

**Session : 2019-20**  
**M.COM.- FIRST YEAR**  
**(II SEMESTER)**

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**CORPORATE FINANCIAL ACCOUNTING**  
**(I-2002)**

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**UNIT – I : AMALGAMATION &  
RECONSTRUCTION**

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# LEARNING OBJECTIVES

*After you have gone through this unit, you should be able to describe –*

- Meaning of Amalgamation & Absorption;
- Types of Amalgamation & Reconstruction;
- Difference between '**Amalgamation in the nature of Merger**' and '**Amalgamation in the nature of Purchase**';
- Purchase Consideration and its methods;
- Accounting treatment in the books of Transferor Company (Vendor) and Transferee Company (Buyer);
- Difference between '**External Reconstruction**' and '**Amalgamation**';
- Accounting for External Reconstruction

# INTERNAL RECONSTRUCTION

## INTRODUCTION

- It is also known as **Internal Reorganization**.
- Here ***neither*** any company is liquidated ***nor*** any new company is formed.
- Rather, it involves ***only* change in internal form** of an existing company.

## TYPES OF INTERNAL RECONSTRUCTION

- (I) ALTERATION OF SHARE CAPITAL.
- (II) CHANGE IN SHAREHOLDERS' RIGHTS.
- (III) COMPROMISES & ARRANGEMENTS.
- (IV) REDUCTION IN SHARE CAPITAL.

# (I) ALTERATION OF SHARE CAPITAL

- This process is covered under **section 61** of the Companies Act, 2013.
- It *empowers*
  - (i) a **limited company**
  - (ii) having a **share capital**
  - (iii) and **authorised by its articles of association**  
*to alter its share capital.*
- This power is exercised by abovestated company in its **general meeting** and **does not require** any confirmation by the Tribunal.

# **DIFFERENT WAYS OF ALTERATION OF SHARE CAPITAL**

1. Increase in share capital.
2. Decrease in share capital by cancelling the unissued shares.
3. Consolidated of share capital.
4. Sub-division of share capital.
5. Conversion of fully paid shares into stock and reconversion of stock into fully paid shares.
6. Reserve Capital.

# (1) INCREASE IN SHARE CAPITAL

## **Case A** : If the increase is **within** the Authorised Share Capital

A co. can increase its share capital by issue of new shares by passing an ordinary resolution in the general meeting.

## **Case B** : If the increase is **beyond** the Authorised Share Capital

- (i) Co. is required to **alter the capital clause** of its Memorandum of Association.
- (ii) For this, it has to pass a **special resolution** and
- (iii) Give its **notice** to the **Registrar of Companies within 30 days** of resolution.

[Section 61 (1) (a)]

# (1) INCREASE IN SHARE CAPITAL

## Accounting Treatment

**Case A** : If the increase is within the Authorised Share Capital

As new shares are offered for subscription, accounting entries of issue of shares will be passed, as usually passed in the books of account of company.

**Case B** : If the increase is beyond the Authorised Share Capital

*NO accounting entry*

is required to be passed.

## (2) **DECREASE** ↓ **IN SHARE CAPITAL BY CANCELLING THE UNISSUED SHARES**

### CASE : 1

#### Section 61 (1) (e)

A co. **can diminish** the amount of its share capital by **cancelling its shares** which have not –

(i) been taken *or*

(ii) agreed to be taken

by any person, at the date of passing of the resolution in that behalf.



## (2) **DECREASE** ↓ **IN SHARE CAPITAL BY CANCELLING THE UNISSUED SHARES**

### CASE : 1

*In other words*, cancellation of unissued shares is permitted but **no accounting entry is required** b'coz cancellation of unissued shares **does not affect** the issued share capital of a company. Only the details of authorized share capital are to be changed in the Balance Sheet.

### Section 61 (2)

This cancellation of shares shall **not be deemed** to be **reduction of share capital**.

## (2) **DECREASE** ↓ **IN SHARE CAPITAL BY CANCELLING THE UNISSUED SHARES**

### CASE : 2

No company can cancel the **unpaid amount** on shares –

- (i) already issued *or*
- (ii) agreed to be subscribed

**without the sanction of the Tribunal** b'coz the same leads to **reduction of capital.**

## **(3) CONSOLIDATION OF SHARE CAPITAL**

### **Section 61 (1) (b)**

A company **may** consolidate **any** of its shares of smaller denomination (i.e. smaller value, say, Rs.10) into shares of higher denomination (i.e. higher value, say, Rs.50) .

It is essential that the **proportion** of the **paid up amount** and **unpaid amount** must **remain the same after consolidation**.

If consolidation results in **changes in the voting percentage** of shareholders, it will **not be effective without the approval** of the **Tribunal**.

For seeking approval, an application is to be made in the prescribed manner.

## (3) CONSOLIDATION OF SHARE CAPITAL

### ACCOUNTING TREATMENT

*To make this change effective, following accounting entry is passed –*

DATE	PARTICULARS	J.F.	DEBIT	CREDIT
	Share Capital (Rs.10)* Dr.		1,00,000	
	To Share Capital (Rs.50)**			1,00,000

*This entry closes share capital account with old denomination\* and share capital account with new denomination\*\* is created.*

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## (4) SUB-DIVISION OF SHARE CAPITAL

### Section 61 (1) (d)

A company **can** sub-divide **its shares** or **any** of them of higher denomination (i.e. higher value, say, Rs.50) into shares of smaller denomination (i.e. smaller value, say, Rs.10).

It is essential that the **proportion** of the **paid up amount** and **unpaid amount** must **remain the same after sub-division**.

If sub-division results in **changes in the voting percentage** of shareholders, it will **not be effective without the approval** of the **Tribunal**.

For seeking approval, an application is to be made in the prescribed manner.

# (4) SUB-DIVISION OF SHARE CAPITAL

## ACCOUNTING TREATMENT

*To make this change effective, following accounting entry is passed –*

DATE	PARTICULARS	J.F.	DEBIT	CREDIT
	Share Capital (Rs.50)* Dr.		1,00,000	
	To Share Capital (Rs.10)**			1,00,000

*This entry closes share capital account with old denomination\* and share capital account with new denomination\*\* is created.*

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## **(5) (i) CONVERSION OF FULLY PAID SHARES INTO STOCK AND (ii) RECONVERSION OF STOCK INTO FULLY PAID SHARES**

### **Section 61 (1) (c)**

A company **can** do so, if it is authorised by its Articles of Association.

### **ACCOUNTING TREATMENT 5(i)**

DATE	PARTICULARS	L.F.	DEBIT	CREDIT
	Equity* Share Capital A/c Dr.			
	To Equity* Stock A/c			

### **ACCOUNTING TREATMENT 5(ii)**

DATE	PARTICULARS	L.F.	DEBIT	CREDIT
	Equity* Stock A/c Dr.			
	To Equity* Share Capital A/c			

**(\*Assumed)**

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## **(6) RESERVE CAPITAL**

**This term has been  
omitted in the  
Companies Act, 2013.**



## (II) CHANGES IN SHAREHOLDERS' RIGHTS

● This is a case of a company which has issued **different classes** of shares with **different rights** attached to such shares, then **any of such rights** may be changed in **any manner**.

**Examples** : Rights related with Dividend, Rate of Dividend, Voting Rights, Repayment of Capital *etc.*

● In this case, there shall be **no change in the amount** of share capital.

DATE	PARTICULARS	L.F.	DEBIT	CREDIT
	12% Preference Share Capital A/c Dr.		500,000	
	To 15% Preference Share Capital A/c			500,000

## **(III) COMPROMISES & ARRANGEMENTS**

- Sections 230 to 232 of Companies Act,2013 deal with this aspect.
- Such an arrangement involves sacrifices by shareholders, creditors and debenture-holders.
- *In other words*, for solving the financial problems or difficulties (which the co.is facing), an agreement is entered into between-
  - (i) Company and
  - (ii) Its members (i.e. shareholders) and outside liabilities (i.e. creditors and debenture-holders) for sacrificing their respective claims.

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**THANKS!**

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