

## UNIT 2: ACCOUNTING STANDARD 14 ACCOUNTING FOR AMALGAMATIONS

### LEARNING OUTCOMES

After studying this unit, you will be able to comprehend the –

- ◆ Types of amalgamation – merger and purchase;
- ◆ Accounting for amalgamation – Pooling of interest method and purchase method;
- ◆ Computation of Purchase consideration;
- ◆ Amalgamation post balance sheet date;
- ◆ Disclosure requirements of AS 14;

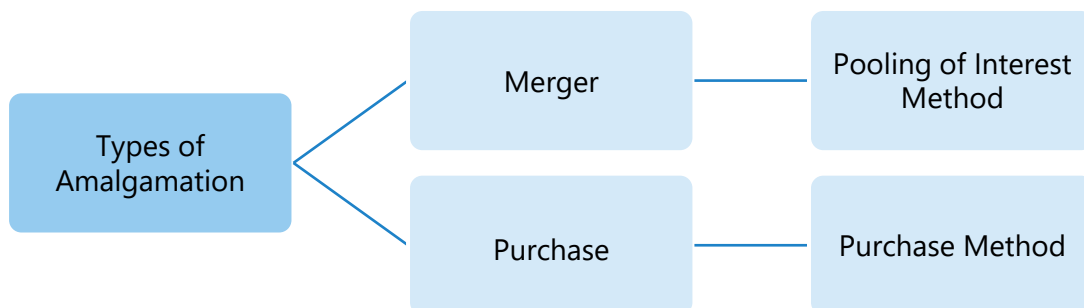


### 2.1 INTRODUCTION

AS 14 (Revised) deals with the accounting to be made in the books of Transferee company in the case of amalgamation and the treatment of any resultant goodwill or reserve.

An amalgamation may be either in the nature of merger or purchase. The standard specifies the conditions to be satisfied by an amalgamation to be considered as amalgamation in nature of merger or purchase.

An amalgamation in nature of merger is accounted for as per pooling of interests method and in nature of purchase is dealt under purchase method.



The standard describes the disclosure requirements for both types of amalgamations in the first financial statements. We will discuss the other amalgamation aspects in detail in subsequent paragraphs of this unit.

**Note:**

AS 14 (Revised) does not deal with cases of acquisitions. The distinguishing feature of an acquisition is that the acquired company is not dissolved and its separate entity continues to exist.



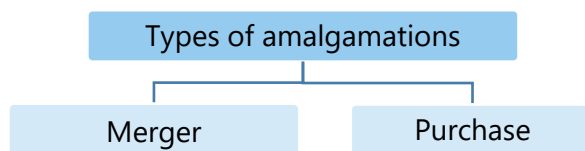
## 2.2 DEFINITION OF THE TERMS USED IN THE STANDARD

- ♦ **Amalgamation** means an amalgamation pursuant to the provisions of the Companies Act, 2013 or any other statute which may be applicable to companies and includes 'merger'.
- ♦ **Transferor company** means the company which is amalgamated into another company.
- ♦ **Transferee company** means the company into which a transferor company is amalgamated.



## 2.3 TYPES OF AMALGAMATIONS

Amalgamations fall into two broad categories.



- ♦ **Merger** - In amalgamations where there is a genuine pooling not merely of the assets and liabilities of the amalgamating companies but also of the shareholders' interests and of the businesses of these companies.
- ♦ **Purchase** - In amalgamations which are in effect a mode by which one company acquires another company and as a consequence:

- ♦ the shareholders of the company which is acquired normally do not continue to have a proportionate share in the equity of the combined company, or
- ♦ the business of the company which is acquired is not intended to be continued. Such amalgamations are amalgamations in the nature of 'purchase'.



## 2.4 AMALGAMATION IN THE NATURE OF MERGER

Amalgamation in the nature of merger is an amalgamation which satisfies all the following conditions.

- (i) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.
- (ii) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation.
- (iii) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares.
- (iv) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.
- (v) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

**Example:** X Ltd and Y Ltd are both in telecom business. As per the arrangement X Ltd will get merged with Y Ltd and their shareholders will get shares in Y Ltd. X Ltd operations will going to be continued under Y Ltd.



## 2.5 AMALGAMATION IN THE NATURE OF PURCHASE

Amalgamation in the nature of purchase is an amalgamation which does not satisfy any one or more of the conditions specified above for "Amalgamation in the nature of merger".



## 2.6 METHODS OF ACCOUNTING FOR AMALGAMATIONS

There are two main methods of accounting for amalgamations.

- ◆ For an amalgamation in the nature of merger - pooling of interests method and
- ◆ For an amalgamation in the nature of purchase - purchase method.

### 2.6.1 Pooling of Interests Method

Pooling of interests is a method of accounting for amalgamations the object of which is to account for the amalgamation as if the separate businesses of the amalgamating companies were intended to be continued by the transferee company. Accordingly, only minimal changes are made in aggregating the individual financial statements of the amalgamating companies.

Under this method, the assets, liabilities and reserves of the transferor company are recorded by the transferee company at their existing carrying amounts

If, at the time of the amalgamation, the transferor and the transferee companies have conflicting accounting policies, a uniform set of accounting policies is adopted following the amalgamation. The effects on the financial statements of any changes in accounting policies are reported in accordance with AS 5.

### 2.6.2 Purchase Method

Under the purchase method, the transferee company accounts for the amalgamation either

- ◆ By incorporating the assets and liabilities at their existing carrying amounts or

- ◆ By allocating the consideration to individual identifiable assets and liabilities of the transferor company on the basis of their fair values at the date of amalgamation. The identifiable assets and liabilities may include assets and liabilities not recorded in the financial statements of the transferor company.



## 2.7 CONSIDERATION

*Consideration* for the amalgamation means the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company. In determining the value of the consideration, an assessment is made of the fair value of its elements.

### Clarification Chart:

Method I – Net Payment Method	Method II – Net Assets Method
<b>Note:</b> We need to compute P.C. by Net Payment Method only. If it cannot be computed by Net Payment Method – then Net Assets Method will be applicable.	
Situation I – If it is a Merger	Situation I – if it is a Merger
Equity shares issued to ESH (cash may be paid in case fraction arises) + Any form of payment given to PSH	Assets at Book value - Liabilities at Book value - Reserves and Surplus = ESC + PSC
Situation II – If it is a case of Purchase	Situation II – If it is a case of Purchase
Any form of payment given to ESH + Any form of payment given to PSH	Assets at agreed value - Liabilities at agreed value

Many amalgamations recognise that adjustments may have to be made to the consideration in the light of one or more future events. When the additional payment is probable and can reasonably be estimated at the date of amalgamation, it is included in the calculation of the consideration. In all other cases, the adjustment is recognised as soon as the amount is determinable



## **2.8 TREATMENT OF RESERVES OF THE TRANSFEROR COMPANY ON AMALGAMATION**

If the amalgamation is an 'amalgamation in the nature of merger', the identity of the reserves is preserved and they appear in the financial statements of the transferee company in the same form in which they appeared in the financial statements of the transferor company.

Thus, for example, the General Reserve of the transferor company becomes the General Reserve of the transferee company, the Capital Reserve of the transferor company becomes the Capital Reserve of the transferee company and the Revaluation Reserve of the transferor company becomes the Revaluation Reserve of the transferee company. As a result of preserving the identity, reserves which are available for distribution as dividend before the amalgamation would also be available for distribution as dividend after the amalgamation.



## **2.9 ADJUSTMENTS TO RESERVES - AMALGAMATION IN THE NATURE OF MERGER**

When an amalgamation is accounted for using the pooling of interests method, the reserves of the transferee company are adjusted to give effect to the following:

- ♦ A uniform set of accounting policies should be adopted following the amalgamation and, hence, the policies of the transferor and the transferee are aligned.

- ◆ Difference between the amount recorded as share capital issued (plus any additional consideration in the form of cash or other assets) and the amount of share capital of the transferor company.



## **2.10 ADJUSTMENTS TO RESERVES - AMALGAMATION IN THE NATURE OF PURCHASE**

If the amalgamation is an 'amalgamation in the nature of purchase', the identity of the reserves, other than the statutory reserves is not preserved. The amount of the consideration is deducted from the value of the net assets of the transferor company acquired by the transferee company. If the result of the computation is negative, the difference is debited to goodwill arising on amalgamation and if the result of the computation is positive, the difference is credited to Capital Reserve.

Certain reserves may have been created by the transferor company pursuant to the requirements of, or to avail of the benefits under, the Income-tax Act, 1961; for example, Development Allowance Reserve, or Investment Allowance Reserve or any other statutory reserve. The Act requires that the identity of the reserves should be preserved for a specified period. Likewise, certain other reserves may have been created in the financial statements of the transferor company in terms of the requirements of other statutes. Though normally, in an amalgamation in the nature of purchase, the identity of reserves is not preserved, an exception is made in respect of reserves of the aforesaid nature (referred to hereinafter as 'statutory reserves') and such reserves retain their identity in the financial statements of the transferee company in the same form in which they appeared in the financial statements of the transferor company, so long as their identity is required to be maintained to comply with the relevant statute. This exception is made only in those amalgamations where the requirements of the relevant statute for recording the statutory reserves in the books of the transferee company are complied with.

In such cases the statutory reserves are recorded in the financial statements of the transferee company by a corresponding debit to a suitable account head (e.g., 'Amalgamation Adjustment Reserve') which is presented as a separate line item. When the identity of the statutory reserves is no longer required to be maintained, both the reserves and the aforesaid account are reversed.

The Standard gives a title, which reads as "Reserve". This gives rise to following requirements.

1. The corresponding debit is "also" to a Reserve Account
2. That Reserve account will show a negative balance
3. But it has to be shown as a separate line item - Which implies, that this debit "cannot be set off against Statutory reserve taken over".

So the presentation will be as follows:

Notes to Accounts for "Reserves and Surplus"

Description	Amount (Current year)	Amount (Previous Year)
Statutory Reserve (taken over from transferor company)		
General Reserve		
Profit and Loss or Retained Earnings		
Amalgamation Adjustment Reserve (negative balance)	(--)	(--)



## 2.11 TREATMENT OF GOODWILL ARISING ON AMALGAMATION

Goodwill arising on amalgamation represents a payment made in anticipation of future income and it is appropriate to treat it as an asset to be amortised to income on a systematic basis over its useful life. Due to the nature of goodwill, it is frequently difficult to estimate its useful life with reasonable certainty. Such estimation is, therefore, made on a prudent basis. Accordingly, it is considered appropriate to amortise goodwill over a period not exceeding five years unless a somewhat longer period can be justified.

Factors which may be considered in estimating the useful life of goodwill arising on amalgamation include:

- (a) the foreseeable life of the business or industry



- (b) the effects of product obsolescence, changes in demand and other economic factors
- (c) the service life expectancies of key individuals or groups of employees
- (d) expected actions by competitors or potential competitors
- (e) legal, regulatory or contractual provisions affecting the useful life



## 2.12 BALANCE OF PROFIT AND LOSS ACCOUNT

In the case of an 'amalgamation in the nature of merger', the balance of the Profit and Loss Account appearing in the financial statements of the transferor company is aggregated with the corresponding balance appearing in the financial statements of the transferee company. Alternatively, it is transferred to the General Reserve, if any.

In the case of an 'amalgamation in the nature of purchase', the balance of the Profit and Loss Account appearing in the financial statements of the transferor company, whether debit or credit, loses its identity.



## 2.13 DISCLOSURES

For all amalgamations, the following disclosures are considered appropriate in the first financial statements following the amalgamation:

- a. Names and general nature of business of the amalgamating companies;
- b. Effective date of amalgamation for accounting purposes;
- c. The method of accounting used to reflect the amalgamation; and
- d. Particulars of the scheme sanctioned under a statute.

For amalgamations accounted for under the pooling of interests method, the following additional disclosures are considered appropriate in the first financial statements following the amalgamation:

- a. Description and number of shares issued, together with the percentage of each company's equity shares exchanged to effect the amalgamation;

- b. The amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof.

For amalgamations accounted for under the purchase method, the following additional disclosures are considered appropriate in the first financial statements following the amalgamation:

- a. Consideration for the amalgamation and a description of the consideration paid or contingently payable; and
- b. The amount of any difference between the consideration and the value of net identifiable assets acquired, and the treatment thereof including the period of amortisation of any goodwill arising on amalgamation.



## 2.14 AMALGAMATION AFTER THE BALANCE SHEET DATE

When an amalgamation is effected after the balance sheet date but before the issuance of the financial statements of either party to the amalgamation disclosure is made in accordance with AS 4 'Contingencies and Events Occurring After the Balance Sheet Date' but the amalgamation is not incorporated in the financial statements. In certain circumstances the amalgamation may also provide additional information affecting the financial statements themselves for instance by allowing the going concern assumption to be maintained.

### Illustration 1

*A Ltd. take over B Ltd. on April 01, 20X1 and discharges consideration for the business as follows:*

- (i) *Issued 42,000 fully paid equity shares of ₹ 10 each at par to the equity shareholders of B Ltd.*
- (ii) *Issued fully paid up 15% preference shares of ₹ 100 each to discharge the preference shareholders (₹ 1,70,000) of B Ltd. at a premium of 10%.*
- (iii) *It is agreed that the debentures of B Ltd. (₹ 50,000) will be converted into equal number and amount of 13% debentures of A Ltd.*

*Determine the amount of purchase consideration as per AS 14.*

**Solution**

Particulars	₹
Equity Shares (42,000 x 10)	4,20,000
15% Preference Share Capital	1,70,000
Add: Premium on Redemption	<u>17,000</u>
Purchase Consideration	<u>6,07,000</u>

**Note:** As per AS 14, consideration for the amalgamation means the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company. Thus, payment to debenture holders are not covered by the term 'consideration'.

**Illustration 2**

*A Ltd. and B Ltd. were amalgamated on and from 1st April, 20X1. A new company C Ltd. was formed to take over the business of the existing companies. A Ltd. and B Ltd. have the following ledger balances as on 31st March, 20X1:*

	<b>A Ltd.</b> <b>(₹ in lakhs)</b>	<b>B Ltd.</b> <b>(₹ in lakhs)</b>
<i>Land and Building</i>	550	400
<i>Plant and Machinery</i>	350	250
<i>Investments (Non-current)</i>	150	50
<i>Inventory</i>	350	250
<i>Trade Receivables</i>	300	350
<i>Cash and Bank</i>	300	200
<i>Share Capital:</i>		
<i>Equity Shares of ₹ 100 each</i>	800	750
<i>12% Preference shares of ₹ 100 each</i>	300	200
<i>Reserves and Surplus:</i>		
<i>Revaluation Reserve</i>	150	100
<i>General Reserve</i>	170	150
<i>Investment Allowance Reserve</i>	50	50

Profit and Loss Account	50	30
Secured Loans:		
10% Debentures (₹ 100 each)	60	30
Trade Payables	420	190

*Additional Information:*

- (1) 10% Debenture holders of A Ltd. and B Ltd. are discharged by C Ltd. issuing such number of its 15% Debentures of ₹ 100 each so as to maintain the same amount of interest.
- (2) Preference shareholders of the two companies are issued equivalent number of 15% preference shares of C Ltd. at a price of ₹ 150 per share (face value of ₹ 100).
- (3) C Ltd. will issue 5 equity shares for each equity share of A Ltd. and 4 equity shares for each equity share of B Ltd. The shares are to be issued @ ₹ 30 each, having a face value of ₹ 10 per share.
- (4) Investment allowance reserve is to be maintained for 4 more years.

*Prepare the Balance Sheet of C Ltd. as on 1st April, 20X1 after the amalgamation has been carried out on the basis of Amalgamation in the nature of purchase.*

### Solution

#### Balance Sheet of C Ltd. as at 1st April, 20X1

Particulars	Note No.	(₹ in lakhs)
I. Equity and Liabilities		
(1) Shareholder's Funds		
(a) Share Capital	1	1,200
(b) Reserves and Surplus	2	1,650
(2) Non-Current Liabilities		
Long-term borrowings	3	60
(3) Current Liabilities		
Trade payables	8	610
Total		3,520

II. Assets		
(1) Non-current assets		
(a) Property, Plant and Equipment	4	1,550
(b) Intangible assets	5	20
(c) Non-current investments	6	200
(2) Current assets		
(a) Inventory (350 + 250)		600
(b) Trade receivables	7	650
(c) Cash and bank balances (300 + 200)		500
Total		3,520

## Notes to Accounts

		(₹ in lakhs)	(₹ in lakhs)
1.	Share Capital		
	Equity share capital (W.N.1)		
	70,00,000 <sup>1</sup> Equity shares of ₹ 10 each	700	
	5,00,000 <sup>2</sup> Preference shares of ₹ 100 each	500	
	(all the above shares are allotted as fully paid-up pursuant to contracts without payment being received in cash)		1,200
2.	Reserves and surplus		
	Securities Premium Account (W.N.3) (950 + 700)	1,650	

<sup>1</sup> 40,00,000 + 30,00,000

<sup>2</sup> 3,00,000 + 2,00,000

	Investment Allowance Reserve (50 + 50)	100	
	Amalgamation Adjustment Reserve (50 + 50)	(100)	1,650
3.	Long-term borrowings		
	15% Debentures		60
4.	Property, Plant and Equipment		
	Land and Building (550 + 400)	950	
	Plant and Machinery (350 + 250)	600	1,550
5.	Intangible assets		
	Goodwill [W.N. 2] (110 – 90)		20
6.	Non-current Investments		
	Investments (150 + 50)		200
7.	Trade receivables (300 + 350)		650
8.	Trade payables (420 + 190)		610

**Working Notes:**

		(₹ in lakhs)	
		A Ltd.	B Ltd.
(1)	Computation of Purchase consideration		
	(a) Preference shareholders:		
	$\left( \frac{3,00,00,000}{100} \text{ i.e. } 3,00,000 \text{ shares} \right) \times ₹ 150 \text{ each}$	450	
	$\left( \frac{2,00,00,000}{100} \text{ i.e. } 2,00,000 \text{ shares} \right) \times ₹ 150 \text{ each}$		300
	(b) Equity shareholders:		
	$\left( \frac{8,00,00,000 \times 5}{100} \text{ i.e. } 40,00,000 \text{ shares} \right) \times ₹ 30 \text{ each}$	1,200	
	$\left( \frac{7,50,00,000 \times 4}{100} \text{ i.e. } 30,00,000 \text{ shares} \right) \times ₹ 30 \text{ each}$	—	900
	Amount of Purchase Consideration	<u>1,650</u>	<u>1,200</u>

(2)	Net Assets Taken Over		
	Assets taken over:		
	Land and Building	550	400
	Plant and Machinery	350	250
	Investments	150	50
	Inventory	350	250
	Trade receivables	300	350
	Cash and bank	<u>300</u>	<u>200</u>
		2,000	1,500
	Less: Liabilities taken over:		
	Debentures 40		20
(3)	Trade payables <u>420</u>		<u>190</u>
		<u>460</u>	<u>210</u>
	Net assets taken over	1,540	1,290
	Purchase consideration	<u>1,650</u>	1,200
	Goodwill	<u>110</u>	—
	Capital reserve		<u>90</u>
	Computation of securities premium		
	On preference share capital		
	A Ltd.- 3,00,000 x 50	150	
	B Ltd.- 2,00,000 x 50		100
	On equity share capital		
	A Ltd.- 40,00,000 x 20	800	
	B Ltd.- 30,00,000 x 20	—	<u>600</u>
	Total	<u>950</u>	<u>700</u>

**Note:** For problems based on practical application of AS 14 (Revised) students are advised to refer Chapter 14 'Accounting for Amalgamation of Companies' of the study material.

## TEST YOUR KNOWLEDGE

### MCQs

1. Which of the following statement is correct:
  - (a) In case of merger – ESH can be issued only equity shares as a part of Purchase consideration.
  - (b) In case of purchase – ESH can be issued Preference shares also as a part of Purchase consideration.
  - (c) Both (a) and (b) are correct.
  - (d) Both (a) and (b) are incorrect.
2. State which statement is correct:
  - (a) In case of merger – assets and liabilities can only be taken over at book values.
  - (b) In case of purchase – assets and liabilities can be taken over at book values or agreed values.
  - (c) Both (a) and (b) are correct.
  - (d) Both (a) and (b) are incorrect.
3. State which statement is correct:
  - (a) In case of merger – All Reserves and surplus of vendor company are taken over by Purchasing company.
  - (b) In case of Purchase – None of the Reserves and surplus of vendor company are taken over by Purchasing company.
  - (c) Both (a) and (b) are correct.
  - (d) Only (a) is correct.
4. State which statement is correct:
  - (a) In case of merger – We use pooling of interest method for accounting.
  - (b) In case of Purchase We use purchase method or pooling of interest method depending upon whether it is take over at agreed values or book values.



- (c) Both (a) and (b) are correct.
  - (d) Only (a) is correct.
5. State which statement is incorrect:
- (a) In case of merger – We can issue either preference shares or equity shares to PSH.
  - (b) In case of Purchase – We can issue either preference shares or equity shares to PSH.
  - (c) In case of merger – We can issue only preference shares to PSH.
  - (d) none of the above.

### Theory Questions

- 6. Briefly describe the disclosure requirements for amalgamation including additional disclosure, if any, for different methods of amalgamation as per AS 14 (Revised).
- 7. List the conditions to be fulfilled as per AS 14 (Revised) for an amalgamation to be in the nature of merger, in the case of companies.
- 8. Briefly explain the methods of accounting for amalgamation as per Accounting Standard-14.

### Practical Problems

9. X Co. Ltd. having share capital of ₹ 50 lakhs divided into equity shares of ₹ 10 each was taken over by Y Co. Ltd. Y Co. Ltd. issued 11 equity shares of ₹ 10 each for every 10 shares of X Co. Ltd.

Explain how the difference will be adjusted in the books of Y Co. Ltd. for the shares issued under the 'Pooling of interests method' of amalgamation as per AS 14.

10. On 1st April, 2018, Tina Ltd. take over the business of Rina Ltd. and discharged purchase consideration as follows:
- (i) Issued 50,000 fully paid Equity shares of ₹ 10 each at a premium of ₹ 5 per share to the equity shareholders of Rina Ltd.

- (ii) Cash payment of ₹ 50,000 was made to equity shareholders of Rina Ltd.
- (iii) Issued 2,000 fully paid 12% Preference shares of ₹ 100 each at par to discharge the preference shareholders of Rina Ltd.
- (iv) Debentures of Rina Ltd. 20,000) will be converted into equal number and amount of 10% debentures of Tina Ltd.

Calculate the amount of Purchase consideration as per AS-14 and pass Journal Entry relating to discharge of purchase consideration in the books of Tina Ltd.

## ANSWERS/SOLUTIONS

### MCQ

1.	(b)	2.	(c)	3.	(d)	4.	(d)	5.	(c)
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### Theory Questions

6. The disclosure requirements for amalgamations have been prescribed in paragraphs 43 to 46 of AS 14 (Revised) on Accounting for Amalgamation. Refer Para 2.5 for details.
7. According to AS 14 "Accounting for Amalgamations", Amalgamation in the nature of merger is an amalgamation which satisfies all the following conditions:
  - (i) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.
  - (ii) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation.
  - (iii) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity

shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares.

- (iv) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.
  - (v) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.
8. As per AS 14 on 'Accounting for Amalgamations', there are two main methods of accounting for amalgamations:

#### **The Pooling of Interest Method**

Under this method, the assets, liabilities and reserves of the transferor company are recorded by the transferee company at their existing carrying amounts (after making the necessary adjustments).

If at the time of amalgamation, the transferor and the transferee companies have conflicting accounting policies, a uniform set of accounting policies is adopted following the amalgamation. The effects on the financial statements of any changes in accounting policies are reported in accordance with AS 5 on 'Net Profit or Loss for the Period, Prior Period Items and Changes in Accounting Policies'.

#### **The Purchase Method**

Under the purchase method, the transferee company accounts for the amalgamation either by incorporating the assets and liabilities at their existing carrying amounts or by allocating the consideration to individual identifiable assets and liabilities of the transferor company on the basis of their fair values at the date of amalgamation. The identifiable assets and liabilities may include assets and liabilities not recorded in the financial statements of the transferor company.

## Practical Problems

9. Particulars	₹
Purchase consideration = $5,00,000 \times 11/10 = 55,000$ shares of ₹ 10 each	55,00,000 50,00,000
Less: Share capital of X Co. Ltd.	
Difference Adjusted through General Reserve	5,00,000

10. As per AS 14, consideration for the amalgamation means the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company.

## Computation of Purchase Consideration

Particulars	₹
Equity Shares (50,000x 15)	7,50,000
Cash payment	50,000
12% Preference Share Capital	2,00,000
Purchase Consideration	10,00,000

**Note:** Payment to debenture holders are not covered by the term 'consideration'.

## Journal entry

Particulars	₹	₹
Liquidation of Rina Ltd. A/c	10,00,000	
To Equity share capital A/c		5,00,000
To 12% Preference share capital A/c		2,00,000
To Securities premium A/c		2,50,000
To Bank/Cash A/c		50,000
(Being payment of cash and issue of shares for discharge of purchase consideration)		