

Amalgamation, Absorption & External reconstruction

CA Prasanna Tambe

Amalgamation

- a new company is formed to take over business of two or more old companies
- Old companies called as Vendor companies and new company called as Purchasing company
- Old companies are liquidated
- One new company is formed

Absorption

- An existing company takes over business of another existing company
- Old company is called as Vendor company and company which takes over is called as Purchasing company
- Old company is liquidated
- No formation of a new company

External reconstruction

- a new company is formed to take over business of existing company
- Old company is called as Vendor company and new company which takes over is called as Purchasing company
- Old company (usually loss making or sick companies) is liquidated
- New company is formed

AS 14

- Amalgamation means an amalgamation as per Companies Act 2013 or any other statute and includes merger
- Transferor company means vendor company
- Transferee company means purchasing company
- Amalgamation in the nature of merger means both acquired & acquiring companies merge and become a single entity. All assets & liabilities are merged. Shareholders of acquired companies become shareholders of acquiring company
- Amalgamation by way of purchase means one company acquires another company but shareholders of the acquired company do not become shareholders of acquiring company

Purchase consideration

- Means the aggregate of the shares/other securities issued & payment by way of cash/other assets by the purchasing company to the share holders of vendor company
- PC excludes – Payments made by purchasing company to discharge debenture holders , creditors or other liabilities of vendor company or expenses for winding up
- Methods of calculation of PC
- Net payment method – aggregate of shares , cash etc to shareholders of vendor company
- Net asset method – PC equals to Assets taken over at agreed values less liabilities taken over at agreed values

Accounting in books of vendor company [accounting entries.docx](#)

- Balance sheet of vendor company on liquidation date
- Ledger accounts
 - Realisation a/c
 - Shareholders' a/c
 - Cash & bank a/c
 - Shares/debentures in New/purchasing company a/c
 - Purchasing company a/c