken over by the transferee company.*

Realisation A/c Dr.
To Various Assets (individually) (at book value)

Note. Assets which are not taken over by the purchasing company such as cas bank balance will not be transferred to Realisation Account. Fictitious assets lik preliminary expenses, discount or commission or expenses on issue of shares o debentures, debit balance of Surplus Account are not to be transferred to Realisatio Account. Assets on which some provision has been made are to be transferred t Realisation Account at their gross figures and provisions made should be transferre along with liabilities.

(2) *For transferring liabilities taken over by the transferee company*

Various Liabilities (Individually) Dr. (at Book value)
To Realisation A/c

Note. Only those liabilities are to be transferred which have been assumed by the transferee company. Accumulated profits like credit balance of Surplus Account, general reserve, dividend equalisation reserve, sinking fund, capital reserve are not transferred to Realisation Account. If there is any fund which partially represents liability and partially undistributed profit, then that portion which represents liability should be transferred to Realisation Account.

(3) *For purchase consideration*

Aquirer (or Purchasing) Company's A/c Dr.
To Realisation A/c

(4) *For receiving purchase consideration from the transferee company*

Bank A/c Dr.
Shares in Purchasing Company A/c Dr.
To Purchasing Company's A/c

(5) *For assets sold by the transferor company not taken over by the transferee company*

Bank A/c Dr.
Realisation A/c (If loss on sale of assets) Dr.
To Assets A/c
To Realisation A/c (If profit on sale of assets)

For liquidation expenses-

Realisation A/c Dr.

To Bank A/c

(b) *If the expenses are to be met by the transferee company,* alternatives :

irst Alternative—no entry.

econd Alternative—Following two entries will be passed :

(i) Purchasing Co.'s A/c Dr.

To Bank A/c

(ii) Bank A/c Dr.

To Purchasing Co.'s A/c

7) *For liabilities not taken over by the purchasing company an transferor company*

Various Liabilities A/c Dr.

Realisation A/c (If excess payment is made) Dr.

To Bank Account

or Shares in Transferee Co. A/c

To Realisation Account (if less payment is made)

(8) *For Closing Realisation Account*

(a) *If Profit*

Realisation A/c Dr.

To Equity Shareholders A/c

(b) *If Loss*

Equity Shareholders A/c Dr.

To Realisation A/c

(9) *For transferring Preference Share Capital*

Preference Share Capital A/c Dr.

To Preference Shareholders A/c

Note. If arrears of dividend are tao be paid to preference shareholders unt should be debited to Realisation Account and credited to Preference Sha e preference shareholders have agreed to get less than the amount of ca y is to be passed.

(10) *For transferring equity share capital and accumulated profit :*

Equity Share Capital A/c Dr.

General Reserve A/c Dr.

Debenture Redemption Fund Dr.

Dividend Equalisation Reserve Dr.

Securities Premium Account Dr.

Surplus A/c Dr.

Accident Compensation Fund Dr.

(to the extent it does not denote liability)

Shares Forfeited A/c

Profit Prior to Incorporation — Dr.

Any Other Reserve or Fund A/c — Dr.

To Equity Shareholders A/c

(11) *For transferring accumulated losses and expenses not written-off*

Equity Shareholders A/c — Dr.

To Surplus A/c (Debit Balance)

To Discount or Expenses on Issues of Shares or Debentures A/c

To Underwriting Commission A/c

(12) *For paying shareholders*

Preference Shareholders A/c — Dr.

Equity Shareholders A/c — Dr.

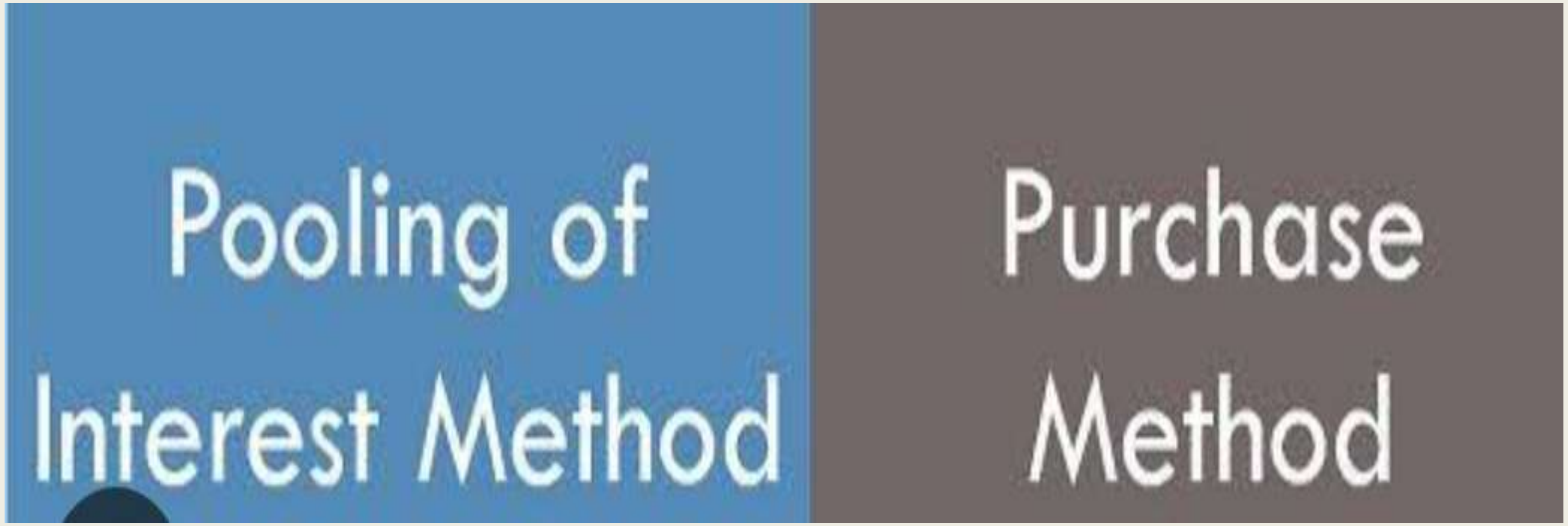
To Bank or Shares in Transferee Company

1. ACCOUNTING IN THE BOOKS OF THE TRANSFEREE COMPANY

#THERE ARE TWO MAIN METHODS FOR AMALGAMATION

(A) THE POOLING OF INTEREST METHOD

(B) THE PURCHASING METHOD



THE POOLING OF INTEREST METHOD

- *Assets and liabilities of transferor company taken over by transferee company at book value unless valuation required for uniformity in accounting policy.*
- *Difference in purchase consideration and net assets taken over if any adjusted with reserve.*
- *All reserves of transferor company shown in the books of transferee company.*
- *This method is followed in case of amalgamation in the nature of merger.*

JOURNAL ENTRIES

(1) *On amalgamation of business*

Business Purchase A/c Dr. (with the amount of purchase consideration)

To Liquidators of the Liquidated Co.

(2) *For recording assets and liabilities taken over*

Sundry Assets (Individually) With book value

To Sundry Liabilities (Individually) (With book value)

To Reserve A/c "

To Business Purchase A/c "

The difference between debits and credits is adjusted in the reserves of the transfer company.

Instead of passing two entries one combined entry can be passed :

Sundry Assets Dr.

To Sundry Liabilities

To Different Reserves of the Liquidated Co.

To Liquidators of the Liquidated Co. A/c

The difference between the above mentioned debits and credits is adjusted agai the reserve in the books of transferee company.

Note. The balance of the Surplus A/c of the transferor Company is transferred General Reserve, if any.

(3) *For making payment to the liquidator of the liquidated company.*

Liquidators of the Transferor Co A/c

To Bank/Share Capital/Securities Premium (if any)

(4) *If liquidation expenses are paid by the acquirer company*

General Reserve or Surplus A/c Dr.

(if there is no General Reserve)

To Bank A/c

(5) *For the formation expenses of the acquirer company*

Formation Expenses A/c Dr.

To Bank A/c

THE PURCHASE METHOD

- *Assets and liabilities are taken over at fair value. Book value shall be considered when fair value/market value/realizable amount/ amounts to be paid stated.*
- *No reserve except statutory reserve will be shown in the books of transferee company.*
- *Difference in net assets taken over and purchase consideration is dealt as followed– #Purchase consideration>net assets than difference being transfer to goodwill and if #purchase consideration<net assets than difference being transfer to capital reserve account.*
- *This method is followed in case of merger in the nature of purchase.*

JOURNAL ENTRIES

(1) *For purchase of business from the Transferor Company :*
Business Purchase A/c Dr. (For Purchase consideration)
To Liquidator of the Transferor Company

(2) *For recording assets and liabilities taken over*
Various Assets A/c Dr.
(at revised values if any, otherwise at book values)
To Various Liabilities (with the figures at which they are taken over)
To Business Purchase A/c

If (1) and (2) are combined, then the following one entry can also be passed :
Various Assets A/c Dr.
(at revised values if any, otherwise at book values)
To Various Liabilities A/c (with the figures at which they are taken over)
To Business Purchase A/c

Note. (*i*) If credit is more than debit, the difference is debited to Goodwill Account.
(*ii*) If debit is more than credit, the difference is credited to Capital Reserve Account.

(3) *For making payment to the liquidator of the vendor company :*
Liquidator of the Transferor Company Dr.
To Bank A/c
To Share Capital A/c
To Securities Premium A/c (if any)

(4) *When statutory reserve is maintained*
Amalgamation Adjustment A/c Dr.
To Statutory Reserve A/c

(5) *If liquidation expenses are paid by the transferee company :*
Goodwill A/c Dr.
To Bank

(6) *For formation expenses of the transferee company, if any*
Preliminary Expenses A/c Dr.
To Bank

(7) *When goodwill is written off against capital reserve*
Capital Reserve A/c Dr.
To Goodwill A/c

(8) *If any liability is discharged by the transferee company*

Respective Liability A/c Dr. (with amount payable)

To Share Capital/Debentures/Bank A/c Dr.

(as the case may be)

(9) If fresh issue of shares or debentures is made to raise further capital, then pass usual entries as discussed in a previous chapter.

DIFFERENCE BETWEEN POOLING OF INTEREST METHOD AND PURCHASE METHOD

Pooling of interest

- In the Financial statements post Amalgamation, line by line addition of all assets and liabilities of all entities except share capital.
- Any Excess realised / loss suffered to be adjusted by reserves.
- For statutory reserves open Amalgamation adjustment a/c.
- Amortize goodwill arising out of such events over 5 years.

Purchase Method

- Assets and liabilities to be recorded in the books at the value at which they are taken over by the transferee co.
- Any surplus over net assets to be debited to goodwill and loss suffered to be credited to capital reserve.
- Reserves and surplus shall not be transferred to the purchasing co.
- Treatment of statutory reserves and goodwill shall remain same as in pooling of interest method.