Amalgamation

Provisions in very brief of Companies Act 2013, regarding Compromise, Arrangement, Merger & Amalgamation:

(These are all procedural aspects and the accounting will be as per AS-14 only as was done till now)

Company can Compromise or make arrangement with creditors (including debenture holders) or members or a class of creditor or members. U/s 230, 231, 232.

A company can make compromise or arrangements. Arrangements includes re-orgnisation of share capital by consolidation of shares of different classes or division of shares in to shares of different classes or by both.

Such compromise or arrangement shall be agreed to (at a meeting convened by Tribunal) by three fourth ($3/4^{th}$) in value of creditors or a class of creditors or members or a class of members and if sanctioned by Tribunal it will be binding on all.

If at least 90% in value agree to scheme by an affidavit then Tribunal may dispense with calling of the meeting.

If Tribunal is satisfied that compromise or arrangement as sanctioned can not be implemented and company is unable to pay its debts as per the scheme, then it can order winding up.

Compromise or arrangement proposed may be part of a scheme of reconstruction of a company or merger or amalgamation of two or more company, then Tribunal will order accordingly.

When an existing company takes over business of one or more companies, it is known as **merger by absorption** & here transferor & transferee both are referred as merging companies.

When a new company is formed to take over business of two or more companies, it is known as **merger by formation of new company** & here transferor companies are referred as merging companies.

A scheme involves **division** (commonly known as demerger) when property & liabilities of a company are divided & transferred to two or more companies which may be an existing company or a new company.

Merger & Amalgamation of Companies U/s 233, 234, 235, 236 & 237.

U/s 233(1) Merger or amalgamation between (i) two or more small companies (ii) holding company & its wholly owned subsidiary company or (iii) such other class or classes of companies as may be prescribed.

Objections to proposed scheme from Registrar & official liquidator shall be invited & considered at general meeting and scheme be approved by members or a class of members holding at least 90% of the total number of shares.

Each company to file declaration of solvency to the registrar. Scheme shall be approved by at least 90% in value of the creditor or a class of creditor of the respective company.

Copy of this approved scheme to be filed to Central Govt., Registrar & official liquidator. The central govt after considering the objections & suggestions received from Registrar & official liquidator, shall register and issue confirmation to the companies or may refer it to the Tribunal to consider the scheme u/s 232. Tribunal may pass or order u/s 232 or may confirm the scheme.

Amalgamation involving Foreign Co.: U/s 234 Central govt may make rules in consultation with RBI for amalgamation with foreign companies. Rest of the provisions of this chapter shall apply as it is.

Acquisition of shares of shareholders dissenting to the scheme of Amalgamation: U/s 235 Scheme shall be approved by holder of not less than 90% in value of share whose transfer is involved (other than the shares held by transferee company or its nominee or its subsidiary company), then transferee can give notice to dissenting shareholder to acquire their shares at the same terms as those of the consenting shareholders then (unless otherwise ordered by Tribunal on an application by dissenting shareholder) transferee shall be entitled and bond to acquire those shares.

Purchase of Minority shareholding: U/s 236 An acquirer or a person or a group of person becoming holder of 90% of issued equity share capital of a company, then they shall notify the company of their intention to buy the remaining equity share capital. Price to be determined by a registered valuer. The minority shareholder can themselves offer their shares.

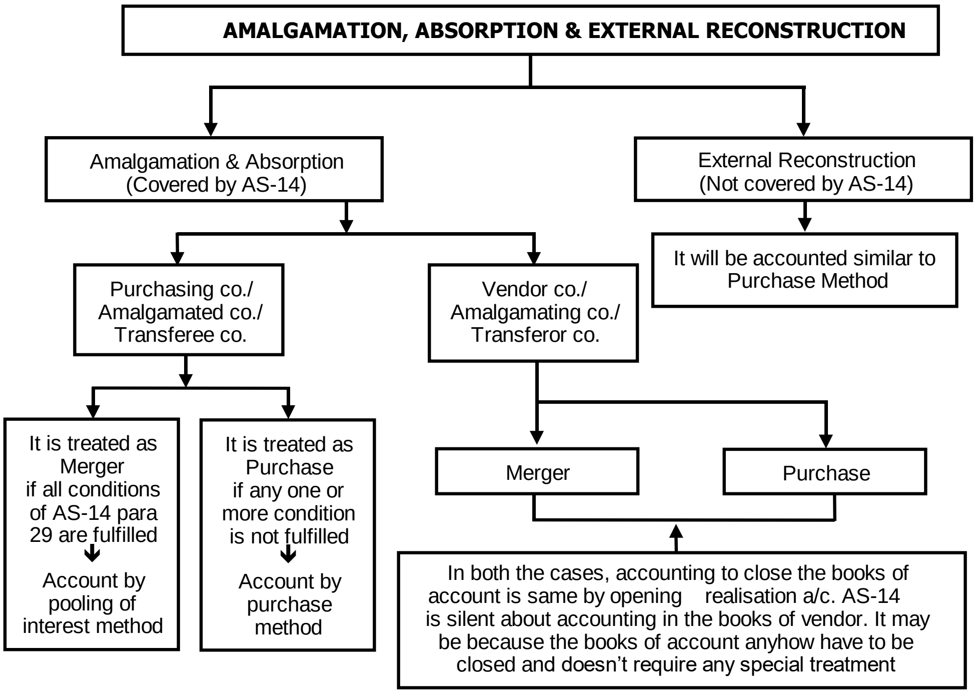
Power of Central Govt. order amalgamation of companies in public interest: U/s 237 When Central Govt. is satisfied that it is essential in the public interest that two or more companies shall amalgamate, it may order (to be notified in official gazette) for amalgamation in to a single company with such terms & conditions as may be specified.

Every member, creditor or debenture holder of transferor company shall have as nearly as may be the same interest and rights in the transferee company as it had in the transferor company. If such interest & rights are less then they will be entitled for compensation.

AMALGAMATION

Nature of arrangement	Before	After
Amalgamation	A Ltd. + B Ltd.	→ C Ltd.
Absorption	M Ltd. + N Ltd.	→ M Ltd.
External Reconstruction	X Ltd.	→ New X Ltd.
Companies known as	↑ Vendor company Transferor company Amalgamating company (Except M Ltd.)	↑ Purchaser company Transferee company Amalgamated company

Note: It doesn't include takeover of control by acquisition of shares of acquired co. or acquisition of some or all assets of other co. whereby that other co. doesn't get dissolved.



INTRODUCTION

A Company can purchase/ acquire/take-over the business of (1) Proprietory concern/ partnership firms or (2) Another company. This in general is known as **purchase/ acquisition/ take over** of the business. And the acquisition of business of a company by another company is specifically known as **Amalgamation/ Absorption/ External reconstruction**.

15.1. Explain the term Amalgamation Absorption & Reconstruction

- **Amalgamation:** When a new company (Amalgamated company/purchasing company) is formed to take-over the business of two or more existing companies (amalgamating company/vendor company), it is called amalgamation.

  Example: A ltd and B ltd two existing companies are merged in to form a new company C Ltd is an example of Amalgamation. Here X Ltd will be liquidated. Here A Ltd & B Ltd will be dissolved.

- **Absorption :** When an existing company takes over the business of one or more existing companies, it is called absorption.(In AS-14 the absorption is also referred to as amalgamation only)

  Example: M ltd and N ltd are two existing companies and want to merge in to one. M Ltd acquires the business of N ltd this is an example of Absorption. Here N Ltd will be dissolved.

Note : In Amalgamation & Absorption there is combing of two or more business & are covered by AS-14

- **External Reconstruction:** When a new company is formed to take over an existing company it is known as external reconstruction.

  Example: Business of X ltd is transferred in to a new X Ltd is an example of External reconstruction. Here X Ltd will be dissolved.

- Here there is only one business getting converted in to new name, no combining of business, hence not an Amalgamation as per AS-14.

- **Internal Reconstruction:** It is an arrangement whereby a company makes changes in its Capital Structure and book value of other Assets & Liabilities without closing (Liquidating) the company.

  Example: Z ltd reduces its capital and liability and uses this credit to writes off accumulated assets and reduce assets to its proper value. This is an example of internal reconstruction.

Purchasing Company = Amalgamated Company = Transferee Company
Vendor Company = Amalgamating Company = Transferor Company

PURCHASE CONSIDERATION

15.2. What is purchase consideration (pc)

- AS-14 defines consideration for the amalgamation means the aggregate of the shares & other securities issued and the payment made in the form of cash or other assets by the transferee co. to the shareholders of the transferor co. (Therefore payment to debenture holders/creditors etc can be excluded from the figure of purchase consideration and be accounted separately.)
- Shares & other securities issued be valued at fair value which may be value fixed by statutory authorities.

- Other assets given up as consideration should be valued at market value but if market value is not ascertainable then the net book value of such asset can be taken.

15.3. Explain the usual ways of calculating purchase consideration

15.3.1. Purchase consideration is the amount (price) to be paid by Purchasing Co. to Vendor Co. Students may encounter different situations in the exam, to tackle the same following points are relevant. Details about consideration may be given in question in either of the following 3 ways.

1) Calculated **lump-sum** amount may be given.

2) **Payment Basis**: What are the payments to be made will be given like how many shares, debentures etc to be issued & how much cash to be paid will be given. Then the aggregate value of all such items(considering issue at par, premium or discount as the case may be) will be the purchase consideration.

P.C. = (No. of shares X issue price) + (No. of debentures X issue price) + cash / other assets etc.

Illustration 1: A Limited agreed to acquire the business of E Limited as on 31st December, 2011. when E Limited had capitals as under:

10,000 6% Preference shares of Rs.10 each = Rs.1,00,000
20,000 Equity shares of Rs.10 each = Rs.2,00,000
& 7% Debentures of = Rs.1,00,000

The consideration payable by A Limited was agreed as under:

1. The preference Share-holders of E Limited were to be allotted at 8% preference Shares of Rs. 1,10,000.
2. Equity Share-holders to be allotted six Equity Shares of Rs.10 each issued at a premium of 10% and Rs.3 cash against every five shares held.
3. 7% Debenture holders of E Limited to be paid 8% premium by 9% Debenture at 10% Discount. Calculate Purchase consideration on Payment basis.

Solution:

Computation of Purchase consideration (By Payment Method)

For Whom		**Amount**	**In the form of**
For Pref. shareholder: Their Capital 1,00,000 Premium payable to them 10,000		1,10,000	8% Pref. shares at par
For Equity shareholder $\frac{20,000}{5} \times 6 = 24,000 \text{ share } @ 11$		2,64,000	Equity share: Capital – 2,40,000; Premium – 24,000
Cash given $\frac{20000}{5} x3$		12,000	Cash
Purchase consideration as per in AS-14		**3,86,000**	
For 7% Debenture Holder			9 % Debentures
Debenture Capital	1,00,000		Debenture Capital : 1,20,000
+ 8% premium payable to them	8,000	1,08,000	Discount on debenture – 12,000
		4,94,000	Net Value 1,08,000

As per AS-14 Purchase consideration is what is payable to the shareholders of transferor company, and hence it can be accounted at Rs.3,86,000 and liability of debenture holders of A be taken over together with other liability and discharged by E by allotting its debenture to them.

3) **Assets taken over Basis**: If (1) OR (2) as above is not given then this method will be applicable.

P.C.= Assets taken at agreed value + Goodwill if to be considered (-) Liabilities taken over

Fictitious assets or Exp. not w/off should not be added and General Reserve, funds etc. which represents undistributed profit should not be deducted while calculating P.C. as above.

Illustration 2: B. Ltd. had the following Balance-Sheet as on 31st March, 2011. C Ltd is acquiring B Ltd.

B. Ltd.

Liabilities	**Rs.**	**Assets**	**Rs.**
Share Capital 50000 shares of Rs.100 each	50,00,000	Fixed Assets	83,00,000
Capital Reserve	10,00,000	Current Assets	69,00,000
General Reserve	36,00,000		
Unsecured Loans	22,00,000	Investment	17,00,000
Sundry Creditors	42,00,000		
Provision for taxation	11,00,000	Good Will	2,00,000
	171,00,000		171,00,000

For the purposes of the amalgamation the goodwill of B. Ltd. is considered valueless. There are also arrears of depreciation in B. Ltd. amounting to Rs.4,00,000. Calculate Purchase consideration on net asset basis.

Solution:

<u>Purchase Consideration: On Net Asset Basis</u>

Fixed Asset (83,00,000 – 4,00,000)		79,00,000
Current Asset		69,00,000
Investment		17,00,000
		1,65,00,000
Less Liabilities:		
Loans	22,00,000	
Creditors	42,00,000	
Provision for Taxation	11,00,000	75,00,000
Purchase Consideration for acquiring 'B' Ltd.		90,00,000

15.3.2. Note Some Special Points regarding Purchase Consideration:

1) When inter company share holding is involved, then calculation of purchase consideration & accounting will require certain adjustments which is dealt with separately in this chapter.
2) For calculating share exchange ratio/share swap the shares of both the Co's (i.e. acquiring/amalgamated /purchaser co.) and (acquired/amalgamating co./ vendor) can be calculated on (a) Market value (b) Book value basis (c) Intrinsic Value basis or (d) EPS X P.E. ratio basis or any combination of this.

   These terms are explained below:

   - Earning Per Share (EPS) = Profit After Tax (PAT) & after preference dividend ÷ Number of Equity Shares
   - Price Earning Ratio(PE Ratio) = Market Price ÷ EPS
   - Market Price = EPS X PE Ratio
   - Book Value (Intrinsic Value) per share = Net Worth ÷ No. of Equity Shares
   - Return on Equity(ROE) = PAT & after preference dividend ÷ Net Worth X 100
   - Dividend Pay Out Ratio = Dividend ÷ PAT X 100
   - Retention Ratio = 100% - Dividend Pay Out Ratio
   - EPS Growth Rate = ROE X Retention Ratio
   - Worth of a Shareholder = No. of Shares held X Market Price

ACCOUNTING FOR AMALGAMATIONS

- The Institute of Chartered Accountants of India has issued *Accounting Standard-14 (AS-14). "Accounting for Amalgamations"* which states the procedures for accounting for amalgamations (with effect from1.4.1995).
- It may be noted that there will be changes only in accounting procedures with regard to amalgamation and absorption.
- For reconstruction, both external and internal, there will be no change and the same accounting procedures as earlier will follow (Earlier only Purchase Method was there) .
- The salient features of the accounting standard and accounting procedures are covered in this book.

15.4. Explain meaning of amalgamation as defined in As –14 :

- ***The Amalgamation is defined in the Standard as:*** Amalgamation means an amalgamation pursuant to the provisions of the Companies Act, 1956 or any other statute, which may be applicable to, companies.
- In the fact, amalgamation may take the shape of merging of one company with another or merging of two or more companies to form a new company. In case of amalgamation, the amalgamating company/ies) is/are dissolved without winding up and gets merged with the amalgamated company.
- In the notes above we have seen that amalgamation means merging of two or more companies to form a new company and absorption means taking over of the business of one or more companies by another existing company. However, in terms of this Accounting Standard, this distinction between amalgamation and absorption is not of any significance.

15.5. What are the types of amalgamation

Briefly explain the types of amalgamation ***(May 2012)***

- *Accounting problems of amalgamation are dealt with in AS-14 according to the type of amalgamation.*
- ***Types of Amalgamation:*** Amalgamation for accounting purposes can be classified into two categories.
  (i) Amalgamation in the nature of merger, and
  (ii) Amalgamation in the nature of purchase.

15.6. What is *Amalgamation in the Nature of* merger

What are the conditions that are to be satisfied for 'Amalgamation in the nature of merger' is an Amalgamation? **[Nov,2006] [May,2001]**
As per Accounting Standard-14, what are the conditions which must be satisfied for an amalgamation in the nature of merger? **[Nov,2009]**

- Amalgamation in the Nature of Merger is a type of amalgamation, which satisfies all the following conditions.

(i) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.

(ii) Shareholders holding not less than 90 percent of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation.

(iii) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares.

(iv) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.

(v) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

- In this type of amalgamation, there is genuine pooling of assets and liabilities of the combining entities. In addition, equity shareholders of the combining entities continue to have a proportionate share in the combined entity.
- The accounting treatment of such amalgamations should ensure that the resultant figures of assets, liabilities, capital and reserves more or less represent the sum of the relevant figures of the amalgamating companies.

15.7. What is amalgamation in the nature of purchase

- Amalgamation may be considered in the nature of purchase when any one or more of the five conditions specified for amalgamations in the nature of merger is not satisfied.
- These are amalgamations which are in effect a mode by which one company acquires another company and hence, the equity shareholders of the combining entities do not continue to have a proportionate share in the equity of the combined entity or the business of the acquired company is not intended to be continued after the amalgamation.

15.8. What are the Methods of Accounting for Amalgamations

Distinguish between **(i)** The pooling of interests method and **(ii)** The purchase method of recording transactions relating to amalgamation. **[May,2002]**
Briefly explain the methods of accounting for amalgamation as per Accounting standard-14 **[May,2004]**
What are the two main methods of accounting amalgamation of companies? **[Nov,2007]**
Name two methods of accounting for amalgamations as contemplated by AS-14. **[May,2009]**

- It may be noted that the Accounting Standard deals with the accounting mechanism only in the books of the transferee company.
- So far as the books of the transferor company are concerned, the normal procedures of accounting through the realisation accounts as explained later in this book will be followed for both the types of amalgamations.
- The accounting procedures for amalgamation in the books of the transferee company will differ depending upon the type of amalgamation. There are two methods of accounting.
  (i) Pooling of Interest Method; and
  (ii) Purchase Method.

IN THE BOOKS OF PURCHASING COMPANY (Transferee Company)

15.9. What is Pooling of Interest Method

- This method of accounting is applicable for amalgamation in the nature of merger.
- In this case, the amalgamation is accounted for as if the separate business of the amalgamating companies were intended to be carried on by the transferee (i.e. amalgamated) company.
- Accordingly, only minimal changes are made in aggregating the individual financial statements of the amalgamating companies.

- The following factors should be taken into consideration while making accounting entries in this method.
    1. In the books of the transferee company, the assets, liabilities and reserves (whether capital or arising on revaluation) of the transferor company should be recorded at their existing carrying amounts and in the same form as at the date of amalgamation.
    2. The balance of the Profit and Loss Account of the transferor company should be aggregated with the corresponding balance of the transferee company or transferred to general reserve, if any.
    3. This reflects the fact that the entries are simply merged together. No goodwill account should be accounted for.
    4. The difference between the amount recorded as share capital issued (plus any additional consideration in the form of cash or other assets) and the amount of share capital of the transferor company should be adjusted against the reserves of transferee company.
- The purpose is that all items (including reserves) of the transferor company should be recorded at their book value and in the same form as on the date of amalgamation.

15.10. Give Draft entries in case of pooling of interest method

- *The following **journal entries** are appropriate for incorporating the financial statements of the Transferor Company in the books of transferee Co. (Purchaser Co.)*

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(1) On amalgamation of the business entry for purchase consideration due.

Business Purchase A/c   Dr.   (with the amount of purchase consideration)
    To Liquidator of Transferor Company a/c

---

(2) When assets, liabilities and reserves are taken-over from the transferor company and incorporated in the books.

Sundry Assets A/c (individually)   Dr.   (book value)
    To Sundry Liabilities A/c (individually)   (book balance)
    To Profit and Loss A/c   (book balance)
    To Reserves A/c   (book balance)
    To Business Purchase A/c   (book value)

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

If it is credit short credit it to capital reserve. If it is debit short and there is capital reserve balance adjust against it otherwise adjust against revenue reserves. If revenue reserves are also exhausted then if profit & loss account balance is there, transfer it to reserves and then adjust the difference against it.

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(3) When the purchase consideration is satisfied.

Liquidator of Transferor Company a/c   Dr.   (Purchase consideration amount)
    To Share Capital a/c   (Share capital issued)
    To Share Premium a/c   (premium amount)
        (or debit Discount on issue of shares)
    To Cash a/c   (for fractional shares & dissenting shareholders)
    To Non-cash Consideration a/c   (fair value-for dissenting shareholders)

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(4) For Liquidation expenses paid.

P & L a/c/General Reserve a/c   Dr.
    To Cash/Bank a/c

Illustration 3: The following are the Balance Sheet of A Co. Ltd. and B Co. Ltd. as on 30th September, 2011.

A Co. Ltd.

Liabilities	Rs.	Assets	Rs.
Share Capital-		Buildings	1,50,000
50,000 Equity Shares of Rs.10 each, fully paid-up	5,00,000	Machinery	5,50,000
		Stock	80,000
General Reserve	1,70,000	Debtors	70,000
Profit and Loss A/c.	30,000	Cash	15,000
12% Debentures of Rs.100 each	1,00,000		
Trade Creditors	50,000		
Employees Provident Fund	15,000		
	8,65,000		8,65,000

B Co. Ltd.

Liabilities	Rs.	Assets	Rs.
Share Capital		Machinery	2,50,000
30,000 Equity Shares of Rs.10 each	3,00,000	Stock	40,000
		Debtors 50,000	
Trade Creditors	40,000	Less: Prov. for Doubtful Debt 5,000	45,000
		Cash	5,000
	3,40,000		3,40,000

The two companies agree to amalgamate and form a new company called C. Co. Ltd. which takes over all the assets and liabilities of both the companies on 1st October, 2011.

The purchase consideration is agreed at Rs. 6,61,500 and Rs. 3,15,000 for A Co. Ltd. and B Co. Ltd. and show the opening entries in the books of C. Co. Ltd. Also prepare the opening Balance Sheet in the books of C. Co. Ltd. as on 1st October, 2011. The authorised capital of C Co. Ltd. is 2,00,000 equity shares of Rs.10 each.

Solution:

Amalgamation treated as Merger in the Books of C Co. Ltd. (Purchaser Co.)
(Accounted by Pooling of Interest Method)

1	Business Purchase a/c Dr.	9,76,500	
	To Liquidator of A Co. Ltd a/c		6,61,500
	To Liquidator of B Co. Ltd. a/c		3,15,000
	(Purchase consideration due)		
2	Building a/c Dr.	1,50,000	
	Machine a/c Dr. (5,50,000 + 2,50,000)	8,00,000	
	Stock a/c Dr. (80,000 + 40,000)	1,20,000	
	Debtors a/c Dr. (70,000 + 50,000)	1,20,000	
	Cash a/c Dr. (15,000 + 5,000)	20,000	
	To Business Purchaser a/c		9,76,500
	To Creditors a/c (50,000 + 40,000)		90,000
	To Debentures a/c		1,00,000
	To Employee Provident Fund a/c		15,000
	To Provision for Bad Debt a/c		5,000
	To General Reserve a/c 1,70,000 + 30,000 - 1,76,500 (Bal fig)		23,500

	(Asset, Liabilities and Profit, Reserves of vendor co. recorded)		
3	Liquidator of A Co. Ltd a/c Dr. To Equity share capital a/c (Purchase consideration paid)	6,61,500	6,61,500
4	Liquidator of B Co. Ltd a/c Dr. To Equity Share Capital a/c (Purchase consideration paid)	3,15,000	3,15,000

Balance Sheet of 'C' Co. Ltd.
As On 01.10.2011

	Particulars	Notes		Rs.
	1	3	4	5
I.	**EQUITY AND LIABILITIES**			
(1)	**Shareholders' funds**			
	Share capital		9,76,500	
	Reserves and surplus: General Reserve		23,500	10,00,000
(2)	Share application money pending allotment			--
(3)	**Non-current liabilities**			
	Long-term borrowings: 12% Debenture			1,00,000
(4)	**Current liabilities**			
	Trade Payables		90,000	
	Employee Provident Fund		15,000	1,05,000
	TOTAL			**12,05,000**
II.	**ASSETS**			
(1)	**Non-current assets**			
	Fixed assets: Building		1,50,000	
	Machinery		8,00,000	9,50,000
(2)	**Current assets**			
	Stock in trade		1,20,000	
	Trade receivables 1,20,000			
	Less: Provision 5,000		1,15,000	
	Cash and cash equivalents		20,000	2,55,000
	TOTAL			**12,05,000**

Here if the shares were given to Vendors of Rs.8,00,000 i.e. equal to the paid up capital of Vendor Co. then there would not have arisen any difference in entry no. 2, to be adjusted in the reserves.

As a consequence in the balancesheet share capital will be less and reserves more by Rs.1,76,500.

But even when Rs.8,00,000 shares are given they should be divided among the share holders of the two co. in the Ratio of their net worth i.e. in the ratio of 6,61,500 : 3,15,000.

15.11. Explain Purchase Method :

- This method of accounting is applicable for amalgamation in the nature of purchase.
- This will also be followed for external reconstruction etc., which are not covered by AS-14.
- The following factors should be considered while making accounting entries in this method:

(i) In the books of the transferee company the assets and liabilities of the Transferor Company should be incorporated at their existing carrying amount **or**

(ii) Or the consideration should be allocated to individual identifiable assets and liabilities on the basis of their fair values.

(iii) The reserves (whether capital or revenue or arising on revaluation) of the transferor company other than the statutory reserves should not be included in the financial statements of the transferee company.

(iv) Any excess of the purchase consideration over the value of net assets of the Transferor Company should be treated as goodwill and debited to goodwill account.

(v) On the other hand, if the purchase consideration is lower than the value of net assets acquired, the difference should be credited to capital reserve.

15.12. Give journal Entries in case of purchase method

- *The following **journal entries** are appropriate for incorporating the financial statements of the Transferor Company in the books of transferee Co. (Purchaser Co.)*

1)	Business Purchase a/c Dr. To Vendors a/c	With value of purchase consideration payable.
2)	Assets a/c Dr.	All assets taken over with their respective values which Purchasing Co.. wants to show/Agreed value.
	To Business Purchase a/c	Amount of Purchase consideration (as in entry 1)
	To Liabilities A/c.	Value at which take-over the liabilities.
	<u>In the above entry</u> – If debit is short, the difference (it is the extra purchase consideration paid) is Debited to Goodwill a/c If Credit is short, the difference (it is less purchase consideration, hence capital profit) is credited to Capital Reserve a/c	
3)	Vendor's a/c Dr. Share/Debenture Discount A/c Dr.	
	To Equity Share capital a/c	Purchase Consideration discharged by issue of shares /
	To Preference Sh. capital a/c	Debentures (at par, premium or discount) and cash payment
	To Debenture a/c To Share/Debenture premium a/c To Cash a/c	
4)	Goodwill/Capital Reserve a/c Dr. To Cash a/c	If acquisition / Winding up expenses are paid & borne by Purchasing Co.

Statutory Reserves: (Following entries required only in case of 'Purchase Method'.)

5) If it becomes necessary to carry forward any statutory reserve of the transferor in the books of the transferee for legal compliance, it is accounted by debiting 'Amalgamation Adjustment Account' and crediting 'Statutory Reserve Account'.

Amalgamation Adjustment a/c Dr. (with the amount)

To Statutory Reserve a/c.

6) The Amalgamation Adjustment Account should be disclosed as a part of other current or non-current asset (depending on the period) in the balance sheet.

7) When the identity of the statutory reserve is no longer required to be maintained, both Statutory Reserve Account and Amalgamation Adjustment Account should be reversed.

Statutory Reserve a/c Dr.

To Amalgamation Adjustment a/c

Note:

1) As per AS-14 Goodwill account should be written off over a period generally not exceeding 5 years unless higher period can be justified.

2) When shares/debentures are allotted by Purchasing Company at premium or at discount, then at the time of passing the entries in the books of purchasing Company, share capital/debenture A/c will be credited with its face value and Vendors A/c will be debited with the total issue price. If issue price is more than face value, the difference will be credited to share premium A/c and if the issue price is less, the difference will be debited to Discount A/c.

3) Once the No. of shares to be allotted are worked out based on their intrinsic values (fair value), then whether they are recorded at their intrinsic value (fair value) or at par value, will not make any difference because the Vendor Company will receive the same number of shares and they have got the same market value whether we account in the books at intrinsic value or at Face value.

By recording the shares at Face value the Purchasing Co. is benefited because they don't create Share Premium A/c (a restricted reserve) which can be used only as per the specific provisions of the Act and the other effect will be that the capital Reserve will get increased or Goodwill will get reduced on take-over.

Such condition of accounting at par should be included in the amalgamation scheme itself.

Companies Act 2013 prohibits issue of shares at discount except sweat equity shares.

Illustration 4: The Indo-Gulf Co. Ltd. sells its business to the Continental Co. Ltd. as on December 31, 2011, on which date its Balance Sheet was as under:

Liabilities	Rs.	Assets	Rs.
Paid-up Capital 2000 shares	2,00,000	Freehold property	1,50,000
Of Rs.100 each		Good Will	50,000
Debentures	1,00,000	Plant and Tools	83,000
Trade Creditors	30,000	Stock	35,000
Reserve Fund	50,000	Bills Receivable	4,500
Profit & Loss Account	20,000	Sundry Debtors	27,500
		Cash at Bank	50,000
	4,00,000		**4,00,000**

The Continental Co. Ltd. agreed to take over the Assets (exclusive of cash at Bank and Goodwill) at 10 percent less than the book value, to pay Rs. 75,000 for Goodwill, and to take over the Debentures.

The purchase consideration was to be discharged by the allotment to the Indo-Gulf Ltd. of 1,500 shares of Rs.100 each at premium of Rs.10 per share and the balance in cash.

The cost of the liquidation amounted to Rs. 3,000. Show the necessary journal entries recording the transactions in the books of the Continental Co. Ltd and Balance-sheet ignoring its existing figures.

Solution:

In the Books of continental Co. Ltd (Purchaser Company)

Accounting by Purchase Method

1.	Business Purchase a/c Dr. To Liquidator of Indo-Gulf Ltd. a/c (Purchase consideration due)	2,45,000	2,45,000

2.	Freehold Property a/c Dr. Plant a/c Dr. Stock a/c Dr. Bills Receivable a/c Dr. Debtors a/c Dr. Goodwill a/c Dr. To Business Purchase a/c To Debenture a/c (Asset, Liabilities acquired are recorded)	1,35,000 74,700 31,500 4,050 24,750 75,000	 2,45,000 1,00,000
3.	Liquidator of Indo-Gulf a/c Dr. To Equity share Capital a/c To Share Premium a/c To Cash / Bank a/c (Purchase consideration paid)	2,45,000	 1,50,000 15,000 80,000

Balance Sheet of M/S Continental Ltd.
As On 31.12.2011

	Particulars	Notes		Rs.
	1	3	4	5
I.	**EQUITY AND LIABILITIES**			
(1)	**Shareholders' funds**			
	Share capital		1,50,000	
	Reserves and surplus: Share Premium		15,000	1,65,000
(2)	Share application money pending allotment			--
(3)	**Non-current liabilities**			
	Long-term borrowings: Debenture			1,00,000
(4)	**Current liabilities**			
	Short term Borrowing: Overdraft			80,000
	TOTAL			**3,45,000**
II.	**ASSETS**			
(1)	**Non-current assets**			
	Fixed assets			
	Tangible : Freehold property 1,35,000			
	Plant & Tools 74,700		2,09,700	
	Intangible : Goodwill		75,000	2,84,700
(2)	**Current assets**			
	Stock in trade		31,500	
	Trade receivables		24,750	
	Bills Receivable		4,050	60,300
	TOTAL			**3,45,000**

Working Notes:

1) Purchase Consideration (Net Asset Basis)

Freehold property	1,35,000	**Purchase Consideration to be paid as follows**	
Plants	74,700		
Stock	31,500		
Bills Receivable	4,050	Equity shares 1500 x 110	1,65,000
Debtors	24,750	Cash (Balance)	80,000
Goodwill	75,000		

(–) Debentures	3,45,000 1,00,000		
	2,45,000		2,45,000

15.13 Table of Comparison - Accounting in the books of Purchasing Company

Sr. No.	Item	Amalgamation in the nature of Merger (Pooling of interest method)	Amalgamation in the nature of Purchase (Purchase method)
1.	Assets & Liability of transferor	• All are taken over • Accounted at book value	• All or some are taken over • Accounted at book value or revalued value (fair value)
2.	Reserve of transferor	All are recorded as it is	Not recorded
3.	Statutory reserve of transferor	Already included in (2) above, therefore no separate entry required.	Amalgamation adj. A/c. Dr. To statutory Res. A/c.
4.	Goodwill/ capital reserve	Difference between P.C. & paid up capital of transferor co. is adjusted in reserves	Difference between P.C. & net asses taken over is either goodwill or capital reserve
5.	Liquidation or amalgamation exp. incurred by transferee co.	Reserves/ Profit & Loss a/c. Dr. To cash/bank a/c.	Goodwill/capital reserve a/c. Dr. To cash/bank a/c
6.	Stock reserve on inter co. stock	Reserves/ Profit & Loss a/c. Dr. To stock reserve/ stock a/c.	Goodwill/capital reserve a/c. Dr. To stock reserve/stock a/c.
7.	Inter co. debt. (mutual debt) cancelled	BP/creditor/loan Dr. To BR/Debtor/loan a/c.	BP/creditor/loan Dr. To BR/Debtor/loan a/c.

Note: Point no. 5, 6 & 7 are not specified in AS-14.

ENTRIES IN THE BOOK OF VENDOR (Transferor Company) TO CLOSE THE BOOKS

(In both the cases i.e. amalgamation in the nature of merger & amalgamation in the nature Purchase, accounting will be same in the books of vendor. AS-14 is silent regarding accounting in the books of Vendor/Transferor)

15.14. Draft journal Entries in the Books of Vendor (Transferor) co.

1) All assets to be transferred to realisation account at book values except cash/Bank balance unless these are taken over by the Purchasing Co.

Realisation a/c Dr.
To Assets a/c.

---

2) All liabilities are to be transferred to realisation a/c except Partners capital/share capital, Reserves,
P& L a/c etc.

Liabilities a/c Dr.
To Realisation a/c.

---

3) The amount of purchase consideration due.

Purchasing Co. A/c. Dr.

To Realisation a/c

---

4) Assets & Liabilities not taken over by Purchasing Company will be realised/ paid separately.

Cash a/c Dr. Assets sold

To Realisation A/c.

Realisation a/c Dr. Liabilities paid

To Cash A/c.

---

5) Expense of take over/winding up are also to be debited to realisation a/c., if Vendor Co. is to bear the expenses.

Realisation a/c Dr.

To Cash a/c.

---

6) Capital a/c /Equity share capital a/c, Reserves-Surpluses, P&L a/c (Cr.), Realisation a/c (Cr.) etc. will be transferred (Credited) to Partners/Equity shareholders A/c.

P & L a/c(Dr.), Miscellaneous Expenses & Balance of Realisation a/c(Dr.) will also be transferred(Debited) to Partners/Equity shareholders a/c.

Note: The Profit, Reserves and Surplus or losses etc. of a Company belongs to its equity shareholders in proportion to the No. of shares held by them.

---

7) Preference Share Capital & Debenture Capital if any will be transferred to Preference Share Holder/ Debenture Holders a/c. Whenever the preference shares or debentures of the Vendor Co. are to be settled at premium that means they will be paid something more than their capital. In such cases, while transferring this capital to the holder a/c following entry to be passed.

Preference share/Debentures A/c Dr. (nominal value)

Realisation A/c Dr. (amount of premium payable)

To Preference shareholders/Debenture holders A/c. (with total amount due to them).

---

8) On receipt of Purchase consideration.

Shares a/c Dr.

Debentures a/c Dr.

Cash a/c Dr.

To Purchasing Co. a/c

---

9) Preference Shareholder/Debenture holders A/c. will be settled by giving them share, Debentures or Cash as may be given in the question.

---

10) Balance Shares, Debentures and Cash will be distributed to Partners/Equity Shareholders.

With this all the accounts will get closed.

As per AS-14 payments to debenture holders by purchasing (transferee) co. will not form part of purchase consideration therefore instead of accounting as per 7) & 9) above the debenture capital will also be transferred to realisation account and will be directly paid by purchasing company.

Illustration 5: Using the figures of **illustration 4** Show the necessary Accounts in the books of the Indo-Gulf Co. Ltd. and show the necessary journal entries recording the transactions.

Solution:

In the Journal of Indo Gulf Ltd (Vendor Company)

1.	Realisation A/c Dr. To Freehold Property a/c To Plant a/c To Stock a/c To Bills Receivable a/c To Debtors a/c To Goodwill a/c (Asset transferred to realisation a/c)	3,50,000	 1,50,000 83,000 35,000 4,500 27,500 50,000
2.	Debenture a/c Dr. Creditor a/c Dr. To Realisation a/c (Liabilities transferred to realisation a/c)	1,00,000 30,000	 1,30,000
3.	Equity Share Capital a/c Dr. Reserves a/c Dr. Profit & Loss a/c Dr. To Equity Shareholder a/c (Capital & Profit reserves transferred to shareholders a/c)	2,00,000 50,000 20,000	 2,70,000
4.	Continental Ltd a/c Dr. To Realisation a/c (Purchase consideration due)	2,45,000	 2,45,000
5.	Equity shares in Continental ltd a/c Dr. Cash / Bank a/c Dr. To Continental Ltd. a/c (Purchase consideration received)	1,65,000 80,000	 2,45,000
6.	Realisation a/c Dr. To Cash/Bank a/c (Realisation expense paid)	3,000	 3,000
7.	Realisation a/c Dr. To Cash/Bank a/c (Creditors paid)	30,000	 30,000
8.	Equity Share holders a/c Dr. To Realisation a/c (Loss on realisation transferred to shareholders)	8,000	 8,000
9.	Equity Share holders a/c Dr. To Equity shares in Continental ltd a/c To Cash/Bank a/c (Final dues paid to shareholders)	2,62,000	 1,65,000 97,000

In the Ledger of Indo Gulf ltd. (Vender Company)

Realisation a/c

Particulars	Rs.	Particulars	Rs.

To Fixed Deposit a/c	1,50,000	By Debentures a/c	1,00,000
To Goodwill a/c	50,000	By Creditors a/c	30,000
To Plant a/c	83,000	By Continental Ltd. a/c (purchase consideration due)	2,45,000
To Stock a/c	35,000		
To Bills Receivable a/c	4,500	By loss on Realization tr. to shareholders a/c	8,000
To Debtors a/c	27,500		
To Cash Bank a/c (expenses paid)	3,000		
To Cash Bank a/c (creditors paid)	30,000		
	3,83,000		3,83,000

Equity Shareholders a/c

Particulars	Rs.	Particulars	Rs.
To Realization loss	8,000	By Share Capital a/c	2,00,000
To Cash	97,000	By Reserves	50,000
To Share in Continental Ltd. a/c	1,65,000	By Profit & Loss a/c	20,000
	2,70,000		2,70,000

Continental Ltd. a/c

Particulars	Rs.	Particulars		Rs.
To Realization a/c	2,45,000	By Shares a/c	1,65,000	
		By Cash Bank a/c	80,000	2,45,000
	2,45,000			2,45,000

Cash / Bank a/c

Particulars	Rs.	Particulars	Rs.
To Balance b/f	50,000	By Realization a/c (expenses)	3,000
To Continental Ltd. a/c	80,000	By Realization a/c (creditors)	30,000
		By Shareholders a/c	97,000
	1,30,000		1,30,000

Shares in continental ltd. a/c

Particulars	Rs.	Particulars	Rs.
To Continental Ltd a/c	1,65,000	By Share holders a/c	1,65,000
	1,65,000		1,65,000

15.15. Explain INTEREST TO VENDORS:

- If the settlement is not done immediately then if agreed, interest at given rate may be paid from the Date of purchase till the date of settlement, on the amount of purchase consideration.
- It will be Debited to Interest to vendors A/c & will be transferred to Profit & Loss a/c. Vendor company will credit it to realisation a/c as income.

15.16. Explain accounting for INTER COMPANY OWINGS:

- Sometimes it happens that the Purchasing Company owes to the Vendor Company or Vendor Company owes to the Purchasing Company in either case, after the take-over the Purchasing Company will have equal amount in debtors and creditors, or Bill Receivable & Bills payable relating to the inter company owings which is cancelled by passing following entry in the books of Purchasing Company.

Creditors A/c./B.P. A/c. Dr. With the amount relating to inter co-owings.

To Debtors A/c/B.R. A/c.

Illustration 6: Ajanta Limited agreed to acquire the business of Elora Limited as on 31st December, 2011. Debtors of Elora Limited included Rs. 10,000 due from Ajanta Limited. Pass entry.

Solution:

Entry in the Books of Ajanta Ltd. (Purchaser)

	Creditor a/c Dr. To Debtor a/c (Mutual debt cancelled)	10,000	 10,000

15.17. Explain adjustment for INTER COMPANY STOCK:

Give the journal entry to be passed for accounting unrealized profit on stock, under amalgamation. **[May,2009]**

At the time of takeover it is possible that:

(1) Vendor Company has in stock goods purchased from Purchasing Company which are at selling price i.e. it includes profit of purchasing company this stock will now be taken over by the Purchasing Company **or**

(2) Purchasing company may have in stock goods purchased from Vendor comapny which includes profit element of vendor company. In either case the closing stock is valued at a higher price i.e. it includes unrealised profit, such unrealised profit is eliminated from stock by passing following entry in Purchasing Co.'s books.

In case of Pooling of Interest Method

General Reserve/ Profit & Loss A/c. Dr.

To Stock Reserve A/c or Stock A/c. with the amount of unrealised profit

In case of Purchase Method

Goodwill/Capital Reserve A/c. Dr.

To Stock Reserve or Stock A/c. with the amount of unrealised profit

Illustration 7: Ajanta Limited agreed to acquire the business of Elora Limited as on 31st December, 2011. Stock of Elora Ltd. includes Goods worth Rs. 50,000/- purchased from Ajanta Ltd., which invoices the same at Cost + 25%. Pass entry.

Solution:

Entry in the Books of Ajanta Ltd. (Purchaser)

	Goodwill a/c / Capital Reserve a/c Dr. To Stock Reserve a/c (Unrealised profit in inter-co. stock adjusted) 50,000 ÷ 125 x 25 = 10,000	10,000	 10,000

1. Inter company owing &/or inter co. stock will make no change in the accounting in the books of Vendor where all assets and liabilities will be transferred to realisation a/c. at its book value.
2. If the bill received from the other company, is got discounted, then it no more remains an inter company debt.

ENTRIES WHEN SAME BOOKS OF A/C. IS CONTINUED

(i.e. Vendor's books of accounts are used by the Purchasing Co.)

15.18. What will happen if purchaser continued the Books of Accounts of vendor

- Assets and liabilities taken at different values are adjusted (i.e. brought up to that agreed value) by giving the other effect to P & L Adj. A/c./Revaluation A/c. which is then transferred to Partners Capital A/c./ Share holders A/c.

  (1) Assets and Liabilities not take-over are either sold/settled separately or are transferred to Partners Capital A/c. in the ratio of their capital, but worthless assets are transferred in the profit sharing ratio. In case Vendor is a Co. such assets will be realised and liabilities will be paid and ultimate balance in this A/cs. will be transferred to Shareholders A/c. Reserves/ P &

L A/c. balance/ Preliminary/other expenses not yet Written off etc. will also be transferred to Partners Capital A/c./Share holders A/c.

(2) On the payment of purchase consideration Partners Capital A/c, Shareholders A/c. will be debited & Cash Bank A/c., Share Capital A/c., Debenture A/c. etc. will be credited.

Note:

1. In this case there will be no need to close Vendor CO's. Books.
2. In case of pooling of interest method only share capital account should be transferred to shareholders account and P.C. should be debited to this account. Any difference debit/credit will be adjusted in profit & loss / General reserve account.

Illustration 8: Atul and Behari, who have been carrying on a partnership business sharing in 2:1 ratio, agree on conversion of the firm into a private limited company with effect from April 1, 2011.

The agreement, among other things, includes the following terms:

(a) Goodwill of the firm is to be valued at Rs.1,20,000.

(b) Certain assets are to be revalued at their current realisable values as indicated below:

Furniture's	Rs.39,000
Car	Rs.13,000
Plant and Equipment	Rs.4,00,000

(c) The new company to be called Atul Behari (P) Ltd. Shall issue shares of Rs.10 each to the partners in consideration of take-over of the business.

The Balance Sheet of Atul and Behari on 31st March, 2011 immediately before putting the agreement into effect, reads as below:

Balance Sheet as at 31-3-2011

Liabilities	**Rs.**	**Assets**	**Rs.**
Sundry Creditors	1,60,000	Cash and Bank	50,000
		Sundry Debtors	60,000
Cash Credit from Bank	1,52,000	Stock and Stores	2,00,000
Partners' Capitals:		Furniture	50,000
Atul	2,30,000	Motor Car	12,000
Behari	1,30,000	Plant and Machinery	3,00,000
	6,72,000		6,72,000

You are required:

(a) to calculate the number of shares to be allotted by the new company by way of purchase consideration and suggest the equitable distribution thereof between the partners;

(b) Company wants to continue the same books of account of Vendor firm and

(c) to prepare the Balance Sheet of the new company assuming the agreement is implemented.

Solution:

Calculation of Purchase consideration

Assets taken over	
Cash and bank (assumed to have been taken over)	50,000
Debtors	60,000
Stock and stores	2,00,000
Furniture	39,000
Motor car	13,000
Plant & Machinery	4,00,000
Goodwill	1,20,000
	8,82,000
Less: Liabilities taken over	
Creditors	1,60,000
Cash credit from Bank	1,52,000
Purchase consideration	5,70,000

No. of equity shares to be issued = 5,70,000 ÷ 10 = 57,000

This shares should be distributed among the partners in their profit sharing ratio i.e. in 2:1, so as to maintain their profit sharing rights in company as well. Thus 38,000 shares amounting to Rs.3,80,000 to Atul & 19,000 shares amounting to Rs.1,90,000 to Behari be distributed and difference if any in their account can be settled by them mutually in cash etc.

Entry when Company wants to continue the same books of account of Vendor firm

Particulars	Dr. Rs.	Cr. Rs.
Goodwill A/c Dr. Machinery A/c Dr. Motor Car A/c Dr. To Furniture A/c To Atul A/c To Behari A/c (Asset, liabilities brought at the agreed value and resulting profit credited to partners in 2:1 ratio)	1,20,000 1,00,000 1,000	 11,000 1,40,000 70,000
Atul A/c Dr. Behari A/c Dr. To Equity Share Capital A/c (Shares allotted as purchase consideration in 2:1 ratio)	3,80,000 1,90,000	 5,70,000
Behari A/c Dr. To Atul A/c (Balance in partners account is mutually settled by them)	10,000	 10,000

Capital Account

Particulars	Atul	Behari	Particulars	Atul	Behari
To Equity Share Capital	3,80,000	1,90,000	By Balance b/f	2,30,000	1,30,000
To Atul A/c	--	10,000	By Profit on revaluation	1,40,000	70,000
			By Behari A/c	10,000	--
	3,80,000	2,00,000		3,80,000	2,00,000

Balance Sheet of M/S Atul Behari (P) Ltd.
As On 01.04.2011

	Particulars		Notes		Rs.
	1		3	4	5
I.	**EQUITY AND LIABILITIES**				
(1)	**Shareholders' funds**				
	Share capital				5,70,000
(2)	Share application money pending allotment				--
(3)	**Non-current liabilities**				
	Long-term borrowings: Loans				
(4)	**Current liabilities**				
	Short term Borrowing: Cash credit			1,52,000	
	Trade Payables			1,60,000	3,12,000
	TOTAL				**8,82,000**
II.	**ASSETS**				
(1)	**Non-current assets**				
	Fixed assets				
	Tangible : Plant & Machinery	4,00,000			
	Motor Car	13,000			
	Furniture	39,000		4,52,000	

	Intangible : Goodwill		1,20,000	5,72,000
(2)	**Current assets**			
	Stock in trade		2,00,000	
	Trade receivables		60,000	
	Cash and cash equivalents		50,000	3,10,000
	TOTAL			**8,82,000**

DISTRIBUTION OF SHARES/DEBENTURES ETC. BETWEEN PARTNERS WHEN VENDOR IS A FIRM

15.19. How shares will be distribution among the partners

- The ultimate balances in the Capital A/c. after transferring Profit/Loss on realisation are to be settled by distributing shares, debentures cash etc. among partners. Generally, the objective is to make distribution in such a way so as to maintain same rights between them as to profit sharing, interest etc. in the Company as was in the firm.
  (1) Partners Capital are to be adjusted according to profit sharing ratio, taking that partners capital as base, who has minimum capital as compared to his profit sharing ratio & excess capital of the other partners is to be found out. Equity shares are to be issued equal to the amount of adjusted capital. For the excess capital pref. shares to be issued bearing such rate of dividend as was the rate of interest on capital. But if the No. of Equity shares to be issued is already given then these are to be distributed to the partners in their profit sharing ratio and for the balance of Capital, Pref. Share/Cash may be distributed.
  (2) If Partners loan A/c. is also there then that much debentures may be issued bearing the same rate of interest as was payable on loan.

Illustration 9: Ram, Rahim and Rogers carry on business in partnership under the style of M/s. R & Co. sharing Profits & Losses in the ratio of 5:3:2. They have floated R Pvt. Ltd. for the purpose of takeover of their business. The following is the Balance Sheet of the firm as on 30th September, 2011:

M/s. R & Co.
Balance Sheet as on 30-9-2011

Liabilities		**Rs.**	**Assets**		**Rs.**
Creditors		50,000	Cash		6,000
			Bank		14,000
Capitals:			Debtors	60,000	
Ram	1,01,000		Less: Prov. for doubtful debts	2,000	58,000
Rahim	1,51,000		Stock		42,000
Rogers	1,33,000	3,85,000	Fixed Assets:		
			Written Down Value		3,00,000
			Expenditure in relation to R Pvt. Ltd.:		
			Formation Expenses	12,000	
			Bank A/c. in the name of R Pvt. Ltd. Deposit of par value of 300 equity shares of Rs.10 each subscribed equally by Ram, Rahim and Rogers as subscribers to the Memorandum of Articles of Association	3,000	15,000

	4,35,000		4,35,000

On that day R Pvt. Ltd. took over the business for a total consideration of Rs.5,00,000. The purchase consideration was to be discharged by the allotment of equity shares of Rs.10 each at par in the profit sharing ratio and 15% debentures of Rs.100 each at par for surplus capital.

The Directors of R Pvt. Ltd. revalued the fixed assets of R & Co. at Rs. 4,00,000.

You are asked to:

(a) State the number of equity shares and debentures allotted by R Pvt. Ltd. to Ram, Rahim and Rogers.

(b) Show journal entries in connection with the above transactions in the books of R Pvt. Ltd.

Solution:

Calculation of Shares and Debentures to be allotted:

	Ram	Rahim	Roger	Total
1. Capital Balance	1,01,000	1,51,000	1,33,000	3,85,000
2. (+) Profit on realization (W.N.1)	57,500	34,500	23,000	1,15,000
3. Total	1,58,500	1,85,500	1,56,000	5,00,000
4. Profit sharing Ratio	5	3	2	
5. Capital per share of profit (3 ÷ 4)	31,700	61,833	78,000	
6. Adjusted Capital for which Equity shares given (W.N.2 & 3)	1,58,500	95,100	63,400	3,17,000
7. Surplus Capital (3 - 6) for which 15% debentures of Rs.100 each at par value to be given.	—	90,400	92,600	1,83,000
8. Number of Equity share (6 ÷ Rs.10)	15,850	9,510	6,340	31,700
9. Number of Debentures (7 ÷ Rs.100)	--	904	926	1,830

W.N.1 :- Capital Rs. 3,85,000 means net assets as per books is Rs. 3,85,000 and purchase consideration is Rs. 5,00,000 thus there is profit on realization of Rs. 1,15,000.

W.N.2 :- Adjusted capital is calculated taking lowest capital i.e. Rams capital as base like Rahims adjusted capital is = 31,700 x 3 = 95,100. Lowest is taken as base so that we can get surplus/excess capital of other partners.

W.N.3 :- Equity shares will be given equal to the amount of Adjusted capital so that their profit sharing will remain same as was in the firm. For surplus/excess capital Preference share or Debenture can be given.

In the Books of R Pvt. Ltd. (Purchaser Co.)

1.	Business Purchase a/c Dr. To R & Co. a/c (Purchase consideration due)	5,00,000	 5,00,000
2.	Cash a/c Dr. Bank a/c Dr. (14,000 + 3,000) Debtors a/c Dr. Stock a/c Dr. Fixed Asset a/c Dr. Preliminary expense a/c Dr. Goodwill a/c Dr. (Balancing figure) To Business Purchase a/c To Creditors a/c To Provision for Bad Debt a/c (Assets, liabilities acquired recorded)	6,000 17,000 60,000 42,000 4,00,000 12,000 15,000	 5,00,000 50,000 2,000
3.	R & Co. a/c Dr. To Equity share Capital a/c To 15% Debentures a/c (Purchase consideration paid)	5,00,000	 3,17,000 1,83,000

Balance Sheet of M/S R Pvt. Ltd.
As On 30.09.2011

	Particulars	Notes		Rs.
	1	3	4	5
I.	**EQUITY AND LIABILITIES**			
(1)	**Shareholders' funds**			
	Share capital		3,17,000	
	Reserves & Surplus: P&L A/c (Dr. Balance)		(-)12,000	4,05,000
(2)	Share application money pending allotment			--
(3)	**Non-current liabilities**			
	Long-term borrowings: Debenture			1,83,000
(4)	**Current liabilities**			
	Trade Payables			50,000
	TOTAL			**5,38,000**
II.	**ASSETS**			
(1)	**Non-current assets**			
	Fixed assets : Tangible		4,00,000	
	Intangible : Goodwill		15,000	4,15,000
(2)	**Current assets**			
	Stock in trade		42,000	
	Trade receivables 60,000			
	Less Provision 2,000		58,000	
	Cash and cash equivalents (6,000 + 17,000)		23,000	1,23,000
	TOTAL			**5,38,000**

* As per AS-26 Preliminary Expense should be written off. Hence Profit & Loss A/c (Dr. balance) is shown in Reserve & Surplus.

DEBTORS & CREDITORS TAKEN OVER ON VENDOR'S BEHALF

15.20. Explain accounting if vendor's Debtors & creditors are being settled on behalf of vendor by purchaser

- Sometimes Purchasing Co. doesn't take over the debtors and creditors but agrees to collect debts and pay creditors on behalf of Vendor then entries will be as follows in the books of Purchaser Co.

(1) At the time of acquisition
Vendor's Debtor A/c. Dr. with Book value of debtors
  To Vendor's Creditors A/c. with Book value of creditor
  To Vendor's A/c with difference

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(2) On Collection from debtors
Cash/Bank A/c. Dr. Actual Amount collected
  To Vendors Debtors A/c

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(3) On Payments to Creditors
Vendors Creditors A/c. Dr.
  To Cash/Bank A/c Amount Paid

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(4) Ultimate balance in Debtors/Creditors A/c is transferred to Vendors A/c (Balance will be due to Discount/ Bad debts etc.)

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(5) Commission if any, company is entitled to get from Vendors for this services.
Vendors A/c. Dr.
  To Commission A/c.

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(6) Ultimate balance in Vendors A/c. is settled.
Vendors A/c. Dr.
  To Cash/Bank A/c
  To Share Capital A/c
  To Debenture A/c

Illustration 10: Atul and Behari, who have been carrying on a partnership business, agree on conversion of the firm into a private limited company with effect from April 1, 2011.

The agreement, among other things, includes the following terms:

The new company shall not assume the debtors and the creditors but shall assist the vendor-firm in realisation and settlement and will be entitled for commission of 3% on collection from debtors and 2% on amount paid to creditors.

Debtors were Rs.2,20,000 but ultimate collection was Rs.2,00,000

Creditors aggregated to Rs.1,60,000 which were settled at Rs.1,50,000.

Pass necessary entries for above in the books of Company.

Solution:

Entry in the books of Company for Vendor's Debtor & Creditor

Particulars	Dr. Rs.	Cr. Rs.
Vendor Debtor A/c Dr. To Vendor Creditor A/c To Vendor A/c (Balancing figure) (Vendors debtor creditor recorded for collection & settlement)	2,20,000	 1,60,000 60,000
Bank A/c Dr. Vendor A/c Dr. (Bad debt/Discount) To Vendor Debtors A/c (Vendors debtor realised)	2,00,000 20,000	 2,20,000
Vendor Creditor A/c Dr. To Bank A/c To Vendor A/c (Discount) (Vendor creditors settled)	1,60,000	 1,50,000 10,000

Amalgamation

Vendor A/c Dr. To Commission A/c (Commission due 2,00,000 X 3% + 1,50,000 X 2%)	9,000	9,000
Vendor A/c Dr. To Bank A/c (Vendor's account settled)	41,000	41,000