

Amalgamation and restructuring

An overview

Merger Vs Purchase

Conditions for merger

1. All assets and liabilities of selling Co became assets of purchasing Co
2. All Assets and Liabilities should be recorded at Book value in BOA of PC.
3. Share holders holding not less than 90% of face value of equity shares of SC became SH of PC
4. Consideration shall be in the form of equity shares only(Cash is allowed for fractional share payment)
5. The PC shall continue the business of SC

Merger Vs Purchase

All the above conditions satisfied, its amalgamation in the nature of merger.

Otherwise, its amalgamation in the nature of purchase.

For merger, Pooling of interest method to be followed for A/c

For purchase, purchase method to be followed.

Journals under purchase method

3. Discharge of purchase consideration

Liquidator of Selling Co A/c	Dr
To Equity shares A/c	
To Debentures A/c	
To Cash A/c	

4. Expenses on amalgamation:

Goodwill / Capital reserve A/c	Dr
To Bank A/c	

5. Statutory reserve maintenance of selling Co

Amalgamation Adjustment A/c	Dr
To Reserve A/c	

Journal entry on merger method

In the books of Purchasing Co

1. Consideration due

Business purchase A/c	Dr
To Liquidator of Selling Co A/c	

2. On receipt of assets

Asset A/c (Book values)	Dr
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Reserves of PC A/c (bal fig)	Dr
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 To Sundry liabilities A/c (BV)

 To Business purchase A/c

 To Reserves of selling Co A/c

 To Statutory reserves of Selling Co A/c

 To Capital reserve A/c

Tax implication

Asset transferred by selling Co to Buying Co not regarded as transfer [Sec.47(vi)]

Conditions:

Buying Co is an Indian Co.

Loss of selling Co can be carried f/d and set off by the buying Co.

The buying Co hands, its deemed that loss incurred in the year of amalgamation.

Transfer of shares of Selling Co to Buying Co is not a transfer for SH provided Buying Co is a Indian Co.

Problem in Amalgamation

- Selling co Assets: 1200. Liab: 400. Capital: 500. General reserve : 200. Statutory reserve: 100.
- Pass journals in the books of selling Co if the purchase consideration is (a) 1000 (b) 600 under purchase method.
- Pass journals in the books of selling Co if the purchase consideration is (a) 1000 (b) 800 (c) 600 (d) 400 under pooling of interest method.