

**ACCOUNTING FOR AMALGAMATION IN BOOKS OF VENDOR
COMPANY UNDER PURCHASE METHOD**

Ledger accounts required – Realization a/c , Share holders a/c , Cash and bank a/c , Purchasing company a/c, Equity shares in Purchasing company a/c , Preference shares in Purchasing company a/c	
<p>1.Transfer of assets and liabilities to Realization a/c Realizations a/c Dr To Assets a/c</p> <p>Transfer fixed assets, investments , current assets , Goodwill (whether taken over or not) other than cash/bank balances Fictitious assets like Dr bal in P&L a/c to be transferred to Eq share holders a/c All transfers at books values</p>	<p>Outsider’s Liabilities a/c Dr To Realizations a/c</p> <p>Transfer all outsiders ‘ liabilities such as secured / unsecured loans, current liabilities etc. Care to be taken to distinguish between reserve / fund and liability All transfers at books values</p>
<p>2.Transfer of capital and reserves etc</p> <p>Equity share capital a/c Dr Reserves a/c Dr To Equity shareholders a/c</p> <p>Equity Shareholders a/c Dr. To Preliminary exp/ Dr. bal in P&L a/c</p>	<p>Preference share capital a/c Dr To Preference share holders a/c</p>
3.Recording of purchase	4.Sale of assets

<p>consideration Purchasing company a/c Dr To Realizations a/c</p>	<p>Bank a/c Dr To Realization a/c</p>
<p>5.Payment of liability Realizations a/c Dr To Bank</p>	<p>6.Liquidation expenses paid and borne by vendor company Realizations a/c Dr To Bank</p>
<p>7.Liquidation expenses paid by vendor company but reimbursed by purchasing company Purchasing company a/c Dr – when incurred To Bank Bank a/c Dr To Purchasing company a/c – when reimbursed</p>	<p>8.Transfer of realization profit/loss Realizations a/c Dr - profit To Equity shareholders a/c Equity shareholders a/c Dr To Realizations a/c - loss</p>
<p>9.Discharge of purchase consideration Bank a/c Dr Eq shares in Purchasing company a/c Dr Pref Shares in Purchasing company a/c Dr To Purchasing company a/c</p>	<p>10.Settlement of preference share holders Preference share holders a/c Dr To Pref Shares in Purchasing company a/c Settlement of Equity share holders Equity share holders a/c Dr To Equity Shares in Purchasing company a/c To Bank a/c</p>

ACCOUNTING FOR AMALGAMATION IN THE NATURE OF PURCHASE IN BOOKS OF PURCHASING COMPANY

KEY POINTS

Assets and liabilities taken over are recorded at **agreed values**.

*If PC is more than Net assets, difference is debited to Goodwill a/c.

*If PC is less than Net assets , difference is credited to Capital reserve.

Treatment of statutory reserves

1.Acquisition of business of vendor company

Business Purchase a/c Dr.-PC
To Liquidator of vendor company

2. Assets/liabilities taken over

Sundry Assets a/c Dr.
Goodwill * a/c Dr
To Sundry liabilities
To Debentures in vendor company
To Business purchase a/c
To Capital reserve*

Goodwill/CR may arise if PC is by Net Payment method.

3. Statutory reserves

Amalgamation adjustment reserve a/c Dr.
To Statutory reserve a/c

4. Discharge of PC

Liquidator of vendor company a/c Dr

**Discount on issue of shares Dr

To Eq share capital a/c

To Pref Share capital a/c

To **Secu premium a/c

To Bank a/c

** if any

5. Discharge of debentures of vendor company

Debentures in vendor company a/c Dr

** Dis on issue of debentures a/c Dr.

To Debentures in purchasing company a/c

To **Secu premium a/c

To Bank a/c

** if any

6. Payment of share issue expenses

Share issue expenses a/c Dr

To Bank a/c

7. Liquidation expenses paid and borne by purchasing company

Goodwill a/c Dr

To Bank

8. Adjustment of goodwill against capital reserve

Capital reserve a/c Dr

To Goodwill a/c