Amalgamation of Companies: Accounting Treatment

Accounting for amalgamation of companies involves:
I. Computation of purchase consideration
II. Accounting Treatment in books of Transferor Company.
III. Accounting Treatment in books of Transferee Company according to the type of amalgamation.

I. Purchase Consideration:
Purchase consideration means the price payable by Transferee Company to the Transferor Company for acquiring its business. According to AS-14, "Consideration for amalgamation means the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by Transferee Company to the shareholders of the transferor company."

This definition emphasizes the following points which should be remembered while calculating 'Purchase Consideration':
1. Only payments to shareholders are to be taken into consideration.
2. Considerations for debenture holders and liquidation expenses or cost absorption are not included in the Purchase Consideration.

Method of Calculating Purchase Consideration:
There are two methods of calculating the purchase consideration:

1. Net Payment Method
2. 2. Net Assets Method

The choice of method depends on availability of information. If information is available on all modes of discharging the purchase consideration (e.g. preference shares, equity shares or cash payable to shareholders of Transferor Company) along-with their amounts, then Net Payment Method should be used. In other cases 'Net Assets' Method should be used.

Net Payment Method:
'Purchase Consideration' under this method is taken as the aggregate of all payments made in the form of shares, debentures, other securities and cash to the shareholders of the transferor company.

Question. 1:

X Ltd. agrees to acquire the business of Y Ltd. on the following terms:

1. The shareholders of Y Ltd. are to be paid Rs. 25 in cash and are offered four shares of Rs. 10 each in X Ltd. for every share in Y Ltd. Y Ltd. has 50,000 equity shares outstanding as on the date of amalgamation.

2. The debenture holders holding 5,000 debentures of Rs. 100 each are to be redeemed at a premium of 10%.

3. Cost of liquidation amounting to Rs. 25,000 are to borne by X Ltd.

Calculate the value of purchase consideration.

Solution:

Amount payable to Shareholders of Y Ltd. Rs

1. Cash payment (Rs. 25 x 50,000)	12, 50,000
2. Shares Issued (50,000 x 4 x 10)	20, 00,000
Total purchase consideration	**32, 50,000**

Question. 2:
A Ltd. agrees to absorb B Ltd., the consideration being:

1. The assumption of trade liabilities of Rs. 50,000.
2. The payment of the costs of liquidation Rs. 2,000.
3. The redemption of 80% debentures of Rs. 6, 00,000 at a premium of 10%.
4. The payment of Rs. 20 p.a. share in cash and the exchange of two fully paid Rs. 10 shares in A Ltd. for every share of Rs. 25 in B Ltd. The share capital of the vendor company consists of 20,000 shares of Rs. 25 each fully paid.

Calculate the purchase consideration as per AS-14.

Solution:
Amount payable to shareholders of B Ltd. Rs.

1. Cash Rs. 10 x 20,000 shares	2, 00,000
2. Equity Shares of A Ltd. (2 x 10 x 20,000)	4, 00,000
Total	**6, 00,000**

Note:
According to AS-14, the amount paid by transferee company to discharge the debenture holders and the liquidation expenses of the vendor (transferor) company are not considered as part of purchase consideration.

Question. 3:
X Ltd. is acquired by Y Ltd., the consideration being the takeover of liabilities; the payment of cost of acquisition as a part of purchase consideration not exceeding Rs. 20,000 (actual cost Rs. 17,000); the payment of the debentures Rs. 1,00,000 at a premium of 10% in 9% debentures issued at par; and the payment of Rs. 16 per share in cash and allotment of one 145 preference share of Rs. 10 each and 6 equity shares of Rs. 10 each fully paid for every 4 shares in X Ltd. The number of shares of the vendor company (X Ltd.) is 2, 00,000 of Rs. 10 each fully paid. Calculate purchase consideration as per AS-14.

Solution:
Payment to Equity Shareholders Rs.

1. Cash Rs. 16 x 2, 00,000 =	32, 00,000
2. 14% Preference Shares2, 00,000/4 x Rs. 10 =	5, 00,000
3. Equity Shares 2, 00,000/4 x 6 x Rs. 10 =	30, 00,000
Total =	**67, 00,000**

Net Assets Method:

Net Assets Method is used when all the modes of discharging the purchase consideration (e.g. Pref. Shares, Equity shares or cash payable to shareholders of transferor company) are not given and hence where Net Payment Method cannot be adopted. Under this Method, purchase consideration is ascertained by aggregating the agreed values of only those assets which have been taken over by the transferee company and deducting it from the agreed value of liabilities taken over.

Illustration 4:

The Balance Sheet of Digvijay Ltd. on 31st March, 2018 was as under:

Liabilities	(₹)	Assets	(₹)
Share Capital:		Land and Buildings	4,00,000
75,000 Equity Shares of ₹ 20 each fully paid	1,50,000	Plant and Machinery	2,56,000
		Sundry Debits	1,60,000
10% Debentures	4,00,000	Debenture fund investments	80,000
Outstanding interest on debentures	40,000	Cash	4,000
Sundry Creditors	1,20,000	Preliminary Expenses	20,000
General Reserve	80,000		
Debenture Redemption Fund (sinking fund)	80,000		
Profit & Loss Account	50,000		
	9,20,000		9,20,000

Sumant Ltd. absorbs Digvijay Ltd. on the following terms:

1. Sumant Ltd. to take over sundry creditors.

2. It will also take over land and buildings, Plant and Machinery and investments at 120% of book values, sundry debtors at 90% of book values and goodwill at Rs. 70,800.

3. Liability to debentures including interest to be met by issue of Rs. 5,00,000, 15% debentures by Sumant Ltd.

Calculate purchase consideration.

Solution:

Agreed value of Assets taken over		**4,80,000**
Land and Building		**3,07,200**
Plant and Machinery		**1,44,000**
Sundry Debtors		**96,000**
Goodill		**70,800**
		10,98,000
Less: Agreed Value of Liabilities taken over :		
Sundry Creditors	**1,20,000**	
10% Debentures	**4,00,000**	
Debenture Interest	**40,000**	**5,60,000**
Purchase Consideration		**5,38,000**