

Well, welcome students, we are going to do a new module for Advanced Company Accounts. That is code 117. This subject is your semester 6 subject as part of the Bachelor of Commerce program.

The title of this unit is Mergers, Acquisitions, And External Reconstruction. This is the last unit in your syllabus. In this module we will be studying about the different methods of accounting for amalgamation. We are going to focus on the pooling of interest method and also the accounting procedures and journal entries that will be followed when we are using the pooling of interest method.

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In this module, we'll first be starting off with the features or the characteristics of the pooling of interest method. The journal entries in the books of the transferee company, that is, the company who is taking over another company. Accounting entries in the books of the transferee company that is, the company in which the Transferrer company is amalgamated. Accounting entries in the books of the Transferer company. The company, which is amalgamated into another company and the accounting procedures that will be followed for the scene.

After studying this module, you will be able to understand the concept of what the pooling of interest method is and also the accounting procedures to be followed in the books of the transferee and the transfer company.

What is amalgamation

now in the past modules you must have got an idea of what amalgamation is all about. From the word itself amalgamation or amalgam, it means the combination of two or more companies into one single entity. We can do this amalgamation through mergers. We can do it through acquisitions . in case of external reconstruction, where a new company is formed to take over an existing company, will also be a form of amalgamation.

Now when we discuss or when we talk about amalgamation, there are two types of amalgamations we focus on: One is amalgamation in the nature of merger and the other is amalgamation in the nature of purchase.

Now what is the meaning of amalgamation in the nature of merger?

Now in case of amalgamation in the nature of merger, there are two existing companies which are dissolved, and they are amalgamated into a brand-new company. Or in other words, a new company is formed to take over the business of these two existing companies. Now for an amalgamation to be considered as an amalgamation in the nature of merger, you have to satisfy all of the following five conditions. If any of the conditions are not satisfied, then it is classified as amalgamation in the nature of purchase. That means all the five conditions need to be satisfied.

1. The first condition is that assets and liabilities of the transferrer company or the old company will become. assets and liabilities of the new company. Or the transferee company.
2. The shareholders of the old company will become the shareholders of the new company or the transferee company.
3. When we are talking about purchase consideration, the purchase consideration includes equity, shares of the transferee company.
4. Another important point is that the new company, or the transferee company, intends to carry on the business of the old company or the Transferrer company. If, in case the business is not

carried out by the new company, then this cannot be called an amalgamation in the nature of merger.

5. Also, when we are taking the assets and liabilities to the transferee company, there will be no adjustments in the book. Values of such assets or liabilities. So as it is, they are going to be transferred to the new company.

So, all of these five conditions must be satisfied in order for an amalgamation to be an amalgamation in the nature of merger.

The next type of amalgamation is amalgamation in the nature of purchase. As I mentioned earlier, if any one of the conditions that were mentioned earlier or in the previous slide are not met, then that amalgamation will be called as amalgamation in the nature of purchase, so it is a mere acquisition of business. For example, suppose if a company takes over another company and this business is not intended to be continued by the new company, then it will be called an amalgamation in the nature of purchase.

So, when we talk about the methods of accounting for amalgamation, we first have to identify. What type of amalgamation it is, whether it is amalgamation in the nature of merger or amalgamation in the nature of purchase?

So accordingly, we will be using the methods. There are two methods of accounting for amalgamation. One is the pooling of interest method and the other is the purchase method. Now when we are talking about or when it is a case of amalgamation in the nature of merger, we will be using the pooling interest method and when we are talking about or preparing a problem based on amalgamation in the nature of purchase then we are going to use the purchase method.

In this module I will be only explaining the pooling of interest method and in the next module I will be explaining the purchase method.

The pooling of interest method treats amalgamation as a non-event, so it is something that is not eventful. In a business, assets, liabilities, any kind of retained earnings is carried forward at book values. In such kind of an amalgamation, there is no goodwill that is recorded even if there are certain costs that are incurred when there is an amalgamation. These are also not capitalized. So also, when the new company takes over, the retained earnings of the old company, it can distribute this as dividend after the amalgamation takes place. So basically, we are only taking all the assets. All the liabilities, all the retained earnings at book value. There is no agreed upon value so directly at book value we are transferring these assets.

What is a procedure that we will be following if we are going to use the pooling of interest method?

Firstly, all assets and liabilities are recorded at book value. Now when we talk about liabilities, any item in the nature of provision is transferred. When we are transferring the liabilities at book value, identity of reserves of the transfer is preserved. Say for example, you have certain reserves in the company like General Reserve or capital reserve. They are taken over by the transferee company as it is so the identity of the reserve is taken over. Now, whenever there is a difference between the share capital of the new company or the shares of the new company which are allocated in lieu of the old company, this difference is adjusted in capital reserve.

When we are following the pooling of interest method, no goodwill is going to be recorded, so also the balance in the profit and loss account is aggregated and it is transferred to the books of the new company. So what are the journal entries we are going to pass in the books of the transferee company? That is a new company?

Firstly, we account for the amalgamation of the business. We debit the business purchase account and we credit the liquidator of transferor company account and here what we record is the purchase consideration paid to the old company.

In our next journal entry, we record all the assets, liabilities, and reserves that are taken over your sundry assets. your land and building plant and machinery any kind of intangible assets. So also your bank balance is your current assets, like your debtors, etc. All this will be taken over, and we debit sundry assets. Sundry Liabilities are also taken over. You also have reserves which are carried forward and we also have the profit and loss account in case the old company has some kind of a profit that it has earned and then we also credit the business purchase account. Or rather we credit the purchase consideration that has been paid.

So, these the narration for this entry would be being different assets and liabilities taken over after a scheme of amalgamation. So this is your second step.

Your third step is the discharge of the purchase consideration or how the new company has paid the old company purchase consideration. Purchase consideration can be in the form of share capital. It can be in the form of any other cash or non- cash consideration.

Now these were the three entries in the books of the new company or the transferee company.

Now we come to the journal entries in the books of the Transferrer company or the old company. So we have to close these books in order to start off with the new company. The first step again is to prepare a realization account and transfer the various assets to that realization account. For example, you will debit the realization account with all the different assets that you have as per the scheme of amalgamation.

Now remember that all assets are going to be transferred at book value. Second step would be to transfer the liabilities to the credit of the realization account, again at book value so liabilities account debited. That means you will list each of the individual liabilities at their book values and credit them to the realization account. The third entry is the transfer of equity share capital reserves and surplus and also the profit and loss to the sundry shareholder's account.

So in order to wind up or to settle the shareholders of the old company, we need to transfer this equity share capital reserves account and profit and loss account, or rather the profit in the profit and loss account to the sundry shareholders account. Suppose in case we had a loss in the previous year, then this entry would be sundry shareholders account debit to profit and loss account with the amount of loss.

The next is transfer of preference share capital. So, if there is preference share capital of a company has preference share capital. Then again, we have to close this account like we did for the equity share capital and transfer this balance to the preference shareholders accounts. So, preference share capital account, debit to preference shareholders account.

Then we record the purchase consideration that is due from the transferee company or the new company. So, we take the transferee companies account debit to realization account. So in the realization account, your purchase consideration is going to be credited.

The next step is to record the receipt of the purchase consideration from the transferee company. So depending on what the transferee company has given us, we will record the purchase consideration so we can receive purchase consideration in the form of equity shares of the new company or preference shares of the new company or maybe even debentures of the new company. So all these equity shares preference shares as well as debentures will be debited and the transferee, a company account will be credited.

The 7th step is liquidation expenses in case liquidation expenses are borne by the old company, then realization account will be debited, and bank account will be credited. So your liquidation expenses basically are going to be recorded in the books of the Transferrer company. But if these are borne by the transferee company, then no entry is to be made.

The eighth step is the payment or two preference shareholders, so depending upon how we have discharged our purchase consideration or how we have received our purchase consideration, the preference shareholders will be settled either by paying them in cash or allotting them preference shares in the new company.

So this eight point is the settlement of the preference shareholders by old company or the Transferrer company.

The ninth step is loss on realization, so at this stage you will balance your realization account. If the debit side of the realization account is heavier than the credit side, then in that case we will have a loss on realization. So on the credit side of the realization account, you will have sundry shareholders account. In case you have a profit on realization account. This balancing figure will appear on the debit side of the realization account.

The final step is the payment to your equity shareholders. So whatever shares we have received or whatever form of maybe we have paid our old equity shareholders in cash. All this is going to be adjusted with the sundry shareholder's account. And the balance or and the affairs of the company will be counted.

So these are the 11 steps that you are going to follow when a transfer a company closes its books of accounts.

So the first step would be to transfer all your assets and liabilities at book values. Then you would transfer your reserves share capital surplus to the sundry shareholder's account. Then you would transfer preference share capital to the preference shareholder account. Record the purchase consideration, do record the receipt of the purchase consideration. Talk about your liquidation expenses. Depending on whether the transfer a company has born, then or the transferee company has blown them. Then you would close the OR settle the dues of the preference shareholders. You would account for the profit or loss on realization. And finally, you would make the payments to the equity shareholders.

These are my references.

Thank you.